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EXCHANGE OF CABLES BETWEEN FEDERAL RESERVE BANK OF NEW YORK AND
VARIOUS FOREIGN CENTRAL BANKS REGARDING THE TRANSFER OF SARMARKED
GOLD TO OTHER CENTRAL BANKS

Dec. 10, 1936

Cable No. 9. From Banque Nationale Suisse, Berne, Switzerland.

" * * * Would it eventually suit you to place to our disposal with you against payment to you of a premium (the rate of which we are ready to discuss) the whole or part of this gold against deposit by us for your account of an equal amount of gold with another bank of issue of the country complying with the agreement * * If ready to agree with last suggestion please indicate which bank of issue you would foresee."

- - - - -

Dec. 11, 1936

Cable No. 22. To Banque Nationale Suisse, Berne, Switzerland.

"Our No. 21 your No. 9. Regret your last suggestion not suitable. However, if you have urgent need for dollars we as fiscal agent of the United States would be glad to purchase from you refined gold bars actually placed on board steamship sailing for New York, payment to be made upon receipt of cable from you to that effect. * * *"

- - - - -

Dec. 23, 1936

Cable No. 30. From Banque Nationale de Belgique, Brussels, Belgium.

"Value today Bank for International Settlements will hold earmarked for our account with you 48 gold bars containing fine ounces 17,939.2673. Please acknowledge receipt by cable of the gold. We shall wire further instructions regarding deposit."

- - - - -

Dec. 24, 1936

Cable No. 117. From Bank for International Settlements, Basle, Switzerland.

"Hold today at the disposal of the Banque Nationale de Belgique Brussels 7 bars marked OX 721-727 containing 2,802.2210 fine ounces from our Account No. 2 and 41 bars containing 15,137,0462 fine ounces from our Account No. 4. Please advise by cable Banque Nationale de Belgique."

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Dec. 24, 1936

Cable No. 250. To Bank for International Settlements, Basle, Switzerland.

"Your No. 117. Before transferring gold to account National Bank of Belgium we shall have to obtain a ruling from the United States Treasury Department as this is first instance of request under present regulations for transfer of gold held by us from account of one foreign central bank to account of another. Please refer our letter of November 6, 1935. We have also advised National Bank of Belgium."

Dec. 24, 1936

Cable No. 30. To Banque Nationale de Belgique, Brussels, Belgium.

"Your No. 30. Bank for International Settlements has requested us to hold gold at your disposal. This is first instance of request under present regulations for transfer of gold held by us from account of one foreign central bank to account of another and before complying we shall have to obtain a ruling from United States Treasury Department. To facilitate would it be possible to give us your further instructions now regarding deposit so that we may present complete details to Treasury."

Dec. 28, 1936

Cable No. 12. From Banque Nationale Suisse, Berne, Switzerland.

"We inform you that Banque Nationale de Belgique, Brussels, holds at our disposal with you 48 gold bars containing 17,939.267 fine ounces which kindly place in safe custody for our account. Please cable confirmation and full details."

Dec. 28, 1936

Cable No. 32. From Banque Nationale de Belgique, Brussels, Belgium.

"Answering your cable of December 24 please hold at the disposal of Banque Nationale Suisse, Berne the 48 gold bars containing fine ounces 17,939.2672 transferred in our favor by the Bank for International Settlements."

Dec. 28, 1936.

Letter from Federal Reserve Bank of New York to Treasury Department.

Advised that Bank for International Settlements has requested them to hold at the disposal of the Banque Nationale de Belgique, Brussels, following gold:

<u>No. of Fine Ounces</u>	<u>Date Earmarked</u>	
13,862.3970	Feb. 15, 1932)	Sold to Bank for International Settle- ments by Federal Reserve Bank of N. Y. Shipped from London
1,274.6493	Feb. 5, 1932)	
<u>2,802.2210</u>	Oct. 5, 1936	
17,939.2672		

The Banque Nationale de Belgique instructed the Federal Reserve Bank to hold the above gold at the disposal of the Banque Nationale Suisse. Federal Reserve Bank requests ruling from Treasury whether the above transfers may be effected by them.

(See Cables No. 30 and 32 from Banque Nationale de Belgique; No. 12 from Banque Nationale Suisse; No. 117 from BIS; and Cables No. 250 to BIS and No. 30 to Banque Nationale de Belgique, mentioned above)

Dec. 31, 1936

Cable No. 24. To Banque Nationale Suisse, Berne, Switzerland.

"Your No. 12. Having been authorized by the Secretary of the Treasury in this case to make the transfers requested we have today earmarked for your account 48 gold bars weighing 17,939.2672 fine ounces placed at your disposal by the Banque Nationale de Belgique."

Dec. 31, 1936

Cable No. 256. To Bank for International Settlements, Basle, Switzerland.

"Your No. 117. Our No. 250.
"Having been authorized by the Secretary of the Treasury in this case to comply with your request we have today held at the disposal of Banque Nationale de Belgique, Brussels, 2,802.2210 fine ounces of gold released from your Account No. 2 and 15,137.0462 fine ounces of gold released from your Account No. 4. Have advised Banque Nationale de Belgique by cable."

Dec. 31, 1936

Cable No. 32. To Banque Nationale de Belgique, Brussels, Belgium.

"Your No. 30 and 32. Our No. 30. Having been authorized by the Secretary of the Treasury in this case to comply with Bank for International Settlements' and your requests we are today holding at the disposal of and under advice to Banque Nationale Suisse, Berne, by your order 17,939.2672 fine ounces of gold placed at your disposal by Bank for International Settlements."

Jan. 5, 1937.

Cable No. 1. From Sveriges Riksbank, Stockholm, Sweden.

"Please confirm by cable (1) That we can still without license have gold earmarked in New York irrespective of whether gold is imported by us to the United States or bought by us from other central banks already having gold earmarked with you; (2) That under present regulations exporting from the United States of such gold is permitted without license by first available steamer; (3) That you are still willing to hold gold earmarked for us without charge. Would same conditions be applicable if gold belonging to Swedish Government is deposited in our name or in name of Government. Will you according to present regulations be obliged to debit handling charges for deposits of gold not assayed by the United States Mint."

Jan. 5, 1937.

Cable to Sveriges Riksbank, Stockholm, Sweden.

"We are discussing your No. 1 with the United States Treasury Department and shall revert to it shortly."

Jan. 11, 1937

Cable No. 18. From De Nederlandsche Bank, Amsterdam, Holland.

"Please cable whether if we sold to Banque Nationale Suisse, Berne part of the gold at present under earmark for our account in your vaults the gold thus sold would be at free disposal of Banque Nationale Suisse, Berne."

Jan. 11, 1937

Cable No. 11. To De Nederlandsche Bank, Amsterdam, Holland.

"Referring your cable No. 18. Having been authorized by the Secretary of the Treasury to do so we answer your inquiry in the affirmative."

Jan. 12, 1937

Cable No. 21. From De Nederlandsche Bank, Amsterdam, Holland.

"Please cable whether if we sold to Bank for International Settlements, Basle, part of the gold at present under earmark for our account in your vaults the gold thus sold would be at free disposal of Bank of International Settlements, Basle."

Jan. 12, 1937

Cable No. 13. To De Nederlandsche Bank, Amsterdam, Holland.

"Your No. 21 has been submitted to Treasury and shall revert as soon as possible."

Jan. 13, 1937

Exchange of letters between Banque Nationale Suisse and Federal Reserve Bank of New York dated Sept. 15, 1936 and Jan. 13, 1937.

"4. "Could we send you gold at any time for deposit either from Switzerland, from Paris, or from London, and would the Swiss National Bank be entitled to hand over gold from their deposit in New York to other banks of issue, eventually to the Bank for International Settlements?"

The first part of this question has already been answered in the affirmative. With respect to the second part, as you no doubt know, the Treasury has permitted the transfer of gold held by this bank for the account of the Bank for International Settlements to the account of the Banque Nationale de Belgique, and thereafter to the account of the Swiss National Bank with the Federal Reserve Bank of New York. The Treasury has advised this bank that such decision should not be interpreted as a general ruling of the Department, nor as an answer to any general inquiry on the subject. The foregoing, meanwhile, would not debar the Swiss National Bank from consigning gold to the Federal Reserve Bank of New York to be placed directly under earmark for another central bank or the Bank for International Settlements."

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December 10, 1936.
11:13 a.m.

Operator: Mr. Gaston.

H.M.Jr: Herbert

Gaston: Yes.

H.M.Jr: It's kind of amusing that I made my statement about there being no disturbance and three minutes later the King abdicated.

G: (Laughs) Yes I was just on the way out of the office when Lochhead showed me the flash.

H.M.Jr: Yes and there has been no disturbance.

G: There hasn't been anything in the market?

H.M.Jr: No.

G: Good.

H.M.Jr: You might say to the boys, "Well the Secretary's a pretty good prophet."

G: Uh-huh, yes. Yes, I'll watch it for a few minutes and then I'll mention it to them.

H.M.Jr: What?

G: I say I'll watch it for a few minutes more and then I'll mention it to them.

H.M.Jr: Yes, I'd wait another 15 minutes and then I'd say something to them.

G: Yes.

H.M.Jr: Also I very seldom - it's one of the few times I've ever made - practically the only time I've ever made a prophesy since I've been here.

G: Yes, it's come closer to being a prophesy than most anything you've said.

H.M.Jr: Yes.

G: Yes, you said pretty definitely you didn't think it would cause any particular disturbance.

H.M.Jr: And also could you mention the fact that sterling has practically not moved at all. A thing like that would be impossible if it wasn't for the tri-partite agreement.

G: Ah-ha.

H.M.Jr: What?

G: Yes - yes - yes.

H.M.Jr: Get the stuff?

G: Yes, you bet I do.

H.M.Jr: The two things, you see?

G: Yes.

H.M.Jr: And the fact that here five minutes before the King abdicates I made the statement - I said it has all been and I proved I'm right. I'd wait another fifteen or twenty minutes.

G: Uh-huh, I will and then I'll - I'll check with Archie.

H.M.Jr: That's right.

G: Yes.

H.M.Jr: I'd wait till about 12 o'clock. If everything is all right by 12 I'd go out on the end of a limb on it.

G: Yes, I'll do it.

H.M.Jr: All right?

G: Fine, yes - I'll do it.

December 10, 1936
12:08 P.M.

H.M.Jr: Yes.

Knoke: Knoke.

H.M.Jr: Yes.

K: I just spoke to the Bank of England. It was a lengthy talk, very satisfactory, and I'm dictating a memorandum a little later.

H.M.Jr: Right.

K: What I'm giving you is - is the high spots.

H.M.Jr: Please.

K: He said there's a great feeling of relief in London.

H.M.Jr: Yes

K: The necessary legislation will undoubtedly be passed through both houses quickly and expeditiously without any trouble.

H.M.Jr: Yes

K: Political parties are united.

H.M.Jr: Yes

K: There's going to be no political trouble here.

H.M.Jr: Yes

K: Legislation will have to be passed in the Dominions and probably without difficulty, with one possible exception, and that's the Irish Free State.

H.M.Jr: Yes

K: That probably would be smoothed over.

H.M.Jr: Yes

K: He repeated that London was really relieved and was looking forward to more or less continuation of the recent movement.

H.M.Jr: Ah-ha.

K: By that he said he referred to the sterling movement ten days ago when he - when the sterling seemed definite- - decidedly firm.

H.M.Jr: Yes

K: And he thought there was no reason to assume that that tendency wouldn't continue at least to the end of the year.

H.M.Jr: Yes

K: Markets were hopeful and - and optimistic.

H.M.Jr: Yes. That sounds very good.

K: Yes, I think so. He asked one question that really took me aback, and he said: "Do you think that this affair will cool off America's feeling for us?" Well, I hesitated for a moment and I said, "Absolutely not, at least not in the circles that I have moved in."

H.M.Jr: No

K: "Absolutely not."

H.M.Jr: No. No.

K: Don't you think that's correct?

H.M.Jr: Oh, absolutely.

K: Yes.

H.M.Jr: I mean I think the thing that the American public is interested in this thing is the - ah - love angle, and it's - it's an extra good Hearst story, you know.

K: Yes. I mean but that Mrs. Simpson was born in Baltimore I think certainly doesn't -

H.M.Jr: No.

K: - doesn't affect people here.

H.M.Jr: No. No, I don't - I think once - now that the thing is settled and - I think that the first good murder case will come along, why, that will replace it.

K: Yes, we'll soon read about Spain again.

H.M.Jr: Yes. Yes.

K: All right, sir. Then that will be mailed to you tonight.

H.M.Jr: Thank you.

OFFICE CORRESPONDENCE

DATE December 10, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knobe

BANK OF ENGLAND.

I called Mr. Bolton at 11:40 this morning. The first thing he wanted to tell me, he said, was that, now that the King's abdication was known, there was a great feeling of relief in London; the necessary legislation, he felt, would be passed through both Houses very quickly and expeditiously and without any trouble. Political parties were united and there was going to be no political trouble in England. The Dominions also would have to pass new legislation which, he believed, would go through without difficulty everywhere with the possible exception of the Irish Free State, but that too would probably be smoothed over. London was really relieved and was now looking forward to a continuation of the past upward movement. Good markets were expected again. Sterling, which he had felt was firm ten days ago, looked firm again and there seemed to be no reason why that should not continue, at least until after the turn of the year. The only possible source of a real setback, he continued, would be difficulty with the Dominions with which King Edward had, as a result of his great personal popularity, represented the strongest possible tie. The new King, he thought, had nothing like the same advantages. Bolton inquired how the whole affair was taken in America, and I replied that, at least in my circles, there had been a feeling of regret that this thing had to come and now a feeling of relief and the thought that possibly it was all for the good. I had most certainly not found any sign of the popular feeling towards England cooling off. Bolton then wanted to know whether ^{there} was any feeling here that the situation had been badly handled in England. I replied that all I could say was that I had a great deal of sympathy

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE December 10, 1950.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Kneke

BANK OF ENGLAND.

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with Baldwin whose duty it had been to handle a most unpleasant situation.

The new Monarch, Bolton thought, would be very popular, partly because of a well liked wife and his happy family life. The general hope was that, after some time, the public would dismiss this whole affair from its mind.

I referred to their recent switch operations in dollars and inquired how they stood now. Bolton replied that on the whole it was not their policy to hide their operations, that they felt that there was not so much need for secrecy now that the tripartite agreement was in force. As a result, they were now openly going into the market and buying spot and selling forward dollars. On balance, as a result, he thought, they were now short about \$10,000,000. I mentioned the Bank of France's loss of 4,000,000,000 francs of gold just reported. Bolton thought that this gold would exclusively be used for the purpose of repaying the £40,000,000 credit, £22,000,000 of which had been repaid and the balance due in the next few weeks. This particular amount of francs 4,000,000,000, he thought, had nothing to do with recent gold losses due to official support efforts, and that although they did not of course know exactly, nor did they ever ask the Bank of France, the French Fund still had a respectable reserve to maneuver with. Payment of the sterling credit in gold, he added, was just as they had always anticipated.

LWK:KMG



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TREASURY DEPARTMENT

WASHINGTON

December 10, 1936

CONFERENCE IN THE SECRETARY'S OFFICE
DECEMBER 9, 1936, REGARDING THE STERILIZATION
OF GOLD COMING INTO OUR BANKING SYSTEM AS A
RESULT OF IMPORTS FROM ABROAD AND DOMESTIC
PRODUCTION

Those present besides the Secretary were Professor O. M. W. Sprague, of Harvard University; Mr. Walter Stewart and Mr. Robert Warren of Case, Pomeroy and Company, Inc., of New York City; Mr. Lochhead; Mr. Haas; and Mr. Bell.

The Secretary gave each of the visiting gentlemen a copy of the statement "Sterilizing Future Acquisitions of Gold," a copy of which is attached hereto. He then read the statement aloud, after which he explained that we were prepared to answer any questions; that he would first like to have these gentlemen discuss the device proposed, and second, to give their opinion as to whether or not it was advisable to use such a device.

Mr. Stewart said that so far as he could see in going over the statement hurriedly, the plan was technically accurate. He wondered, however, what was meant by the word "impounded". He was advised that this word was used merely for the want of a better term, that after the statement was prepared it was decided that probably a better term would be "inactive".

Professor Sprague said the device proposed was one of mechanics and that they seemed accurate to him. He assumed that where we used the term "Treasury Bills" any other public debt obligation sold for cash would be just as good. He was told that the Treasury Bills were used because of their flexible nature, but that the scheme proposed was of such a character that almost any public debt security might be used.

Professor Sprague said he assumed that in operating through the sale of public debt obligations, the shorter term obligations might be better suited because their sale would naturally take the funds out of the larger banks, which would accomplish exactly what we want.

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Professor Sprague also raised the question as to whether or not it would be desirable to operate this scheme secretly and if so, whether it could be done through the public debt as here proposed. He was advised that we had concluded that it should be public and that we would show the transactions from day to day so that the public could see exactly what was being done with the frozen gold.

Mr. Warren thought that the publicity was highly desirable and that the proposal to use Treasury Bills was preferable to any other public debt obligation.

The Secretary then said it had been his intention to make public the gold which is frozen under this plan and that it is also his intention by this scheme to isolate the gold from the banking and credit system so that the Federal Reserve Board will be in a better position to more effectively carry out its functions under the Federal Reserve Act. He feels that if we can prevent the imported gold from flowing into our banking system, the Federal Reserve Board will have a better chance to operate with the means at its disposal. He also said that this plan is so arranged that we can include newly mined domestic gold if it is so desired.

Professor Sprague asked if the proposed plan would also include silver. The Secretary replied that silver is quite a different problem; that the Silver Purchase Act is a part of our law and its provisions, so far as the Secretary of the Treasury is concerned, are mandatory and there is no other course open to him but the one he is following.

Professor Sprague said he realized that, and further, he did not feel that it was a big enough factor to change the situation materially.

Professor Sprague then said that of course it is within the power of the Federal Reserve Board to control reserves. What the Board should do in the course of the next few weeks would be to let \$100,000,000 of their short-term Government securities mature and with the proceeds buy not more than \$15,000,000 of long-term Governments. By this method they could get the same earnings for the System on \$15,000,000 long term bonds as they can on \$100,000,000 short term obligations, and by this method reduce excess reserves. Over a period of several months they might let as much as \$500,000,000 of short-term securities mature and purchase in the market approximately \$75,000,000 of long term bonds.

He wanted to raise one further question regarding the proposal under discussion, and that is: The more conservative plans we adopt in the United States, the more gold we will get. In other words, would not a proposal of this kind stimulate the flow of gold to this country?

The Secretary said that this question had been raised by a member of his staff; that it had been suggested that this action might be taken abroad as indicating that the United States was becoming apprehensive, which would result in an increase in shipments of gold to this country. He feels this is one of the problems which we have to consider in connection with the whole proposal.

Mr. Warren then said that a study of the various indices, particularly a study of the statistics recently published by the Treasury with respect to the movement of capital funds, showed, over a period of several months, a steady continuity of gold flowing to this country. There was a considerable fluctuation in the amount from week to week, but taking it over a period of twenty months, it represented a steady flow.

The Secretary then asked if these gentlemen knew of any better mechanism to control the excess gold coming into the United States, and just what would be the nature of the criticism directed against the proposed plan.

Mr. Stewart and Professor Sprague both thought this was probably the best and most direct method. Mr. Stewart thought it would be interpreted as a deflationary measure, but Professor Sprague did not think any one could get excited about deflation at the present time with approximately \$2,000,000,000 in excess reserves. He did not think the expense involved in carrying this gold in the public debt would be significant. Certainly from the standpoint of the country as a whole it was very cheap, provided the country understands the significance of the move.

Mr. Warren said it was his opinion that the sentiment of the country is such at the present time that the weight of opinion will strongly support this move. He feels that there might be some criticism coming from those who want inflationary measures, such as Father Coughlin and Senator Thomas, but that they would represent a minority feeling. He thought the policy enunciated by the Administration, particularly the latter's viewpoint for control of expansion, is the dominant mood of the country, and the move proposed here is a definite step in that direction.

Mr. Stewart thought this plan would be well received in financial circles. Professor Sprague indicated that bankers and others would be more willing than ever to buy long term Governments. Mr. Warren suggested that over the next few months, after the announcement of such a policy, it would be interesting to watch the index of purchases of baby bonds as an indicator of the attitude of the investor in this matter.

The Secretary stated he was not thinking of this move as a deflationary measure, but that he was trying to furnish a mechanism for controlling the inflow of capital funds so that the Federal Reserve Board would have an opportunity to perform its proper functions in controlling the credit situation.

Mr. Stewart agreed this was the right course to follow. He said, however, that it would be necessary to have complete cooperation between the Treasury's actions and the Board's actions, that any conflict would cause a great deal of trouble. He assumed, however, that any program of this character would be based upon a great degree of cooperation and understanding in its operation.

Professor Sprague said that in any central bank operation the Government's considered opinions must come into great play. Of course, in the Government's consideration of monetary and credit problems, central bank problems can not be ignored.

Mr. Warren confirmed the views of these two gentlemen that cooperation was highly desirable, and particularly the timing of the various steps to be taken.

The Secretary then said that the question had been raised as to whether this move should be made first or whether the Federal Reserve Board should take action with respect to the excess reserves. He said the people he had discussed this point with agreed that this should be the first move and that the authority of the Federal Reserve Board should be held in reserve for future action.

Professor Sprague said it seemed desirable to him that the Board should not use up all of its ammunition at this time; that the proposed plan was the first move which should be taken. He pointed out that another device which the Treasury could adopt to aid the Federal Reserve Board in its control of the excess reserves was the withdrawal of Government deposits with banks.

Mr. Warren said that this plan represented a basic and fundamental decision, and that it was proper to go forward with it.

The Secretary explained that he did not embark upon any of these programs until he had given them long and careful consideration. He feels this is necessary in order not to make any mistakes. He said that this particular plan had been under study for two weeks and the tripartite agreement made in September was under consideration months before it was announced.

In answer to a question as to whether or not this whole matter should be made public if the policy is agreed upon, the three gentlemen unanimously said it should. Mr. Stewart said the logicians would ask one further question -- they would say this is fine, but would ask what the terminal will be. If gold continues to come into the United States as it has in the past three years, where does this program we are now following lead to?

Professor Sprague answered that that would not seem to him to be a strong objection in view of the present low interest rates and the abnormal situation in the money market. Mr. Stewart agreed with this view, but thought that it was a matter which we should keep constantly in mind in carrying out this policy.

Mr. Warren thought it was quite important that any press release announcing the plan should not convey the impression abroad that the United States is now hoarding gold, or that we are setting up a gold chest into which every country, becoming concerned over its domestic situation, can pour its gold. He thought that such an announcement concerning this move should tie in with the September announcement of the tripartite agreement.

The Secretary said he did not wish by this policy to interfere with the seasonal flow of gold into the United States. Mr. Warner said he realized this, but he did want to stress the importance of his point.

Professor Sprague said that we might also give consideration to the setting up, for the purpose of publication in the statement attached, the mechanism for exporting this gold. Some thought this might complicate matters as far as the press and the public generally are concerned, and that the simpler the statement is the better it will be understood.

The Secretary asked these gentlemen if they cared to criticize any of the policies now being pursued by the Treasury Department.

Professor Sprague then said that there was just one more implication he would raise to the inflow of gold under this plan. He wondered, if we get another billion dollars of gold, what repercussion that will have on our foreign markets and the exchange situation in general. He thought that the nub of the situation was the sterling rate and British financial policy. He says that fears cause sudden changes and cause violent fluctuations of from five to ten points in sterling, which might disturb the confidence around the world to such an extent that it would undermine sterling. With the confirmed view now held in London that an easy money policy is essential above everything else in their recovery program, he thought it was necessary that everything be done to avoid this situation.

Mr. Stewart said that his comments would be on the general situation. It was very difficult today to make decisions in a world of managed currency. During the days of the gold standard there were certain tests by which the governments and central banks could judge situations; today it is necessary to proceed on presumptions only. If some way could be found whereby tests could be made before action is taken to initiate a policy in order to determine its effects, we would be in a much better position. The difficulty today is that many times action taken often has a tendency toward unnecessary legislation, plans to alter the base, etc. Today we are exposed to more risks because we lack the means of making tests.

Mr. Warren said he thought that was true. Today it is necessary to compile elaborate statistics before proceeding, whereas in the old days such tests as raising and lowering the discount rates and other actions of the central banks were available and reasonably effective.

Professor Sprague pointed out that of course the United States is in a very strong position and that our foreign neighbors are in a relatively weak one. This raises the question as to whether our policies based upon our domestic situations will fit into the policies and economic conditions of those countries. It seemed to him, and this went back to his former position, that it is highly desirable that the British and American Governments cooperate to establish a rate for sterling and then to maintain that rate. He realized how difficult it would be to get this

cooperation so long as the confirmed view of low money rates is held in London as it is now. Nevertheless, he thinks that an agreement between these two governments to establish a sterling rate and the assurance that it would be maintained would do a great deal to stabilize conditions throughout the world, as practically all of the world's commerce is done on the basis of sterling and dollar exchange.

The Secretary thanked these gentlemen for taking the time and trouble to come to Washington and he hoped that he might feel free to call upon them again.

They said they would be glad to come at any time.

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STERILIZING FUTURE ACQUISITIONS OF GOLD

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

December 10, 1936.

OFFICE OF THE CHAIRMAN



My dear Mr. Secretary:

In response to your request, I am transmitting herewith a memorandum which raises a number of points that I feel sure I should bring fully to your attention in connection with the proposal with reference to sterilization of bank reserves.

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Sincerely yours,

A handwritten signature in cursive script, appearing to read "M. S. Eccles".

M. S. Eccles,
Chairman.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

enclosure

December 10, 1936

TREASURY PROPOSAL FOR STERILIZING GOLD

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One question, which of course is entirely the responsibility of the Treasury, is whether it would be best to inaugurate the new policy prior to obtaining renewal of the Stabilization Fund from Congress. This renewal may possibly be delayed or complicated if a new issue is introduced, particularly one that involves increasing the public debt for the purpose of sterilizing gold. At the time when the Stabilization Fund is renewed authority may be obtained for the issuance of obligations by the Fund itself, with interest payments out of the fund's assets rather than out of taxes. This would obviate the necessity of increasing the public debt figure.

Another question is whether this step ought to be taken before the Board of Governors has had an opportunity to use the full authority to raise reserve requirements. Congress is likely to ask why the Government should pay interest out of taxes for offsetting gold imports and provide earning assets for member banks, when the Board of Governors has authority to absorb these reserves by raising reserve requirements, which would not cost the Government anything. This argument might be potent with Congress.

The question might also be raised whether the adoption of this policy would not diminish the pressure for legislation to discourage the inflow of capital from abroad. It may be felt that, since the future damage of such inflow will be taken care of by the Treasury action, there is less need for legislation. But the Treasury policy would only eliminate the effects of a gold inflow on excess reserves. An inward movement of foreign funds would still have the effect of increasing deposits and stimulating the ~~stock~~ ^{security and} ~~commodity~~ market with possible serious consequences to our economy. Furthermore, off-

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It is also worth while to inquire whether the same results might not be obtained in an equally satisfactory or even a more satisfactory manner by permitting the Federal Reserve banks to issue debentures. If they could do this the Federal Reserve authorities would be in a position to offset or not to offset gold movements, depending on the prevailing credit situation. This procedure would have the advantage of placing the entire matter of the domestic effects of gold movements in the hands of the Federal Reserve authorities which are supposed to give their entire attention to the domestic position of the dollar. It would also relieve the Government of the need of incurring interest-bearing debt to offset the gold movements.

There is also this problem. If the Treasury should sell bills to offset the gold inflow, and if a situation should arise in which the Federal Reserve authorities felt it important in the interests of domestic economy to tighten money rates, this would not only make it more expensive for the Treasury to sell the bills, but might result in attracting additional gold from abroad with the consequence of making it necessary for the Treasury to sell more bills, and thus incur still more expense.

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December 10, 1936

MONETARY PRINCIPLES TO BE OBSERVED IN
OPERATION OF TREASURY PLAN

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(1) Treasury operations in this matter will be automatic and not discretionary, unless conditions should arise that would cause the Board of Governors to request a departure from this policy. All increases in the gold stock from the present level will be offset shortly after they occur. Otherwise the Federal Reserve authorities will have no way of controlling an important factor operating on the domestic credit situation for which they have to bear the brunt of responsibility.

(2) The Treasury will sell bills up to the full amount of additions to the present gold stock and buy bills to offset all decreases in the gold acquired from now on, but not decreases from the now existing stock. Beyond that point the determination whether or not to offset gold exports will remain in the hands of the Federal Reserve authorities.

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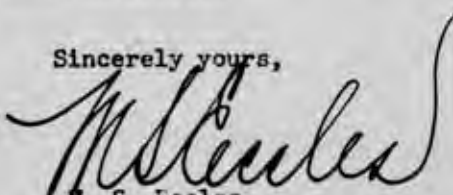
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Sincerely yours,



H. S. Eccles,
Chairman.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

enclosure

~~SECRET~~
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enclosure

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setting gold imports is a method of neutralizing some of the effects of capital movements, but would do nothing to restrain the movements themselves, which are undesirable not only from our domestic point of view but from the point of view of world trade and the maintenance of exchange stability. Legislation providing for taxation of foreign funds or foreign profits would remove some of the incentive for the inflow of capital and would make the offsetting operations less urgent. It would be unfortunate if the adoption of the Treasury policy at this time should diminish the chances of dealing with the matter in a more fundamental way through taxation.

It is also worth while to inquire whether the same results might not be obtained in an equally satisfactory or even a more satisfactory manner by permitting the Federal Reserve banks to issue debentures. If they could do this the Federal Reserve authorities would be in a position to offset or not to offset gold movements, depending on the prevailing credit situation. This procedure would have the advantage of placing the entire matter of the domestic effects of gold movements in the hands of the Federal Reserve authorities which are supposed to give their entire attention to the domestic position of the dollar. It would also relieve the Government of the need of incurring interest-bearing debt to offset the gold movements.

There is also this problem. If the Treasury should sell bills to offset the gold inflow, and if a situation should arise in which the Federal Reserve authorities felt it important in the interests of domestic economy to tighten money rates, this would not only make it more expensive for the Treasury to sell the bills, but might result in attracting additional gold from abroad with the consequence of making it necessary for the Treasury to sell more bills, and thus incur still more expense.

Govt debt and

STERILIZING FUTURE ACQUISITIONS OF GOLD

The most practical and satisfactory device for neutralizing gold imports through Stabilization Fund operations under existing law would be as follows:

- A. The Fund would buy all imported gold.
- B. To pay for this gold it would use funds obtained from the General Fund of the Treasury in exchange for its gold transferred to the Treasury.
- C. The Treasury would obtain such funds by increasing the amount of Treasury bills sold to the market.

An illustrative example of the detailed operation of a transaction is as follows:

- (a) I, in New York, imports \$50,000,000 worth of gold.
- (b) Delivers the gold to assay office for account of Stabilization Fund (Secretary's special account).
- (c) Federal Reserve Bank of New York, as fiscal agent (for Stabilization Fund), pays I for gold by issuing its cashier's check.
- (d) I deposits check in its member bank.
- (e) Member bank deposits check with Federal Reserve bank, receiving credit in its reserve account, thus increasing excess reserves.
- (f) Amount of Federal Reserve bank's check is charged to account of Stabilization Fund (Secretary's special account).
- (g) This account is replenished by transfer from account of Treasurer of United States (General Fund) on books of Federal Reserve bank.
- (h) Stabilization Fund turns over to Treasurer gold equivalent to transfer, which gold will be impounded in General Fund.
- (i) At selected dates the Treasurer's account with the Federal Reserve bank will be replenished by the sale of Treasury bills to the market in amounts sufficient to compensate for the purchases of gold during a given period.
- (j) Bills will be paid for, directly or indirectly, by a drawing on a member bank's reserve account with Federal Reserve bank, the increase in reserves mentioned in "(e)" above being thus neutralized.

Note 1: Since any purchase of gold increases bank deposits and hence changes the ratio of deposits to reserves, this plan slightly more than neutralizes the increase in excess reserves. Should it be desired exactly to equate this, slightly less than \$50,000,000 in bills could be sold.

Note 2: Any purchase of gold increases bank deposits. If it is desired to neutralize such increase, a corresponding amount of Government deposits could be transferred from member banks to Federal Reserve banks to the extent of such deposits.

December 7, 1936

Fin 34

December 10, 1936
12:47 P.M.

Operator: Dr. Burgess. Go ahead.

Burgess: Hello.

H.M.Jr: Hello, Burgess.

B: Well, sir, the market strengthened up a little bit after your statement about the seven times subscribed.

H.M.Jr: Yes

B: And it's been pretty steady at that point.

H.M.Jr: Well, I did it for that reason.

B: Yes.

H.M.Jr: I didn't - if you noticed, I carefully avoided saying how much the allotment would be.

B: Exactly, yes, yes.

H.M.Jr: I simply -

B: - let them figure that out themselves.

H.M.Jr: Yes

B: The market is a little off from last night, but it doesn't amount to anything.

H.M.Jr: Well, I thought there was no reason to withhold that information.

B: No, I'm glad you did it, because it - it made the market better.

H.M.Jr: And - well that's what it -

B: I don't mean just higher, I mean a little steadier.

H.M.Jr: You see, I think we started with five million two, and they've now got it down to five million one.

B: Ah-ha.

H.M.Jr: So it's at least seven times -

- 2 -

B: Yes, yes, yes.

H.M.Jr: - oversubscribed.

B: Well, that's good.

H.M.Jr: And we'll try to have that - the other stuff out by ten tomorrow morning.

B: Yes. We're going to it on these subscriptions.

H.M.Jr: Are you?

B: And bearing them down, and treating them as nicely as we can.

H.M.Jr: Good.

B: We're getting a very decent reception. People are being very decent about it.

H.M.Jr: I don't look for any trouble from abroad now.

B: No, I think that that's - that's taken care of the only way it could be, -

H.M.Jr: You know, it's funny -

B: - after all.

H.M.Jr: - I had a press conference and I came out that - with a statement on that just as - about five minutes before the King's statement came out -

B: (Laughs)

H.M.Jr: - which I said I didn't think it would have any effect on us.

B: Yes

H.M.Jr: So.

B: Well, our stock market's strong today.

H.M.Jr: Yes.

B: I think - I think it's bullish everywhere.

- 3 -

H.M.Jr: I suppose the thing which would have upset them if the - Baldwin's cabinet had fallen.

B: Oh yes, that would have been the real upset.

H.M.Jr: Yes

B: And, you know, I think if this fellow had - had caved in and said he'd stay, that that wouldn't have been very satisfactory either, because he's - he's ruined his standing, I think.

H.M.Jr: You think so?

B: It would have taken him years to get it back if he'd - if he'd stayed after this, I think.

H.M.Jr: Ah-ha.

B: However, I'm -

H.M.Jr: Well -

B: - not in a very good position to judge. That's just -

H.M.Jr: No

B: - a horseback opinion.

H.M.Jr: Well, the only thing I was interested was to have it settled one way or the other.

B: Oh yes.

H.M.Jr: Now it's settled.

B: That's the really important thing. Yes.

H.M.Jr: Well, thank you.

B: I haven't bought anything more this morning. I've got orders in -

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

B: - only if it drops below 101 low.

H.M.Jr: Thank you.

B: Very good.

DOW JONES TICKER

TREASURY BOND ISSUE OVERSUBSCRIBED ~~DEC 10~~ ^{DEC 10} 1936
TIMES

WASHN- THE TREASURY-S CURRENT 700 000
000 DLS CASH OFFERING OF 2 1-2 PC BONDS OF
1949-53 HAS BEEN OVERSUBSCRIBED SLIGHTLY MORE
THAN SEVEN TIMES SECY MORGENTHAU ANNOUNCED

-0-

December 10, 1936

The Secretary held his usual Thursday morning press conference at 10:30 today.

While the newspaper men were in his office the news ticker announced the abdication of the King of England. In response to a query at the conference, the Secretary commented that in event of abdication, the world monetary situation would not be affected.

At the conclusion of the press conference, the Secretary went into Lochhead's office to read the ticker announcements and to watch the bond market reaction. (Lochhead's memorandum on the condition of the market at the time of the announcement of the King's abdication and throughout the rest of the day is attached.)

The Secretary called Knoke, in New York, to ask him if he had read the announcement of the abdication and his, the Secretary's, statement. Knoke replied that he had and that the ticker had stopped in the middle of Baldwin's speech to insert Mr. Morgenthau's statement. The Secretary asked Knoke to telephone London and talk to them and then to call him back and report to him on conditions in London. (Knoke's telephone conversation with the Secretary reporting on his London call is attached.)

The Secretary's next step was to call Gaston and copy of their conversation is attached.

December 10, 1936
12:08 P.M.

~~114~~

H.M.Jr: Yes.

Knoke: Knoke.

H.M.Jr: Yes.

K: I just spoke to the Bank of England. It was a lengthy talk, very satisfactory, and I'm dictating a memorandum a little later.

H.M.Jr: Right.

K: What I'm giving you is - is the high spots.

H.M.Jr: Please.

K: He said there's a great feeling of relief in London.

H.M.Jr: Yes

K: The necessary legislation will undoubtedly be passed through both houses quickly and expeditiously without any trouble.

H.M.Jr: Yes

K: Political parties are united.

H.M.Jr: Yes

K: There's going to be no political trouble here.

H.M.Jr: Yes

K: Legislation will have to be passed in the Dominions and probably without difficulty, with one possible exception, and that's the Irish Free State.

H.M.Jr: Yes

K: That probably would be smoothed over.

H.M.Jr: Yes

K: He repeated that London was really relieved and was looking forward to more or less continuation of the recent movement.

H.M.Jr: Ah-ha.

K: By that he said he referred to the sterling movement ten days ago when he - when the sterling seemed definite- - decidedly firm.

H.M.Jr: Yes

K: And he thought there was no reason to assume that that tendency wouldn't continue at least to the end of the year.

H.M.Jr: Yes

K: Markets were hopeful and - and optimistic.

H.M.Jr: Yes. That sounds very good.

K: Yes, I think so. He asked one question that really took me aback, and he said: "Do you think that this affair will cool off America's feeling for us?" Well, I hesitated for a moment and I said, "Absolutely not, at least not in the circles that I have moved in."

H.M.Jr: No

K: "Absolutely not."

H.M.Jr: No. No.

K: Don't you think that's correct?

H.M.Jr: Oh, absolutely.

K: Yes.

H.M.Jr: I mean I think the thing that the American public is interested in this thing is the - ah - love angle, and it's - it's an extra good Hearst story, you know.

K: Yes. I mean but that Mrs. Simpson was born in Baltimore I think certainly doesn't -

H.M.Jr: No.

K: - doesn't affect people here.

~~116~~

H.M.Jr: No. No, I don't - I think once - now that the thing is settled and - I think that the first good murder case will come along, why, that will replace it.

K: Yes, we'll soon read about Spain again.

H.M.Jr: Yes. Yes.

K: All right, sir. Then that will be mailed to you tonight.

H.M.Jr: Thank you.

Thursday, December 10, 1936

The news of the abdication of the King of England was received in this market at 10:40 A. M. At that time sterling was quoted at 4.90-3/16, having improved in the early morning trading from the opening price of 4.89-11/16.

A very close watch was kept on the New York exchange market, but although there were signs of nervousness, no material change took place.

Immediately after the news the market advanced slightly to 4.90-1/2 and then settled down again to 4.90-1/4. Transactions in sterling at this time were very small and only 50,000 pounds turnover was traced in the New York market in the half hour which occurred after the news of the abdication reached here.

After 12 o'clock, noon, sterling displayed a slightly firmer tendency and rose to 4.90-7/16 around 4 o'clock and closed at 4.90-7/16, without any activity to cause intervention by the Stabilization Fund.

RT.

December 10, 1936.
11:13 a.m.

Operator: Mr. Gaston.

H.M.Jr: Herbert

Gaston: Yes.

H.M.Jr: It's kind of amusing that I made my statement about there being no disturbance and three minutes later the King abdicated.

G: (Laughs) Yes I was just on the way out of the office when Lochhead showed me the flash.

H.M.Jr: Yes and there has been no disturbance.

G: There hasn't been anything in the market?

H.M.Jr: No.

G: Good.

H.M.Jr: You might say to the boys, "Well the Secretary's a pretty good prophet".

G: Uh-huh, yes. Yes, I'll watch it for a few minutes and then I'll mention it to them.

H.M.Jr: What?

G: I say I'll watch it for a few minutes more and then I'll mention it to them.

H.M.Jr: Yes, I'd wait another 15 minutes and then I'd say something to them.

G: Yes.

H.M.Jr: Also I very seldom - it's one of the few times I've ever made - practically the only time I've ever made a prophesey since I've been here.

G: Yes, it's come closer to being a prophesey than most anything you've said.

H.M.Jr: Yes.

~~113~~

G: Yes, you said pretty definitely you didn't think it would cause any particular disturbance.

H.M.Jr: And also could you mention the fact that sterling has practically not moved at all. A thing like that would be impossible if it wasn't for the tri-partite agreement.

G: Ah-ha.

H.M.Jr: What?

G: Yes - yes - yes.

H.M.Jr: Get the stuff?

G: Yes, you bet I do.

H.M.Jr: The two things, you see?

G: Yes.

H.M.Jr: And the fact that here five minutes before the King abdicates I made the statement - I said it has all been and I proved I'm right. I'd wait another fifteen or twenty minutes.

G: Uh-huh, I will and then I'll - I'll check with Archie.

H.M.Jr: That's right.

G: Yes.

H.M.Jr: I'd wait till about 12 o'clock. If everything is all right by 12 I'd go out on the end of a limb on it.

G: 9 Yes, I'll do it.

H.M.Jr: All right?

G: Fine, yes - I'll do it.

UNITED PRESS - December 10, 1936.

45

FLASH

LONDON -- BALDWIN ANNOUNCES EDWARD DECIDED RENOUNCE THRONE

WCNS 1046A

WCNS35

LONDON.--PRIME MINISTER BALDWIN INFORMED COMMONS TODAY THAT KING EDWARD VIII HAD DECIDED TO RENOUNCE THE THRONE.

12/10--EC1048A

WCNS36

ADD BALDWIN LONDON

BALDWIN QUOTED THE KING AS FOLLOWS:

"I HAVE DETERMINED TO RENOUNCE THE THRONE."

BALDWIN HANDED THE KING'S MESSAGE TO THE SPEAKER, WHO READ IT

12/10--EC1050A

WCNS37

ADD BALDWIN LONDON

THE KING SAID HIS DECISION WAS REACHED AFTER LONG AND ANXIOUS CONSIDERATION.

12/10--EC1050A

FLASH

LONDON -- DUKE OF YORK TO SUCCEED EDWARD

WCNS1051A

WCNS38

ADD BALDWIN LONDON

THE KING'S STATEMENT OF ABDICATION SAID IT WAS A FINAL AND IRREVOCABLE DECISION.

IT WAS ANNOUNCED THAT THE DUKE OF YORK WILL SUCCEED TO THE THRONE
12/10--EC1053A

WCNS39

ADD BALDWIN, LONDON

"AFTER LONG AND ANXIOUS CONSIDERATION I HAVE DETERMINED TO RENOUNCE THE THRONE TO WHICH I SUCCEEDED ON THE DEATH OF MY FATHER," THE KING'S STATEMENT SAID, "AND I AM NOW COMMUNICATING MY FINAL AND IRREVOCABLE DECISION."

12/10--EC1054A

WCNS40

ADD BALDWIN, LONDON

BALDWIN MOVED THAT THE KING'S MESSAGE BE CONSIDERED FORTHWITH BY THE HOUSE.

"NO MORE GRAVE MESSAGE HAS EVER BEEN RECEIVED BY PARLIAMENT," BALDWIN DECLARED.

THE KING'S MESSAGE DECLARED:

"I WILL NOT ENTER NOW INTO MY PRIVATE FEELING BUT I WOULD BEG THAT IT SHOULD BE REMEMBERED THAT THE BURDEN WHICH CONSTANTLY RESTS UPON THE SHOULDERS OF A SOVEREIGN IS SO HEAVY THAT IT CAN ONLY BE BORNE IN CIRCUMSTANCES DIFFERENT FROM THOSE IN WHICH I NOW FIND MYSELF," THE KING ADDED.

12/10--EC11A

WCNS41

THE ABDICATION OF KING EDWARD VIII WILL NOT AFFECT THE WORLD MONETARY SITUATION, HIGH TREASURY OFFICIALS SAID TODAY.

EFFECTS OF THE CROWN RENUNCIATION WERE DISCOUNTED SOME TIME AGO, AND IN ANY EVENT THERE IS NOTHING IN THE SITUATION TO CAUSE WORRY IN THIS COUNTRY, THEY HELD.

12/10--EC1104A

WCNS42

ADD BALDWIN, LONDON

THE KING'S STATEMENT ENDED:

"I HAVE EXECUTED THAT ALL NECESSARY STEPS SHOULD BE TAKEN IMMEDIATELY TO SECURE THAT MY LAWFUL SUCCESSOR, MY BROTHER, HIS ROYAL HIGHNESS THE DUKE OF YORK, SHOULD ASCEND THE THRONE.

(SIGNED) "EDWARD R.I."

12/10--EC1105A

~~103~~

WCNS43

ADD BALDWIN, LONDON

BALDWIN SAID:

"WHEN I AND THE KING SAID GOODBYE ON TUESDAY NIGHT AT FORT BELVEDERE WE BOTH FELT WHAT WE SAID TO EACH OTHER -- THAT OUR FRIENDSHIP, SO FAR FROM BEING IMPAIRED BY DISCUSSIONS OF THE LAST WEEKS, FOUND US MORE CLOSELY TOGETHER THAN EVER AND THAT THE FRIENDSHIP WOULD LAST FOR LIFE."

BALDWIN REFERRED TO MANY LETTERS HE HAD RECEIVED EXPRESSING, HE SAID, UNEASINESS AT WHAT WAS APPEARING IN THE AMERICAN PRESS.

12/10--EC1109A

LONDON.--ACTS OF ABDICATION INTRODUCED IN COMMONS.

WCNS 12/10-E152P

~~103~~

DEC 10 1936

2.13

ADD ABDICATION EFFECT ON EXCHANGES
 WASHN - OFFICIALS INDICATED THAT ENGLAND
 THE UNITED STATES AND FRANCE PARTICIPANTS
 IN THE TRI-PARTITE MONETARY AGREEMENT HAD
 CONFERRED PRIOR TO THE ABDICATION AND THAT
 THE RELATIVE STEADINESS OF EXCHANGES IN THE
 FACE OF THE KING-S ACTION HAD BEEN DUE TO CO-
 OPERATION BETWEEN THE THREE COUNTRIES OFFICIALS
 INFERRED

THE STRENGTH IN THE POUND IMMEDIATELY
 FOLLOWING THE ABDICATION WAS REGARDED HERE
 AS INDICATING DISSOLUTION OF UNCERTAINTIES
 OVER THE BRITISH SITUATION

-0-

INCOMING CABLEGRAM-SERIAL No 3260

Received on December 10, 1936

Berne, December 10, 1936

Federal Reserve Bank of New York

New York

No. 9

We have the intention to deposit gold with you to the amount of approximately 300,000,000 Swiss Francs in successive consignments the first of which would be started in the next day Are there special formalities * be observed Please cable if you are ready to receive this deposit from us Would it eventually suit you to place to our disposal with you against payment to you of a premium (the rate of which we are ready to discuss) the whole or part of this gold against deposit by us for your account of an equal amount of gold with another bank of issue of the country complying with the agreement with Morgenthau If ready to agree with last suggestion please indicate which bank of issue you would foresee.

BANQUE NATIONALE SUISSE

*probably meant "to be"

COPY OF CABLEGRAM

Dec. 10, 1936

Banque Nationale Suisse

Berne

No. 21

Your No. 9 no special formalities need be observed to ship gold to us for earmark except that bill of lading should show a foreign central bank as shipper and Federal Reserve Bank of New York as consignee STOP As to the further contents of your cable we shall endeavor to reply tomorrow.

FEDERAL RESERVE BANK OF NEW YORK

C O P Y

OUTGOING CABLEGRAM

December 11, 1936

Banque Nationale Suisse

Berne

No. 22

Our No. 21 your No. 9. Regret your last suggestion not suitable. However, if you have urgent need for dollars we as fiscal agent of the United States would be glad to purchase from you refined gold bars actually placed on board steamship sailing for New York, payment to be made upon receipt of cable from you to that effect. We shall be glad to discuss further details and price if you are interested.

Federal Reserve Bank of New York

Brookdale

copy

U.S.A.

INCOMING CABLEGRAM

Berne, December 12, 1934.

Federal Reserve Bank of New York

New York

No. 10

We beg to acknowledge receipt of your cables Nos. 20 21 and 22 and to thank you for your full explanation about our shipments to New York. As to your kind offer to advance dollars for gold which would be shipped to you we shall revert to the matter occasionally.

Banque Nationale Suisse

Lincoln Bond

63A



UNITED STATES TREASURY DEPARTMENT
AMERICAN CONSULATE GENERAL
SHANGHAI, CHINA

OFFICE OF
THE TREASURY ATTACHÉ

December 10th, 1936.

Mr. Archie Lochhead,
Technical Assistant to
Secretary of the Treasury,
Washington, D. C.

Confidential

Dear Mr. Lochhead,

There is enclosed for Department's information a confidential memo, with enclosures, addressed to me by the Central Bank of China, explaining their reasons for wishing to sell silver in London through an intermediary.

With kind personal regards, I am

Sincerely,

M. R. Nicholson



December 10, 1936.

Memorandum to Mr. M. R. Nicholson

Owing to the recent rise of silver in London due to speculative bear covering coupled with Indian buying, we were advised by Ambassador Sze of the suggestion of the U.S. Treasury to take advantage of this rise to sell in London. With a view to demonstrating cooperation on our side, we have effected sales through the Chase Bank, London, aggregating 2,000,000 ounces of silver at about the price of 21.1/4, details of which you will find among the copies of telegrams enclosed.

From a perusal of the enclosed copies of exchange of communications between ourselves and Washington you will note that all along we have been trying to pursue a policy not only to be in line with that of your Government, but to avoid doing anything which will, in the least, conflict the interests of the U.S. Treasury. At the same time we must try to protect our own interests to a certain extent. Whilst having this view in mind, we thought the best way to effect sales of appreciable amounts in London to the mutual best interests of the U.S. Treasury and ourselves is to obtain the cooperation of the Hongkong & Shanghai Banking Corporation as an intermediary. It is gratifying to receive the last wire from Ambassador Sze to the effect that His Excellency Dr. Kung's explanation has been satisfactory to the Treasury. Therefore, we should be much obliged if you would kindly further advise Secretary Morgenthau

RECEIVED
U.S. DEPARTMENT OF THE TREASURY
OFFICE OF THE SECRETARY
WASHINGTON, D.C.

50c

of our views on this subject if you deem desirable.

So far no negotiations have been started as you will see from our letter to Dr. Kung dated 8th December stating that we are going over the total stocks at the disposal of the Government both in China and in Hongkong before anything is to be done. We shall, however, keep you informed of any further development.

Any explanation you may require I shall be most delighted to give.

[Handwritten signature]

RECEIVED
MAY 24 1951
TREASURY DEPARTMENT
OFFICE OF THE SECRETARY
FOR FINANCIAL AFFAIRS

PRIVATE 53D
CONFIDENTIAL

December 8, 1936.

His Excellency Dr. H. H. Kung,
PRESENT

Your Excellency:

Following our letter of this morning, we have now received a cablegram from Ambassador Sze as per the attached copy in answer to Your Excellency's wire to him of yesterday; for convenience, a copy of the latter is also enclosed.

From Ambassador Sze's wire, it appears that the Treasury is agreeable to our selling in London through the Hongkong Bank. Before we proceed to start any negotiation in this connection, we are going over the total stocks at the disposal of the Government both in China and in Hongkong, bearing in mind the maintenance of 25% silver reserve against note issue in accordance with the agreement with the American Government.

We wonder whether Your Excellency prefers to send a wire to Ambassador Sze just to thank the Treasury for their cooperation. If so, a draft telegram is enclosed for Your Excellency's approval.

Yours respectfully,

Encl:

Y/77--GP/D39

Inward Telegram Wash./No. 294
Sent: December 7/Recd. 8, 1936.

CABLEGRAM FROM AMBASSADOR SZE, WASHINGTON, D.C.

(Re: SILVER SALE AT LONDON
IN CONNECTION WITH
QUESTION OF SELLING
AGENCY)

December 7 (1936) -- No.294

Basing upon your cablegram No. 255, have explained matters satisfactory to Treasury.

(Sze).....end

RECEIVED
NOV 24 1936
TREASURY DEPARTMENT
Division of the Mint
Attention: Mr. C. B. ...

339
Draft outward wire
to Wash, ^{of 8 Dec} not despatched
up to noon 10 Dec 94.

December 8, 1936.

Draft cablegram to Ambassador Sze
Washington.

Your number 294 received Please convey my
thanks to Secretary Horganthen for the Treasury's
cooperative attitude Stop Shall advise you of
any further development.

H. H. Kung.

RECEIVED
DEC 10 1936
U.S. DEPARTMENT OF THE TREASURY

RECEIVED
DEC 8 1936
U.S. DEPARTMENT OF THE TREASURY

THE CENTRAL BANK OF CHINA
SHANGHAI

December 8, 1936.

His Excellency Dr. H. H. Kung,
PRESENT

Your Excellency:

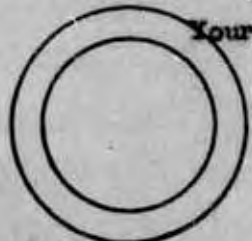
Pursuant to Your Excellency's instructions, we have despatched a cablegram to Ambassador Sze as per the attached copy of confirmation.

We shall report to Your Excellency again upon receiving a reply from Ambassador Sze.

Yours respectfully,

JBL
[Signature]

Encl:

RECEIVED
MAY 24 1937
TREASURY DEPARTMENT
Office of the
Director of the
Bureau of Internal Revenue

Copy

CONFIRMATION OFCABLEGRAM DESPATCHED TO AMBASSADOR SEE, WASHINGTON, D.C."BAKER -- December 7, (1936) -- No255

"Referring your cablegram 298 I wish to point out there is great difference between our selling through Chase London and through Hongkong Bank in that the former way will most probably arouse suspicion and cause general concern in the market as large scale selling by China, whereas the latter way by selling through the Hongkong Bank will be taken as continuous selling of Hongkong silver stocks and will draw no particular attention. Of course, should we do any selling through Hongkong Bank, we shall always keep Treasury informed of the particulars. While appreciating Treasury's attitude in suggesting our selling in London, I feel that in so doing we do not wish to unnecessarily disturb the market. I fully concur with the Treasury in keeping the market steady and prevent it from unduly fluctuating either way. I am sure the Treasury sees my point."

H. H. Kung

RECEIVED
DEC 10 1936
TREASURY DEPARTMENT

December 5, 1936.

His Excellency Dr. H. H. Kung,
PRESENT.

Your Excellency:

With the approval of Deputy Governor Mr. Chen a cablegram was despatched to Ambassador Sze this morning as per the enclosed copy of confirmation advising him of the sale of 150,000 ounces of silver by the Chase Bank, on our behalf, thus completing our order of 2 million ounces.

We beg also to send you a transcript of cablegram received today from Ambassador Sze. As the second paragraph of this cablegram indicates that the Treasury does not understand the difference between the selling by us through Chase Bank, London, and that through Hongkong Bank, Hongkong, it seems necessary for Your Excellency to give further light on this question, and for this purpose, we beg to enclose a draft telegram for despatch after Your Excellency's approval.

Yours respectfully,

(Signed) F. B. Lynch
T. M. Hsi.

53K

4-2000

CONFIRMATION OF TELEGRAM

SENT BY

THE CENTRAL BANK OF CHINA

No. _____

GRAPHIC ADDRESS
VERNBANK.

Ambassador Alfred Sao-ke Sze, Chinese Embassy, Washington, D.C.

Address Used SINOEMBSSY WASHINGTONDC Date December 5, 1936

Code Used: JHC&TMH Coded By: ZQW Checked by: YTW

Code Words	Translation
------------	-------------

AS IN THE FOLLOWING TEXT:

December 5, (1936), -- No. 254 (BAKER).

For your information we received wire from Chase National Bank, London, that 150,000 ounces sold 2nd December delivery two months at 21.5/16, thus completing our order.

(H. H. Kung)

(Signed) FBL, JHC & TMH

RECEIVED
 MAY 28 1937
 TREASURY DEPARTMENT
 U.S. DEPARTMENT OF THE TREASURY

Inward Telegram: Wash./No. 293
Sent: December 4/Recd. 5, 1936.

CABLEGRAM FROM AMBASSADOR SZE, WASHINGTON, D.C., USA

(Referring to ours No.252 in relation
to the subject of SILVER SALE AT
LONDON).

December 4 (1936) -- No. 293.

Referring to your cablegram 252, Treasury expert said
Treasury has no objection to China's selling, but would like
to be informed whenever sale made of amount, price, etc.

Treasury is not able to understand why Chase cannot do
effectively as Hongkong & Shanghai Banking Corporation.

(Sze).....end.

Copies (in quadruplicate) sent to Messrs. T. M. Hsi and F. B.
Lynch for attention (Saturday afternoon, November 5, 1936,
H.E. at Shanghai)

RECEIVED
NOV 5 1936
TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY

December 3, 1936.

His Excellency Dr. H. H. Kung,
PRESENT.

Your Excellency:

We beg to enclose original copy of confirmation of the wire despatched to Ambassador Sze yesterday on the question of silver.

We have today received a cablegram from the Chase National Bank, London, a copy of which is enclosed here with, advising that the balance of 150,000 ounces of silver was sold at 21.5/16 for delivery two months forward, thus completing our order of 2 million ounces.

The above order which was placed on November 16, 1936, when the price of silver in London was exactly the same as today's namely 21.5/16, has, however, taken almost 18 days to complete as follows:

	Order November 16	2,000,000
Nov. 17	1,000,000 @ 21.1/4	
Nov. 21	850,000 @ 21.1/4	
Dec. 3	150,000 @ 21.5/16	
	<u>2,000,000</u>	

This indicates that the market in London must be very narrow. Should our order above referred to be given without a limit on the price, it might be executed much earlier, but it would seem that the market would have been depressed to our disadvantage. In view of the wire which Your Excellency recently despatched to Ambassador Sze in this connection, we beg to recommend that no further action in London be taken until a reply is received from Washington.

Today's London price both spot and forward is 21.5/16, which based on the prevailing London/New York cross rate of 490.3/4 gives a parity in New York of 47.1/16, whereas the New York price today is 1/2 cent up at 46.1/2, which is about 5/16 below that of London, showing a very small difference between the New York and London prices.

At the request of Ambassador Sze, we should keep him informed about our silver transactions in London, and for this purpose, a draft telegram is enclosed herewith for Your Excellency's approval.

Yours respectfully,

(Signed) F. Lynch
Hsi.

CONFIRMATION OF TELEGRAM

SENT BY

THE CENTRAL BANK OF CHINA

Out/- No. ~~Bank~~ 252

PHIC ADDRESS
ERNBANK.

Ambassador Alfred So-ko So, Chinese Embassy, Washington, D.C.

Message Used SINOESSY WASHINGTONDC Date December 2, 1936.

Registered by: FBI-TEH Code Used: _____ Coded By: TCW Checked by: ITW

Code Words

Translation

AS IN THE FOLLOWING TEXT:

December 2, 1936, -- No. 252 (Chase).

Your number 290 received. Appreciate Treasury's suggestion our selling London whenever price above New York parity. However, only effective way of doing so is through Hongkong Bank, Hongkong. Do you think our using Hongkong Bank as intermediary will in any way conflict with American policy. Stand out and cable me your view.

(Signed) (H.H.Kung.)

CC to Mr. F. B. Lynch
CC to Mr. T. H. Hsi.

RECEIVED
DEC 2 1936
TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY

TELEGRAM/CABLEGRAM

RECEIVED BY

THE CENTRAL BANK OF CHINA

No.

TELEGRAM ADDRESS
CENTRAL BANK.

The Chase National Bank, London. *Dated December 2nd, 1933.*

Message used *Received on DEC 3 1933 at 9am*

Message used *Decoded by NYU*

Message used by *Recorded by* *Page*

Code Words

Translation

Private and confidential sold for your account
150,000 fine ounces of silver delivery 2 months
21.5/16 completes order

RECEIVED
DEC 3 1933
TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY

December 3, 1936.

Draft telegram to Ambassador Sze,
WASHINGTON

For your information we received wire from Chase National Bank, London, that 150,000 ounces sold 2nd December delivery two months at 21.5/16, thus completing our order.

H. H. Kung.

RECEIVED
MAY 24 1937
TREASURY DEPARTMENT
Office of the Director
Division of International Finance

CENTRAL BANK OF CHINA
SHANGHAI

December 2, 1936.

His Excellency Dr. H. H. Kung,
PRESENT.

Your Excellency:

We beg to enclose translation of a cablegram from Ambassador Sze, which we received late yesterday afternoon regarding silver.

Although we appreciate the suggestion of Secretary Maugenthau of our selling in London whenever the price there is about the parity of New York, yet Ambassador Sze has not indicated the American Treasury's attitude towards our doing so through an intermediary. We therefore, propose a draft cablegram to Ambassador Sze as per copy attached, which will be despatched after Your Excellency's approval.

Upon obtaining the Treasury's acquiescence of our selling in London through the Hongkong Bank as an intermediary, we can proceed to take up this question with Hongkong Bank with a view to reaching a working arrangement.

Yours respectfully,

(Signed)

F. B. Lynch
T. H. Hsi.

RECEIVED

YAM & SONS

TREASURY DEPARTMENT
Office of the Secretary
U.S. DEPARTMENT OF THE TREASURY

Inward Telegram: Wash./No. 290.
Sent: November 30/Recd. Dec.1'36

CABLEGRAM FROM AMBASSADOR SZE, WASHINGTON, D.C., U.S.A.

(Referring to OURS, NO 249, and advising
of his conversation with Treasury
expert re SILVER SALE AT LONDON MARKET)

November 30 (1936) -- No. 290/

Your 249, Treasury expert said normal silver stocks
Bombay four to five million ounces with movement upcountry
about hundred bar per day, but present Bombay stock was about
twenty million with much smaller daily movement, so recent
rise silver price in London was due to speculation.
Treasury wished maintain silver on steady level and see
rise in price if justified. However, recent rise was
speculative and Treasury saw no objection to China's
taking advantage of better which was good business.
He would suggest selling whenever London quotation should
not agree to higher than obtainable in America.

(Sze).....end.

Copies (in quadruplicate) of this message sent to Mr. T.M.
Hsi and Mr. F.B. Lynch for their attention and submission
(Tuesday, December 1, 1936) of the original copy to the
perusal of H.E. the Minister, who is at Shanghai.

RECEIVED
NOV 30 1936
TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY

December 2, 1936.

Draft cablegram to Ambassador Sze,
Washington.

Your number 290 received. Appreciate Treasury's suggestion our selling London whenever price about New York parity. However, only effective way of e doing so is through Hongkong Bank, Hongkong. Do you think our using Hongkong Bank as intermediary will in any way conflict with American policy. Sound out and cable me your view

H. H. Kung.

RECEIVED
MAY 24 1967
TREASURY DEPARTMENT
Office of the Secretary
General Building in the National

CENTRAL BANK OF CHINA
SHANGHAI

November 26, 1936.

His Excellency Dr. H. H. Kung,
PRESENT.

Your Excellency:

With reference to our letters of
23rd November ~~relative to silver~~ and in pursuance
of Your Excellency's approval, we despatched yesterday
a cablegram to Ambassador Sze, an original copy of
confirmation of which is enclosed herewith.

It appears that nothing is required
to be done until we hear from Ambassador Sze.

Yours respectfully,

(Signed) F. B. Lynch
T. M. Hsi.

RECEIVED

MAY 24 1937

TREASURY DEPARTMENT
Office of the Assistant
Secretary in Charge of the
Foreign Exchange Control

SILVER SALE AT LONDON MARKET.

OUTWARD TELEGRAM: Wash./No. 249
Sent: November 25, 1936, 6:50pm.

CONFIRMATION

OF

CABLEGRAM DESPATCHED TO AMBASSADOR SZE, WASHINGTON, D.C.

(no. 249)

AS OF THE FOLLOWING ORIGINAL TEXT:

*SINOEMBSSY WASHINGTONDC

'Baker -- November 25 (1936) -- No. 249.

"Chase Bank London advised Saturday having sold for our account 850,000 ounces fine silver 21.1/4 delivery two months, being part of remaining 1,000,000 ounces order outstanding (STOP) It seems London market quite narrow -- Our placing further orders likely depress market (ST OP) Should we we wish to sell appreciable amount in London best way is through an intermediary without disclosing our identity instead of our effecting sales through our agents London-- My continued desire is to evidence my appreciation and to reciprocate the cooperation of the American Government and therefore wish to know Treasury's real attitude (STOP) Shall appreciate if you wish sound out quietly'

(H. H. Kung)'"

Draft submitted for approval of H.E. the Minister for its despatching by Messrs. F. B. Lynch and T. M. Hsi.

Copies (in quadruplicate) of THIS CONFIRMATION presented for reference/attention of parties concerned through Mr. Hsi's kindness. (Wednesday, November 25, 1936, H.E. at Shanghai)

TELETYPE UNIT
RECEIVED
NOV 25 1936

COPY FOR MR. HSI

November 23, 1936.
reason that China is still the second largest producer of the white metal after India, any direct sales to the London through our Agents there would be difficult to carry out. His Excellency Dr. H. H. Kung, a serious decision to the PRESENT silver in London to our detriment. Hence selling through the Hongkong & Shanghai Bank as an intermediary, which would only appear as a continuation of selling their own silver through their own branch in London, should be avoided. Your Excellency:

We received yesterday morning from our London Correspondents, The Chase National Bank of the City of N.Y. a cable as per the enclosed copy to the effect that they have sold at our limit price of 21.1/4, which is 1/16 higher than the last closing price, another amount of 100,000 850,000 ounces being part of the remaining balance of 1,000,000 ounces, leaving 150,000 ounces to be completed.

In this connection we beg to attach a draft telegram to Ambassador Sze informing him of this transaction, which, upon Your Excellency's approval, will be despatched today.

Since our recent order of two million ounces was placed with our London Correspondents simply with an idea of demonstrating to the American Government our desire to co-operate, we doubt whether it is advisable to continue to place further orders.

After careful study of this whole problem of making further sales in order to augment our balances in foreign exchange, we are of the opinion that as the American Government is the chief ultimate buyer of this metal, it would be a good gesture to give them preference to continue purchasing from us direct. Although we might not get a good price, yet on the other hand, we are assured of a constant off-take from us by the American Government without our sales in the open world market tending to depress the price to our disadvantage. Should the American Government wish us to sell in London in order to enable them to operate their equilisation fund to purchase sterling against their sales of dollars and in turn to purchase silver for the purpose of maintaining the New York/London cross-rate, we ought under such circumstances to get a clearer indication from the American Government giving us a free hand in the way of effecting sales in London. It means that as long as we sell in London according to their wishes and with their acquiescence, the only feasible way of effecting such sales without affecting the market is to use some intermediary, such as the Hongkong & Shanghai Bank in London. For the obvious

reason that China is still the second largest possessor of the white metal after India, any direct sales by us in London through our Agents there would be difficult to cover up and very soon might lead to a serious decline in the price of silver in London to our detriment; whereas selling through the Hongkong & Shanghai Bank as an intermediary, which would only appear as a continuance of selling their own silver through their own branch in London, should not arouse any special attention or cause any particular effect on the market. In case such action is desirable, it seems that this camouflage is essential and is the only way to make any appreciable sales by us without depressing the market.

We submit the foregoing for Your Excellency's considering pending a clearer indication of the American attitude.

Yours respectfully,

HTM:GWT

RECEIVED

MAY 24 1931

TREASURY DEPARTMENT
Office of the Secretary
Department of the Treasury

TELEGRAM/CABLEGRAM

RECEIVED BY
THE CENTRAL BANK OF CHINA

No.

PHIC ADDRESS
ERNBANK.

The Chase National Bank, London.

Dated

HYPOCHASE SHAI

Received on Nov. 22, 1936

Opp.

ess used

Decoded by

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Recorded by

Page

ted by

Code Words

Translation

Private and confidential sold for your
account today 850,000 ounces fine silver 21.1/4
delivery 2 months.

RECEIVED

MAY 24 1937

TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY

CONFIRMATION OF TELEGRAM

SENT BY

THE CENTRAL BANK OF CHINA Out/- No. Wash. 242

PHIC ADDRESS
ERNBANK.

ambassador Alfred Sao-ke Sze, Chinese Embassy, Washington, D. C.

ess Used SINOEMBSSY WASHINGTONDC Date November 18, 1936.

ted by: JUC&TMH Code Used: Coded By: ZCW Checked by: YTH

Code Words

Translation

AS IN THE FOLLOWING TEXT:

November 18, (1936), -- No. 242, (CHASE)

For your information Chase National Bank,
London sold for our account one million ounces of
silver 21.1/4d two months date forward. Will
further
advise if sales effected.

(Jointly signed) Jian H. Chen

Hsi Te-mou

.....:

CONFIRMATION OF TELEGRAM

SENT BY

THE CENTRAL BANK OF CHINA

Out/- No. Wash. 241

PHIC ADDRESS
ERNBANK.

Ambassador Alfred Sao-ke Sze, Chinese Embassy, Washington, D.C.

Message Used SINOEMBASSY WASHINGTON Date NOVEMBER 17, 1936

Transmitted by JHC&TMH Code Used: _____ Coded By: ZCW Checked by: YFW

Code Words

Translation

As in the following text:
November 17, 1936 -- No. 241 (Baker)

Your two cablegrams 283 and 284 brought to attention of Minister Kung who authorized Central Bank placing selling order 2 million ounces at 21.1/4 yesterday, but not executed on account of drop of 1/4d. However the Bank is renewing order

(Jointly signed)

Jian H. Chen Hsi Te-mou

RECEIVED

NOV 21 1936

THE TREASURY DEPARTMENT
WASHINGTON, D. C.

THE CENTRAL BANK OF CHINA

15 THE BUND

SHANGHAI

November 12, 1936.

His Excellency Dr. H. H. King,
PRESENT

Your Excellency:

In pursuance of Your Excellency's instructions which were transmitted to me through Deputy Governor Mr. Jian H. Chen, We despatched last night two cablegrams, one to Ambassador Sze and the other to Mr. Wallace, Vice President of the Chase National Bank of New York, London, as per attached copies.

We have received Mr. Wallace's reply this morning, a copy of which is also enclosed.

Awaiting Your Excellency's further instructions.

Yours respectfully,

(Signed T.M.Hai)

Encl.
HTM:TOW

RECEIVED

NOV 15 1936

THE LIBRARY DEPARTMENT

UNIVERSITY OF TORONTO

LIBRARY OF THE UNIVERSITY OF TORONTO

CONFIRMATION OF TELEGRAM

SENT BY

THE CENTRAL BANK OF CHINA **027/-** No. **233**

PHIC ADDRESS
RNBANK.

Address **Alfred So-ku So, Chinese Embassy, Washington, D.C.**

Message Used **SINOUSOST WASHINGTONDC** Date **Nov. 12, 1936**

Transmitted by: **JHC** Code Used: **CHASE** Coded By: **ZCW** Checked by: **ECW**

Code Words

Translation

AS IN THE FOLLOWING TEXT:

November 12, (1936). — No. 233. (CHASE).

Your cables 225 & 224 received. Owing to absence of President Executive Yuan in Hanking and Minister Kung on sick leave we are finding means to reach authorities in order to get instructions. However we are giving necessary preliminary considerations in the meantime.

(Jointly signed) Jian H. Chen, Hsi Te-mou.

.....

RECEIVED

NOV 13 1936

FRONTIER VOUCHER
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

CONFIRMATION OF TELEGRAM

SENT BY

THE CENTRAL BANK OF CHINA

No. _____

PHIC ADDRESS
RN BANK.

Place, The Chase National Bank, London.

Class Used WALLACE CHASENYPO LONDON Date NOVEMBER 12, 1956, 12.10am

Code Used: HTM Code Used: _____ Coded By: NYG Checked by: _____

Code Words

Translation

The following is strictly private and confidential
 please let us know regarding recent rise of silver
 in London and its volume of business per day
 whether market narrow or not how is the immediate
 tendency please reply by cable thanks

RECEIVED
 NOV 13 1956
 TELETYPE DEPARTMENT
 FEDERAL RESERVE BANK OF NEW YORK

TELEGRAM/CABLEGRAM

RECEIVED BY

THE CENTRAL BANK OF CHINA

No.

The Chase National Bank, London.

Dated Nov. 11th, 1936.

Message used

Received on Nov. 12th, 1936 9 am

Message used

Decoded by

Message used

Recorded by

Page

Code Words

Translation

The following is strictly private and confidential recent rise silver attributed to Roosevelt re-election causing Indian Chinese and few Continental make speculative buying and with stocks of silver low sharp rise resulted especially as large bears position in particular quarters had to be covered up stop estimate volume vary between four and 6,000,000 ounces per day so market cannot be considered narrow stop downward tendency at present may go back between 1/8 (20 pence) and 1/9 (21 pence) but renewal speculative demand would again cause sharp advance

Wallace

RECEIVED

NOV 12 1936

THE CENTRAL BANK OF CHINA
RECEIVED BY THE CENTRAL BANK OF CHINA
OFFICE OF THE DIRECTOR GENERAL

COPY

CABLEGRAM FROM AMBASSADOR SZE, WASHINGTON, D.C.

November 9 (1936) -- No. 283

Account speculator and Indian buying, silver went up last few days, to-day London quotation both spot and forward 21-7/8 equals 48 cents.

Just conversed with Treasury expert close to Secretary, expert said that they continue to have no objection to our selling at prevailing prices, adding you may use silver already here or sell forward and ship from Shanghai to London. Please keep me informed as to price and quantity if and when you sell.

SZE

RECEIVED
NOV 10 1936
TREASURY DEPARTMENT
WASHINGTON, D.C.

Washington

FOR RELEASE, AFTERNOON NEWSPAPERS,
Friday, December 11, 1936.
12-10-36.

Press Service
No. 9-9

The Secretary of the Treasury announced today that more than 700,000 investors throughout the country have purchased to date approximately \$690,000,000, maturity value, of United States Savings Bonds.

The sale of Savings Bonds began on March 1, 1935; and an average of more than \$1,000,000, maturity value, of these bonds have been bought each business day since that date.

Sales for the first ten days of the present month indicate that December will show total sales substantially exceeding the average. These increased December sales are attributed in part to the purchase of Savings Bonds by recipients of dividends, wage increases and bonuses. The Treasury Department is also receiving orders for United States Savings Bonds to be distributed to lists of employees as Christmas bonuses. Savings Bonds are also being purchased for Christmas gifts to an increased extent.

The permissible maximum of United States Savings Bonds which may be registered in the name of any one owner in any calendar year is \$10,000, maturity value. The postmasters report that many present owners are purchasing additional bonds to bring their total purchases for this year to this maximum. Also many who are not owners of Savings Bonds are buying this legal maximum prior to December 31st, in order that they may have, by purchasing on or after January 1, 1937, the maximum permitted to be registered in the name of any one owner for the years 1936 and 1937.

Approximately 54,000 individual purchases of these bonds have been made on the average each month. Although many of these are repeat orders from investors who are undertaking systematic savings through the regular purchase plan, buying a bond each week, each month, or at other regular intervals, more than 25,000 new purchasers have been recorded for each 30 days.

-2-

Savings Bonds may be purchased in the names of two — but not more than two — individuals, and this co-ownership is proving popular, notably in the case of husbands and wives. Men are buying in a somewhat larger ratio than women. Trust accounts and other fiduciaries are regular buyers. Banks have purchased to date approximately 6 percent of the total.

Savings Bonds are sold on a discount basis and increase, if not redeemed for 10 years, to a cash value $33\frac{1}{3}$ percent greater than their purchase price. They are sold in maturity denominations of \$25, \$50, \$100, \$500, and \$1,000. Of these, the \$25 unit — present price \$18.75 — is now slightly the most popular, accounting for approximately 27.6 percent of sales. The \$100 unit — present price \$75.00 — is second with 26.5 percent of sales. The \$50. unit follows with 19.47 percent. The \$1,000 unit is accredited with 16.4 percent.

The metropolitan cities of 100,000 population and over account for 46.71 percent of the sales. Rural communities, towns, and villages of 10,000 and less population account for 29.75 per cent, while the lesser cities show 23.54 percent.

The State of Illinois has been almost constantly the leading state, both in amount of sales and number of bonds bought. Attached is a tabulation of sales of United States Savings Bonds by states arranged in the order of the amounts sold during the month of October.

-3-

PRELIMINARY STATEMENT OF SALES OF UNITED STATES SAVINGS BONDS FOR OCTOBER 1936

<u>STATE</u>	<u>MATURITY VALUE</u>
ILLINOIS - - - - -	\$ 2,863,875
NEW YORK - - - - -	2,047,950
OHIO - - - - -	1,702,950
PENNSYLVANIA - - - - -	1,698,650
INDIANA - - - - -	1,531,375
CALIFORNIA - - - - -	1,364,125
MINNESOTA - - - - -	1,347,850
WISCONSIN - - - - -	1,180,450
IOWA - - - - -	1,121,825
MISSOURI - - - - -	976,375
MICHIGAN - - - - -	899,775
TEXAS - - - - -	876,975
KANSAS - - - - -	677,450
WASHINGTON - - - - -	605,475
NEBRASKA - - - - -	542,325
MASSACHUSETTS - - - - -	505,825
COLORADO - - - - -	489,200
NEW JERSEY - - - - -	487,525
GEORGIA - - - - -	486,225
OKLAHOMA - - - - -	439,600
MARYLAND - - - - -	422,450
VIRGINIA - - - - -	364,725
ARKANSAS - - - - -	348,275
KENTUCKY - - - - -	341,300
DISTRICT OF COLUMBIA - - - - -	339,475
FLORIDA - - - - -	286,250
OREGON - - - - -	285,200
NORTH CAROLINA - - - - -	278,450
ALABAMA - - - - -	277,800
MONTANA - - - - -	264,075
TENNESSEE - - - - -	230,000
CONNECTICUT - - - - -	205,225
SOUTH DAKOTA - - - - -	203,850
MISSISSIPPI - - - - -	186,500
NORTH DAKOTA - - - - -	181,475
LOUISIANA - - - - -	165,975
WEST VIRGINIA - - - - -	155,350
SOUTH CAROLINA - - - - -	153,775
MAINE - - - - -	93,475
IDAHO - - - - -	87,250
ARIZONA - - - - -	82,700
NEVADA - - - - -	69,725
NEW HAMPSHIRE - - - - -	58,550
DELAWARE - - - - -	52,550
WYOMING - - - - -	51,500
UTAH - - - - -	47,375
NEW MEXICO - - - - -	36,275
RHODE ISLAND - - - - -	34,375
VERMONT - - - - -	18,625
TOTAL - - - - -	\$27,168,350
POSSESSIONS OF THE UNITED STATES - - - - -	53,950
GRAND TOTAL - - - - -	\$27,222,300

December 11, 1936

The Secretary had Mr. Bell, Mr. Upham, Mr. Haas, Mr. Taylor and Mr. Gaston in his office today to discuss the memorandum from Eccles, dated December 10. Copy is attached hereto.

The Secretary said, "The position I have taken with Eccles is that he should meet with his Board and that he should come to a definite decision and tell me whether they want to do it or whether they do not. I told him to let it go over until Monday and give me his answer then."

"The page marked 'A'," the Secretary said, "is what Eccles is ready to do. The first half of Eccles' memorandum in connection with the proposal with reference to this sterilization of bank reserves gives all the reasons why he should not do it now -- not whether it should be done. I told Eccles when I saw him yesterday that anything we did would be on a 24-hour basis, and how did we know whether it was going to work? I also told him that his memorandum did not sound like Goldenweiser and his reply was that he had written the memorandum. I don't think Eccles wrote it at all. Someone must have gotten hold of him after he left here on Tuesday."

"I certainly think that page 'A' is a very impertinent statement. I don't know whether I should let him leave this statement with me. Out of friendship for him, I don't think I ought to let him. If it stays, it becomes a part of the Treasury records."

Upham's remark was, "I think he would just as soon stand by that statement."

Continuing, the Secretary said, "I am going to answer this. Someone must have gotten hold of him after he left here because he said, when he was here, that he thought our plan was all right. The thing Eccles keeps saying is that if we ever come to a point where the Treasury and the Federal Reserve cannot agree, then he will resign. His threatening is perfectly ridiculous."

"I have this responsibility and I want to call together the various people who make up the Banking Committee and talk to them about banking legislation. I will call

-2-

Eccles and tell him that I will call such a meeting on Monday. I will not do this thing secretly. I can't work that way. I told Eccles that the extension of the Stabilization Fund is something between the President and myself. I know that Eccles is making secret arrangements all over the lot. I just can't work that way.

"Eccles told me that he could not talk about his legislation before Jesse Jones. Frankly, I don't trust Eccles' methods and how do I know that he is not making secret arrangements with Jesse Jones? I think I should call this meeting of the Banking Committee and also a meeting of the Lending Agencies."

At this point, the Secretary put in a call for Mr. Eccles and the following is record of their conversation:

December 11, 1936
9:47 A.M.

H.M.Jr: Eccles, please.

Operator: All right.

H.M.Jr: Hello.

Operator: Chairman Eccles. Go ahead.

H.M.Jr: Hello.

Eccles: Hello.

H.M.Jr: Good morning, Marriner.

E: Good morning.

H.M.Jr: How are you?

E: I'm pretty good.

H.M.Jr: You at your office?

E: No, I'm not.

H.M.Jr: Oh. Ah - Marriner, we've been talking things over here. We're getting ready for the President's message, one thing or another. And I thought that Monday I'd call together the - those who have to do with banking, see, and have one of our meetings on the heads of the various groups. As chairman of that committee, I thought I'd call them together and then ask everybody what they have in mind in regard to legislation.

E: You mean the legislation just with reference to the budget?

H.M.Jr: Oh no, no no no no. Anything that anybody had in mind in regard to banking legislation.

E: Oh yes. Well - you remember when we discussed the - the matter about - I think it was about three weeks ago.

H.M.Jr: Yes

E: And Wayne and Upham and Ransom and I was going to get

- 2 -

together and -

H.M.Jr: Yes

E: Well now, I'm just wondering if -

H.M.Jr: That's just why I'm calling you - on account of that discussion that you all had several weeks ago.

E: Well, what would you - what would you do with - with O'Connor - Jeffty?

H.M.Jr: Well, he's a presidential appointee affirmed by the Congress of the United States, Comptroller of the Currency. It isn't up to me to do anything with him.

E: Well, would you - would you ask them to - to report on banking legislation?

H.M.Jr: Surely. Why not? How come - how - how can I eliminate him? As a matter of fact, since you - you fellows said you'd get together, I checked with Taylor and with Upham and - and they've heard nothing.

E: Well, I talked to - I talked to Wayne the other day about it, and I've just - I've simply been just covered up, I've simply -

H.M.Jr: Well, I - I feel this way, Marriner. I just didn't want to have you say - well, I - I feel this way: as chairman of that committee I have to know what's going on. I don't know what's going on with Mr. Jones or with Mr. O'Connor or with Mr. Crowley or with you, and I think - I think we're all appointees of the President and I think we ought to put our cards on the table.

E: Oh well, I haven't - I - I'm not doing a thing that I won't discuss with Wayne - I - and Upham - my only point was that to merely go there and discuss the question of legislation - I haven't any legislation unless the - except it involved the - the question of - of taking O'Connor out of the picture. Now, I can't say that.

H.M.Jr: Well, I can't - I can't - I can't disregard O'Connor

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or Crowley or anybody else. I mean I'm sure when the President gets back he's going to ask me two questions, amongst others. One is: What banking legislation is pending? And, What's pending on the lending agencies? And I want to find out and I can't - frankly, I can't move secretly.

- E: Well, I - I talked to the President about banking legislation and he said to me that he would ask you to get in touch with me and - and to discuss the question of legislation. Now, he said at the time - the matter that I discussed with him was the possibility of a consolidation, see? And he said at the time, "Of course, that will involve the - the question of Jeffty."
- H.M.Jr: When did - when was this conversation?
- E: Well, I - I reported it to you the first time that you got back from Georgia.
- H.M.Jr: Oh yes, but I didn't know - you didn't say anything about talking about Jeffty.
- E: What is it?
- H.M.Jr: You didn't say anything about Jeffty O'Connor to me.
- E: Well, I simply said - asked you if you'd got a memorandum from him and you said you hadn't but it was likely to come through in a day or two.
- H.M.Jr: Well, I got one now. It came through.
- E: Yes, but in the course of the conversation, in - in discussing the question of banking legislation, I simply told - I said to him that the only legislation that I was primarily interested in was - was in consolidation, and the question, of course, of the Comptroller's office came up. And he said that's what it would involve.
- H.M.Jr: Well, did the President indicate how he felt about it?
- E: Well, he indicated to me that - my thought was that he was favorable to it.

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- H.M.Jr: To what?
- E: To the question of consolidating some of these activities.
- H.M.Jr: Yes, but did he say how to consolidate them?
- E: No, no, he didn't.
- H.M.Jr: Well, of course, he's been in favor of consolidation, but he didn't indicate where he wanted to consolidate.
- E: Well, all - all I can say is that I - I just haven't any legislation then. I mean I - I'm not going over and discuss the - the question of - that involves other departments there. I mean I just can't -
- H.M.Jr: Yes, but I'm also not going to be the Secretary of the Treasury; as the president - chairman of this committee, I'm not going to be put into the position of being through silence a part of some kind of a program, which I don't even know about and nobody in the Treasury knows anything about. I don't work that way.
- E: What's the - well, of course, there won't be any program. The only point is it's a question of discussing it - discussing it with the - with the whole group. Now, my - I - I don't have a -
- H.M.Jr: Take Jesse Jones for example. He owns preferred stock in over five thousand banks. I don't even know what you've got in your mind myself, and neither does - neither does Taylor nor Upham. You say you talked about it three weeks ago.
- E: No, I simply talked about the question of consolidation. There was no - there was no detail, there was no plan at all. Now, so far as a - ah - proposed legislation is concerned, I would want to write - get the thing down on paper and discuss it with Upham and Taylor and then see if we could work up something that we could present to you. There was no thought of discussing with anybody else until that was done. Now, the only point I'm making here is that I can't - I don't want to come over there Monday and - and - and - and discuss legislation. I

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want to discuss it with you, but I don't want to discuss it with the rest of them.

H.M.Jr: Well, I - I - I can't do business that way.

E: Well, all right, then - that's -

H.M.Jr: And I - I'm not going to be put in the corner - I - I - and that you discussed something with me that I can't discuss with - with Crowley or with Jones or with O'Connor. I never have worked that way; I never worked secretly on legislation. If I've got anything in mind I'm going to say so.

E: Well, we discussed the question of banking legislation - ah - and O'Connor wasn't there, two years ago.

H.M.Jr: Well, and what happened?

E: What is it?

H.M.Jr: And what happened?

E: Well, we didn't get anywhere. But certainly you wouldn't get anywhere now to sit down and say, "Here, we want to consolidate these agencies."

H.M.Jr: Well, Marriner, the President made me chairman of that committee and I - I've got to call a meeting. Now, what - if you don't - if you don't want to say anything when you come over here, that - that's up to you. But I'm certainly going to ask these people what they've got in mind in regard to banking legislation. And I expect to see Senator Glass sometime next week and I'm sure he's going to ask me what I've got in mind. And I - and - I - I can't sit back and say, "Well, I don't know. Eccles hasn't told me and I don't know what O'Connor's got in mind. I haven't seen them."

E: Yes

H.M.Jr: I mean in other words what you're asking me to do is to sit back here for another couple of weeks until you write a memorandum.

E: Well, I can simply say, and I will say it on Monday,

then, that I haven't - we haven't anything.

H.M.Jr: Well, that - that's up - purely up to you.

E: Yes

H.M.Jr: But I don't know what the other people have in mind because I haven't discussed banking legislation with anybody, but I feel the time has come - it's the 14th next week, it's two weeks till - two or three weeks till Congress meets, and I feel I've got to know what's going on.

E: Well, what time is this meeting Monday?

H.M.Jr: Pardon me?

E: I say what time do you -

H.M.Jr: Well, I'm going to call up the various people. I'm going to suggest - I'm going to suggest ten o'clock Monday morning.

E: On Monday morning?

H.M.Jr: Yes

E: Well then, I'll - I'll be there and I'm just merely stating that I - I - I would have - of course, preferred to - to have had a chance to discuss the matter with you and - and I'm terribly disappointed that it's going to be a question of - of reporting that there isn't - there isn't going to be any; but I don't know that I can do anything else. I - I just can't have any legislation without - unless I should say that I have - I'm not prepared to say at this time.

H.M.Jr: Well, I don't know of any which - here it is, Monday's the 14th and I think that the various people ought to be prepared.

E: Well, I'm - I'm not.

H.M.Jr: Well - well, each person's got to - got to decide for himself, and I - I - I've talked it over with my own crowd and they feel that as chairman of this

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committee I ought to call a meeting. And then I - in a couple of days I'm going to call another meeting of the lending committees, and ask them what they've got in mind.

E: Ah - well, I -

H.M.Jr: Yes

E: Of course, if you've made up your mind that's what you want to do there isn't anything for me to -

H.M.Jr: No, but I mean it isn't that - I - I don't - I don't know now what you've got in your mind. You say it's three weeks since we discussed it and I checked it with Wayne and Upham and they said that the question's never been discussed again. And you say it's three weeks; I don't think it's quite that long; but let's say it's two weeks. In other words, Marriner, it looks as though - I mean you want to sit back and wait until you make up what your mind - what you want to do, and you want everybody else to wait.

E: Well, it's just been a - it's been a question of - it's simply been impossible for me to get to it. I've - I've simply been covered up with one thing and another and it's made it practically impossible to -

H.M.Jr: Well, what do you suppose we do over here? I mean I - I - if there's going to be banking legislation I want to put our people to work studying it.

E: Well, of course.

H.M.Jr: I - I've got to be in a position to say to the President I think this is good or bad. I don't know what - where this consolidation should go. I - I haven't studied it yet, but I'm going to study it. I'm going to make a recommendation.

E: Well, maybe it would be better to let somebody else outside of the agencies propose it. Why - why don't the Treasury prepare the plan, then?

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H.M.Jr: Because we - whatever we're going to do we're going to do it with our cards on the table face up. I'm not going to make any -

E: Well, I know, but you'd - you'd want to work out the plan and then -

H.M.Jr: Well, I want to -

E: - and then present the plan to the agencies.

H.M.Jr: No, no, I want to hear what these people in town who have joint responsibility, what - what they've got to say. I don't know what Mr. Jones feels about it; I don't know what Mr. O'Connor feels; I don't know how you feel. I haven't got the slightest idea.

E: Well, of course, Jones hasn't - he has nothing for the supervision of the banks. He merely has -

H.M.Jr: Well, he's got stock in five thousand banks.

E: Well, he has an investment in them, but that's - he's not a banking agency.

H.M.Jr: Well, he - he's the biggest - he's the biggest factor in the United States in banks. You can't -

E: Oh well, but he doesn't -

H.M.Jr: - deny it.

E: He doesn't have the regulation of the banks or the examination of them or the chartering of them or -

H.M.Jr: Well, he - he has examinations.

E: What is it?

H.M.Jr: He has examinations.

E: Of banks?

H.M.Jr: Yes

E: Well, only the banks that - he - he doesn't run a regular examination of banks at all now.

H.M.Jr: Yes

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- E: Only in the case of where he's going to put the first stock in does he examine them.
- H.M.Jr: Well, I - I - I - I mean I feel that I've got a responsibility to the President and I feel I've got to call this meeting, and if you don't feel you could -
- E: Well listen, couldn't - I was going to suggest I wished - I wished you could wait a few days and let me get - let's talk - let me talk the thing over with you, or let me come there and just merely say, "Well, I - I'm - I haven't anything prepared," and just not discuss it; I can do that.
- H.M.Jr: Well, that's up to you, Marriner, and -
- E: But what I want to do is to - is to prepare a program, and I've had a lot of preliminary work done, but I just - and I could get it together in a pretty short time. And what I - what I - what I've been in hopes of doing is to go over that thing with - with you and - with Taylor and Upham first and then with - and then with you if they agreed, or if they - they have pertinent suggestions to make, so that when it was brought to you it would save your time.
- H.M.Jr: Well, that - that - that situation now - that's been that way for two or three weeks.
- E: That's right.
- H.M.Jr: And nothing's happened. And in the meantime we - we're right up against the gun. And then - then these things - then we're rushed off our feet and we don't know where we're at. I mean the President has a perfectly proper right to say to me, "Well Henry, what were you doing while I was gone? Why didn't you do some of this stuff?" And I'm not going to be put in that position. I mean I'm not going to say, "Mr. President, I haven't the slightest idea. I haven't seen these people." Then he comes back and says, "Well, why haven't you?" Should I say, "Because Marriner Eccles isn't ready?" I wouldn't do that.
- E: Well, do you - I don't think Crowley's got any

legislation he'll propose, and I don't think -

H.M.Jr: Well, I don't know.

E: - I don't think O'Connor has.

H.M.Jr: Well, maybe you've been talking to them; I haven't.

E: No, what I - what I mean is Connor - Crowley would - would be more or less like I was - he wouldn't discuss with O'Connor the - the - well, you know the general situation, and to - to think three of us sitting us down there together to talk about banking legislation- it just isn't in the cards.

H.M.Jr: Well - ah - anyway you know how I feel and I wanted to call you up first. By the way, I'm going up to New York on the four o'clock train. Will you have some indication - will your Board do something this morning about that other matter or not?

E: We're going to discuss it - ah - this morning.

H.M.Jr: Yes.

E: I won't have a chance to - I sent last night a memorandum to - to Broderick -

H.M.Jr: Yes.

E: - and Davis, the idea being that they'd have a chance to read it and then I could - I could talk to them on the telephone Monday.

H.M.Jr: I see.

E: And, as I understood it, what you wanted was - was a - a definite memorandum from us -

H.M.Jr: Yes.

E: - on Tuesday, and I told you I'd see you at that -

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

E: - at our Tuesday meeting, and we'd have something -

H.M.Jr: That's all right. Well, well let - we'll let that

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ride then till Tuesday.

E: Yes

H.M.Jr: O.K., Marriner.

E: Well, I'm - I wish you could persuade you on this banking thing that you -

H.M.Jr: You wish you could what?

E: I wish I could persuade you to - to postpone that meeting because I -

H.M.Jr: Well, I'm sorry but I - I - I - I can only repeat what I say, I mean I've got a responsibility here to the President and to myself as Secretary of the Treasury, and I don't know what these fellows and I want to find out.

E: Well then, why not - let - let's excuse me from it. Will you do that?

H.M.Jr: Give you what?

E: I say excuse me from it so I don't have to make a commitment there at that time.

H.M.Jr: Do what?

E: Excuse me from the meeting then so I don't have to make a commitment at that time. If I come there, I don't want to say that I won't have any legislation, won't propose some.

H.M.Jr: Nobody has to give a commit- .

E: If I do say that "Yes, I'm going to have some legislation," then you'll say, "What is it?" see?

H.M.Jr: Well, I think it - you put yourself in a perfectly ridiculous position, because they're going to say, "Why isn't Eccles here?" and then immediately "He doesn't want to play ball. He's got something that he's working on by himself."

E: Well, I can - I can come and say that, well, I don't know, that - that I'm not prepared right now to say

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definitely just what we'll have. We - we'll - we likely will have some - some legislation to propose. And of course that would be more or less routine legislation which I wouldn't hesitate to discuss with them. The question of consolidation of any kind is a matter that we can't discuss. That's a matter that, it seems to me - that -

H.M.Jr: Well, you -

E: - you who are not involved in the question -

H.M.Jr: Well, my advice to you is I'd be here, because if you don't it looks as though the Federal Reserve Board doesn't want to play ball.

E: Well -

H.M.Jr: You can say as much or as little as you feel like; that's up to you.

E: Well, I'll - I'll - I'll be there then, under those conditions. But I want to - I want to discuss the - I want to discuss with you the - the question of consolidation, with - without anybody else. And so if I can have that opportunity after, why, that -

H.M.Jr: Well, I - I'm here, but you - you were going to discuss that, using your timing, three weeks ago, with Taylor and you haven't done that yet.

E: Well, of course, if I was like you and just had myself to deal with, I wouldn't have the problem. When you get a Board and you - the amount of time you spend uselessly and the patience it requires, it's just exasperating. I'm just - you - you won't understand what I'm up against in connection with all of these things, and the time that it takes, and the - and the - it's a very different matter than if I could just sit there and get a staff and say, "Do this and do that and make me a decision." And so if you feel I've been derelict in the matter, I - well, I just wanted you to know some of the questions and the problems.

H.M.Jr: No, I didn't say you'd been derelict. I wouldn't -

that isn't up to me to say that. I simply say that we - the thing came up and you said you - it was your suggestion that you appoint Ransom and that I have Taylor and that the two of them get together. You said would I do that, and I said yes.

E: That was my suggestion.

H.M.Jr: And nothing's happened now.

E: Well, I'm just giving you the reason, and then when - Taylor - Taylor and Upham suggested that - that we prepare something and - and then - then discuss it with them. In other words -

H.M.Jr: Well - and they've been patiently waiting here.

E: That's right.

H.M.Jr: Now the time is rolling on and - and I - and Jones or any of these others might say, "Well, maybe Morgenthau's got something up his sleeve. Why doesn't he take us in his confidence?" And I haven't got anything up my sleeve.

E: Well, I haven't. My - my only - my only interest in the thing is to see whether or not we can iron out these - these conflicting problems in our - in our agencies. And - and they get - they just reach a point that I get so damn sick I just feel like going home. Now, that's about - I'm just perfectly frank with you - that - that the present situation, the general conflicts in the - with - with the - with three agencies here that we've got, the damn thing just breaks down of its own weight; it will sooner or later. And I - I - ah - it seems to me that we've just got to have the courage some time or other to face the situation and either take - take and put the - all these questions of examinations and chartering and so forth in one place, whether it's the Reserve Board or somebody else. I - I don't care - if they take it away from us, it's all right, but -

H.M.Jr: You know you don't mean that.

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E: Well, I do now. I wouldn't argue a minute. I - I have no personal interest - not a particle, and I have no personal ambitions. So, whether you believe it or not (laughing) I'm - I'm anxious to try to - to do a job as long as I'm here, and when I find I can't then I'm not interested in being here.

H.M.Jr: Yes.

E: Now, that's right. I'm not politically minded.

H.M.Jr: Well, you've got the week-end to think it over, but I - I've thought it over and - and you come on over and you talk as much as you feel you - you want to, that's all. ^{what} the Board has in mind on banking legislation. Now, there are other things besides the consolidation of these agencies.

E: Well, that is a problem that - of course, I understood that the - the President would expect to discuss that with - with you - ah - and he expected you to talk with me about it, but I didn't expect that - knowing that the O'Connor situation and the Crowley situation - if you expected to talk to both of them about it. I think his idea was to get some kind of plan worked out that would take care of the situation, and he didn't think that Crowley's situation would be a problem because he - he knew that Crowley had no hesitancy about leaving. And - ah - the O'Connor situation, he did recognize there's a problem, and he - he - he recognized that - I think that as a result of that he wouldn't expect all four of us to sit down together and work out a program.

H.M.Jr: Well, Marriner, this is the first time, this morning, that you've told me that you discussed O'Connor or Crowley with the President.

E: Well, he mentioned O'Connor when I - I talked to him about the need of some legislation that eliminated duplication and eliminated conflicts, and he said, "Yes, that's right." And he said, "Now, I'll write a note to Henry here," and he wrote that note that he sent to you, and asked him to talk to you about the matter. And then he went on to say, "This will -

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"There'll be no difficulty," he said, "on legislation that involved some of these questions with the Senate now, and with Glass." And he said, "It will mean the elimination of O'Connor, of course, which -" and then he went on to say that - that Crowley had talked of going anyway, so that anything that was worked out he felt it would be agreeable to him, and it was up to you and I. And that's - I - I didn't know what he said to you in the note. He just said, "I'll ask - suggest that he talk to you about it."

H.M.Jr: Well, the note simply - I haven't got the note before me, but - but there's no indication of anything like that, and -

E: Well, I'm - I'm -

H.M.Jr: - other than, as I remember, to get this banking committee together; that's what I remember what the note said.

E: Well, I thought that Monday when I talked over - talked to you over there, the first time I saw you after I had seen him, that I - that I mentioned this thing to you.

H.M.Jr: You did, but you didn't say anything about Crowley or O'Connor.

E: Well, I - I'm - they were mentioned. I'm just telling you what he said -

H.M.Jr: Yes

E: - with reference to both of them, that the -

H.M.Jr: Well -

E: - that a problem should be worked out, and that O'Connor would be a problem, but also that - I mean O'Connor would be a problem, but Crowley wouldn't. And he said that was the personnel aspect of it.

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

E: And he didn't think the Senate would be any problem in connection with that type of legislation.

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H.M.Jr: Well, that's - that's one thing - there may - I don't know what the others have and I'm not going to call Jones together secretly, and then call Crowley together secretly, and then O'Connor secretly, and you. I'm not going to do it.

E: Well -

H.M.Jr: I'm not going to be put in that position.

E: I think maybe - well, I - if I could talk to you after on this thing, I can come over there and say that I'm - we're not - I'm not prepared on anything yet, and -

H.M.Jr: Well, we can talk about it on Tuesday when we talk about the other subjects.

E: Well, it - it - of course, it's a matter that we'd have to spend considerable time on, I think.

H.M.Jr: All right, Marriner.

E: Well then, I'll see you - now, on this other matter, it's understood then that Tuesday -

H.M.Jr: Tuesday's the day.

E: And on this first matter it will be Monday morning.

H.M.Jr: Right.

E: All right, I'll see you.

H.M.Jr: Thanks.

E: Goodbye.

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At the conclusion of the telephone conversation, the Secretary said to the group, "I may be all wrong, but I can only work one way and that is to have everybody come together and discuss this thing in the open."

The Secretary then asked Mr. Upham to look up what authority the Secretary of the Treasury has on all these borrowing, lending and banking agencies. (Note: For ready reference, Upham's memorandum is attached hereto.)

Healy

December 11, 1936

HMJr.

Information attached:

- 1. Authority for creation of Interdepartmental Lending Committee
- 2. Authority for Budget Bureau to require legislation to be submitted to it.
- 3. Authority for creation of Committee of Borrowing Agencies (not yet located).
- 4. Authority for creation of Committee of Banking Agencies (probably a subcommittee).

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OFFICE OF
THE SECRETARY OF THE TREASURY

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12/11/36

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President's letter establishing the
Interdepartmental Lending Committee.

THE WHITE HOUSE
WASHINGTON

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November 12, 1934.

My dear Mr. Morgenthau:

There are as you know several agencies of the Government whose activities in the recovery program include the loaning, directly or indirectly, of funds of the Federal Government. I feel that the efforts of these agencies should be coordinated in order to increase their effectiveness in the common good. In this way we will avoid any conflict of action between agencies and opportunity will be afforded to view the problems arising in these loaning operations as a whole and to take action on the basis of the more complete and coordinated information at hand.

I am therefore creating a committee to be composed of the heads of the various Federal agencies having to do with the loaning of public funds, and inasmuch as the Treasury Department has a primary concern in all financial operations of the Government, the Secretary of the Treasury will serve as Chairman of the committee.

I now ask that you serve on this Committee, the full membership of which will include:

The Secretary of the Treasury, Chairman
The Secretary of the Interior
The Governor of the Farm Credit Administration
The Chairman of the Reconstruction Finance Corporation
The Chairman of the Federal Home Loan Bank Board
The Chairman of the Home Owners' Loan Corporation
The Administrator of the Emergency Administration
of Public Works

The Administrator of the Emergency Public Works Housing Corporation
The Administrator of the Federal Housing Administration
The Administrator of the Agricultural Adjustment Administration
The President of the Export-Import Banks
The President of the Commodity Credit Corporation
The Governor of the Federal Reserve Board
The Chairman of the Federal Deposit Insurance Corporation

For the general guidance of the Committee, I suggest it should have as its object the general coordination of all phases of the Government's activities with respect to the lending of money or the taking of evidence of indebtedness by Governmental corporations or agencies in connection with their operations.

Very sincerely,



Hon. Henry Morgenthau, Jr.,
The Secretary of the Treasury.

OFFICE OF
THE SECRETARY OF THE TREASURY

12/11/36
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Circular issued by direction of the
Presidentn directing that all legislation
be submitted by Departments and Agencies
to the Bureau of the Budget.

CIRCULAR NO. 336

BUREAU OF THE BUDGET
WASHINGTON

December 21, 1935.

TO THE HEADS OF EXECUTIVE DEPARTMENTS, INDEPENDENT ESTABLISHMENTS AND
OTHER GOVERNMENT AGENCIES, INCLUDING CORPORATIONS.

This Circular supersedes Budget Circular No. 49 of December 19, 1921, Budget Circular No. 273 of December 26, 1929, Budget Circular Letter of April 10, 1930, National Emergency Council Memorandum of December 13, 1934, and National Emergency Council Memorandum of April 23, 1935.

Estimates or Requests for Appropriations.

Section 206 of the Budget and Accounting Act, 1921, provides that:

"No estimate or request for an appropriation and no request for an increase in an item of any such estimate or request, and no recommendation as to how the revenue needs of the Government should be met, shall be submitted to Congress or any committee thereof by any officer or employee of any department or establishment, unless at the request of either House of Congress."

Section 2 of said Act contains the following definition:

"When used in this Act --

"The terms 'department and establishment' and 'department or establishment' mean any executive department, independent commission, board, bureau, office, agency, or other establishment of the Government, including the municipal government of the District of Columbia, but do not include the Legislative Branch of the Government or the Supreme Court of the United States;"

Reports and Recommendations on Proposed or Pending Legislation.

At a meeting of the National Emergency Council, December 17, 1935, the President directed that:

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There shall be sent to the Bureau of the Budget, for consideration of the President before submission to the Congress, or any committee or member thereof, the original and two copies of each recommendation or report, concerning proposed or pending legislation (other than private relief legislation), requested from or advanced by any executive department, independent establishment, or other Government agency (including the municipal government of the District of Columbia and Government-owned or Government-controlled corporations), or any officer thereof. When such recommendation or report thereafter is submitted to the Congress, or to a committee or member thereof, it shall include a statement as to whether the proposed legislation is or is not in accord with the program of the President.

Before any person in his official capacity as officer or employee of any executive department, independent establishment, or other Government agency (including the municipal government of the District of Columbia and Government-owned or Government-controlled corporations) shall advocate or oppose legislation (other than private relief legislation) before any committee of the Congress, he shall ascertain from the Bureau of the Budget through the Budget officer of his organization whether such legislation is or is not in accord with the program of the President, and he shall so inform the committee.

The Procedure for carrying out the above directions will be as follows:

(a) Legislation solely concerning fiscal matters will be cleared by the Bureau of the Budget with the President. Thereafter, the submitting agency will be advised by the Bureau of the Budget whether such legislation is or is not in accord with the financial program of the President.

(b) Legislation solely concerning policy matters will be transmitted by the Bureau of the Budget to the office of the National Emergency Council, with such comment as the Bureau of the Budget desires to make. The office of the National Emergency Council will then clear the legislation with the President and advise the Bureau of the Budget of the President's action. Thereafter, the submitting agency will be advised by the Bureau of the Budget whether the legislation is or is not in accord with the policy program of the President.

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(c) Legislation involving both fiscal and policy matters will be cleared jointly with the President by the Bureau of the Budget and the office of the National Emergency Council. Thereafter, the submitting agency will be advised by the Bureau of the Budget (1) whether the legislation is or is not in accord with the financial program of the President, and (2) whether the legislation is or is not in accord with the policy program of the President.

By direction of the President:

D. W. Bell,
Acting Director of the
Bureau of the Budget.

OFFICE OF
THE SECRETARY OF THE TREASURY

~~212~~

12/11

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I have not yet located the authority for the Committee of Agencies which borrow from the market or float securities of some kind.

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I think the Committee of Banking Agencies grew up as a subcommittee of the Interdepartmental Lending Committee

December 11, 1936
9:47 A.M.

H.M.Jr: Eccles, please.

Operator: All right.

H.M.Jr: Hello.

Operator: Chairman Eccles. Go ahead.

H.M.Jr: Hello.

Eccles: Hello.

H.M.Jr: Good morning, Marriner.

E: Good morning.

H.M.Jr: How are you?

E: I'm pretty good.

H.M.Jr: You at your office?

E: No, I'm not.

H.M.Jr: Oh. Ah - Marriner, we've been talking things over here. We're getting ready for the President's message, one thing or another. And I thought that Monday I'd call together the - those who have to do with banking, see, and have one of our meetings on - the heads of the various groups. As chairman of that committee, I thought I'd call them together and then ask everybody what they have in mind in regard to legislation.

E: You mean the legislation just with reference to the budget?

H.M.Jr: Oh no, no no no no. Anything that anybody had in mind in regard to banking legislation.

E: Oh yes. Well - you remember when we discussed the - the matter about - I think it was about three weeks ago.

H.M.Jr: Yes.

E: And Wayne and Upham and Ransom and I was going to get

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together and -

H.M.Jr:

Yes

E:

Well now, I'm just wondering if -

H.M.Jr:

That's just why I'm calling you - on account of that discussion that you all had several weeks ago.

E:

Well, what would you - what would you do with - with O'Connor - Jeffty?

H.M.Jr:

Well, he's a presidential appointee affirmed by the Congress of the United States, Comptroller of the Currency. It isn't up to me to do anything with him.

E:

Well, would you - would you ask them to - to report on banking legislation?

H.M.Jr:

Surely. Why not? How come - how - how can I eliminate him? As a matter of fact, since you - you fellows said you'd get together, I checked with Taylor and with Upham and - and they've heard nothing.

E:

Well, I talked to - I talked to Wayne the other day about it, and I've just - I've simply been just covered up, I've simply -

H.M.Jr:

Well, I - I feel this way, Marriner. I just didn't want to have you say - well, I - I feel this way: as chairman of that committee I have to know what's going on. I don't know what's going on with Mr. Jones or with Mr. O'Connor or with Mr. Crowley or with you, and I think - I think we're all appointees of the President and I think we ought to put our cards on the table.

E:

Oh well, I haven't - I - I'm not doing a thing that I won't discuss with Wayne - I - and Upham - my only point was that to merely go there and discuss the question of legislation - I haven't any legislation unless the - except it involved the - the question of - of taking O'Connor out of the picture. Now, I can't say that.

H.M.Jr:

Well, I can't - I can't - I can't disregard O'Connor

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or Crowley or anybody else. I mean I'm sure when the President gets back he's going to ask me two questions, amongst others. One is: What banking legislation is pending? And, What's pending on the lending agencies? And I want to find out and I can't - frankly, I can't move secretly.

E: Well, I - I talked to the President about banking legislation and he said to me that he would ask you to get in touch with me and - and to discuss the question of legislation. Now, he said at the time - the matter that I discussed with him was the possibility of a consolidation, see? And he said at the time, "Of course, that will involve the - the question of Jeffty."

H.M.Jr: When did - when was this conversation?

E: Well, I - I reported it to you the first time that you got back from Georgia.

H.M.Jr: Oh yes, but I didn't know - you didn't say anything about talking about Jeffty.

E: What is it?

H.M.Jr: You didn't say anything about Jeffty O'Connor to me.

E: Well, I simply said - asked you if you'd got a memorandum from him and you said you hadn't but it was likely to come through in a day or two.

H.M.Jr: Well, I got one now. It came through.

E: Yes, but in the course of the conversation, in - in discussing the question of banking legislation, I simply told - I said to him that the only legislation that I was primarily interested in was - was in consolidation, and the question, of course, of the Comptroller's office came up. And he said that's what it would involve.

H.M.Jr: Well, did the President indicate how he felt about it?

E: Well, he indicated to me that - my thought was that he was favorable to it.

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- H.M.Jr: To what?
- E: To the question of consolidating some of these activities.
- H.M.Jr: Yes, but did he say how to consolidate them?
- E: No, no, he didn't.
- H.M.Jr: Well, of course, he's been in favor of consolidation, but he didn't indicate where he wanted to consolidate.
- E: Well, all - all I can say is that I - I just haven't any legislation then. I mean I - I'm not going over and discuss the - the question of - that involves other departments there. I mean I just can't -
- H.M.Jr: Yes, but I'm also not going to be the Secretary of the Treasury; as the president - chairman of this committee, I'm not going to be put into the position of being through silence a part of some kind of a program, which I don't even know about and nobody in the Treasury knows anything about. I don't work that way.
- E: What's the - well, of course, there won't be any program. The only point is it's a question of discussing it - discussing it with the - with the whole group. Now, my - I - I don't have a -
- H.M.Jr: Take Jesse Jones for example. He owns preferred stock in over five thousand banks. I don't even know what you've got in your mind myself, and neither does - neither does Taylor nor Upham. You say you talked about it three weeks ago.
- E: No, I simply talked about the question of consolidation. There was no - there was no detail, there was no plan at all. Now, so far as a - ah - proposed legislation is concerned, I would want to write - get the thing down on paper and discuss it with Upham and Taylor and then see if we could work up something that we could present to you. There was no thought of discussing with anybody else until that was done. Now, the only point I'm making here is that I can't - I don't want to come over there Monday and - and - and - and discuss legislation. I

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want to discuss it with you, but I don't want to discuss it with the rest of them.

H.M.Jr: Well, I - I - I can't do business that way.

E: Well, all right, then - that's -

H.M.Jr: And I - I'm not going to be put in the corner - I - I - and that you discussed something with me that I can't discuss with - with Crowley or with Jones or with O'Connor. I never have worked that way; I never worked secretly on legislation. If I've got anything in mind I'm going to say so.

E: Well, we discussed the question of banking legislation - ah - and O'Connor wasn't there, two years ago.

H.M.Jr: Well, and what happened?

E: What is it?

H.M.Jr: And what happened?

E: Well, we didn't get anywhere. But certainly you wouldn't get anywhere now to sit down and say, "Here, we want to consolidate these agencies."

H.M.Jr: Well, Marriner, the President made me chairman of that committee and I - I've got to call a meeting. Now, what - if you don't - if you don't want to say anything when you come over here, that - that's up to you. But I'm certainly going to ask these people what they've got in mind in regard to banking legislation. And I expect to see Senator Glass sometime next week and I'm sure he's going to ask me what I've got in mind. And I - and - I - I can't sit back and say, "Well, I don't know. Eccles hasn't told me and I don't know what O'Connor's got in mind. I haven't seen them."

E: Yes

H.M.Jr: I mean in other words what you're asking me to do is to sit back here for another couple of weeks until you write a memorandum.

E: Well, I can simply say, and I will say it on Monday,

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then, that I haven't - we haven't anything.

H.M.Jr: Well, that - that's up - purely up to you.

E: Yes

H.M.Jr: But I don't know what the other people have in mind because I haven't discussed banking legislation with anybody, but I feel the time has come - it's the 14th next week, it's two weeks till - two or three weeks till Congress meets, and I feel I've got to know what's going on.

E: Well, what time is this meeting Monday?

H.M.Jr: Pardon me?

E: I say what time do you -

H.M.Jr: Well, I'm going to call up the various people. I'm going to suggest - I'm going to suggest ten o'clock Monday morning.

E: On Monday morning?

H.M.Jr: Yes

E: Well then, I'll - I'll be there and I'm just merely stating that I - I - I would have - of course, preferred to - to have had a chance to discuss the matter with you and - and I'm terribly disappointed that it's going to be a question of - of reporting that there isn't - there isn't going to be any; but I don't know that I can do anything else. I - I just can't have any legislation without - unless I should say that I have - I'm not prepared to say at this time.

H.M.Jr: Well, I don't know of any which - here it is, Monday's the 14th and I think that the various people ought to be prepared.

E: Well, I'm - I'm not.

H.M.Jr: Well - well, each person's got to - got to decide for himself, and I - I - I've talked it over with my own crowd and they feel that as chairman of this

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committee I ought to call a meeting. And then I - in a couple of days I'm going to call another meeting of the lending committees, and ask them what they've got in mind.

E: Ah - well, I -

H.M.Jr: Yes

E: Of course, if you've made up your mind that's what you want to do there isn't anything for me to -

H.M.Jr: No, but I mean it isn't that - I - I don't - I don't know now what you've got in your mind. You say it's three weeks since we discussed it and I checked it with Wayne and Upham and they said that the question's never been discussed again. And you say it's three weeks; I don't think it's quite that long; but let's say it's two weeks. In other words, Marriner, it looks as though - I mean you want to sit back and wait until you make up what your mind - what you want to do, and you want everybody else to wait.

E: Well, it's just been a - it's been a question of - it's simply been impossible for me to get to it. I've - I've simply been covered up with one thing and another and it's made it practically impossible to -

H.M.Jr: Well, what do you suppose we do over here? I mean I - I - if there's going to be banking legislation I want to put our people to work studying it.

E: Well, of course.

H.M.Jr: I - I've got to be in a position to say to the President I think this is good or bad. I don't know what - where this consolidation should go. I - I haven't studied it yet, but I'm going to study it. I'm going to make a recommendation.

E: Well, maybe it would be better to let somebody else outside of the agencies propose it. Why - why don't the Treasury prepare the plan, then?

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H.M.Jr: Because we - whatever we're going to do we're going to do it with our cards on the table face up. I'm not going to make any -

E: Well, I know, but you'd - you'd want to work out the plan and then -

H.M.Jr: Well, I want to -

E: - and then present the plan to the agencies.

H.M.Jr: No, no, I want to hear what these people in town who have joint responsibility, what - what they've got to say. I don't know what Mr. Jones feels about it; I don't know what Mr. O'Connor feels; I don't know how you feel. I haven't got the slightest idea.

E: Well, of course, Jones hasn't - he has nothing for the supervision of the banks. He merely has -

H.M.Jr: Well, he's got stock in five thousand banks.

E: Well, he has an investment in them, but that's - he's not a banking agency.

H.M.Jr: Well, he - he's the biggest - he's the biggest factor in the United States in banks. You can't -

E: Oh well, but he doesn't -

H.M.Jr: - deny it.

E: He doesn't have the regulation of the banks or the examination of them or the chartering of them or -

H.M.Jr: Well, he - he has examinations.

E: What is it?

H.M.Jr: He has examinations.

E: Of banks?

H.M.Jr: Yes

E: Well, only the banks that - he - he doesn't run a regular examination of banks at all now.

H.M.Jr: Yes

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- E: Only in the case of where he's going to put the first stock in does he examine them.
- H.M.Jr: Well, I - I - I - I mean I feel that I've got a responsibility to the President and I feel I've got to call this meeting, and if you don't feel you could -
- E: Well listen, couldn't - I was going to suggest I wished - I wished you could wait a few days and let me get - let's talk - let me talk the thing over with you, or let me come there and just merely say, "Well, I - I'm - I haven't anything prepared," and just not discuss it; I can do that.
- H.M.Jr: Well, that's up to you, Marriner, and -
- E: But what I want to do is to - is to prepare a program, and I've had a lot of preliminary work done, but I just - and I could get it together in a pretty short time. And what I - what I - what I've been in hopes of doing is to go over that thing with - with you and - with Taylor and Upham first and then with - and then with you if they agreed, or if they - they have pertinent suggestions to make, so that when it was brought to you it would save your time.
- H.M.Jr: Well, that - that - that situation now - that's been that way for two or three weeks.
- E: That's right.
- H.M.Jr: And nothing's happened. And in the meantime we - we're right up against the gun. And then - then these things - then we're rushed off our feet and we don't know where we're at. I mean the President has a perfectly proper right to say to me, "Well Henry, what were you doing while I was gone? Why didn't you do some of this stuff?" And I'm not going to be put in that position. I mean I'm not going to say, "Mr. President. I haven't the slightest idea. I haven't seen these people." Then he comes back and says, "Well, why haven't you?" Should I say, "Because Marriner Eccles isn't ready"? I wouldn't do that.
- E: Well, do you - I don't think Crowley's got any

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legislation he'll propose, and I don't think -

H.M.Jr: Well, I don't know.

E: - I don't think O'Connor has.

H.M.Jr: Well, maybe you've been talking to them; I haven't.

E: No, what I - what I mean is Connor - Crowley would - would be more or less like I was - he wouldn't discuss with O'Connor the - the - well, you know the general situation, and to - to think three of us sitting us down there together to talk about banking legislation - it just isn't in the cards.

H.M.Jr: Well - ah - anyway you know how I feel and I wanted to call you up first. By the way, I'm going up to New York on the four o'clock train. Will you have some indication - will your Board do something this morning about that other matter or not?

E: We're going to discuss it - ah - this morning.

H.M.Jr: Yes.

E: I won't have a chance to - I sent last night a memorandum to - to Broderick -

H.M.Jr: Yes.

E: - and Davis, the idea being that they'd have a chance to read it and then I could - I could talk to them on the telephone Monday.

H.M.Jr: I see.

E: And, as I understood it, what you wanted was - was a - a definite memorandum from us -

H.M.Jr: Yes.

E: - on Tuesday, and I told you I'd see you at that -

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

E: - at our Tuesday meeting, and we'd have something -

H.M.Jr: That's all right. Well, we'll let - we'll let that

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ride then till Tuesday.

E: Yes

H.M.Jr: O.K., Marriner.

E: Well, I'm - I wish I could persuade you on this banking thing that you -

H.M.Jr: You wish you could what?

E: I wish I could persuade you to - to postpone that meeting because I -

H.M.Jr: Well, I'm sorry but I - I - I - I can only repeat what I say, I mean I've got a responsibility here to the President and to myself as Secretary of the Treasury, and I don't know what these fellows and I want to find out.

E: Well then, why not - let - let's excuse me from it. Will you do that?

H.M.Jr: Give you what?

E: I say excuse me from it so I don't have to make a commitment there at that time.

H.M.Jr: Do what?

E: Excuse me from the meeting then so I don't have to make a commitment at that time. If I come there, I don't want to say that I won't have any legislation, won't propose some.

H.M.Jr: Nobody has to give a commit-

E: If I do say that "Yes, I'm going to have some legislation," then you'll say, "What is it?" see?

H.M.Jr: Well, I think it - you put yourself in a perfectly ridiculous position, because they're going to say, "Why isn't Eccles here?" and then immediately "He doesn't want to play ball. He's got something that he's working on by himself."

E: Well, I can - I can come and say that, well, I don't know, that - that I'm not prepared right now to say

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definitely just what we'll have. We - we'll - we likely will have some - some legislation to propose. And of course that would be more or less routine legislation which I wouldn't hesitate to discuss with them. The question of consolidation of any kind is a matter that we can't discuss. That's a matter that, it seems to me - that -

H.M.Jr: Well, you -

E: - you who are not involved in the question -

H.M.Jr: Well, my advice to you is I'd be here, because if you don't it looks as though the Federal Reserve Board doesn't want to play ball.

E: Well -

H.M.Jr: You can say as much or as little as you feel like; that's up to you.

E: Well, I'll - I'll - I'll be there then, under those conditions. But I want to - I want to discuss the - I want to discuss with you the - the question of consolidation, with - without anybody else. And so if I can have that opportunity after, why, that -

H.M.Jr: Well, I - I'm here, but you - you were going to discuss that, using your timing, three weeks ago, with Taylor and you haven't done that yet.

E: Well, of course, if I was like you and just had myself to deal with, I wouldn't have the problem. When you get a Board and you - the amount of time you spend uselessly and the patience it requires, it's just exasperating. I'm just - you - you won't understand what I'm up against in connection with all of these things, and the time that it takes, and the - and the - it's a very different matter than if I could just sit there and get a staff and say, "Do this and do that and make me a decision." And so if you feel I've been derelict in the matter, I - well, I just wanted you to know some of the questions and the problems.

H.M.Jr: No, I didn't say you'd been derelict. I wouldn't -

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that isn't up to me to say that. I simply say that we - the thing came up and you said you - it was your suggestion that you appoint Ransom and that I have Taylor and that the two of them get together. You said would I do that, and I said yes.

E: That was my suggestion.

H.M.Jr: And nothing's happened now.

E: Well, I'm just giving you the reason, and then when - Taylor - Taylor and Upham suggested that - that we prepare something and - and then - then discuss it with them. In other words -

H.M.Jr: Well - and they've been patiently waiting here.

E: That's right.

H.M.Jr: Now the time is rolling on and - and I - and Jones or any of these others might say, "Well, maybe Morgenthau's got something up his sleeve. Why doesn't he take us in his confidence?" And I haven't got anything up my sleeve.

E: Well, I haven't. My - my only - my only interest in the thing is to see whether or not we can iron out these - these conflicting problems in our - in our agencies. And - and they get - they just reach a point that I get so damn sick I just feel like going home. Now, that's about - I'm just perfectly frank with you - that - that the present situation, the general conflicts in the - with - with the - with three agencies here that we've got, the damn thing just breaks down of its own weight; it will sooner or later. And I - I - ah - it seems to me that we've just got to have the courage some time or other to face the situation and either take - take and put the - all these questions of examinations and chartering and so forth in one place, whether it's the Reserve Board or somebody else. I - I don't care - if they take it away from us, it's all right, but -

H.M.Jr: You know you don't mean that.

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E: Well, I do now. I wouldn't argue a minute. I - I have no personal interest - not a particle, and I have no personal ambitions. So, whether you believe it or not (laughing) I'm - I'm anxious to try to - to do a job as long as I'm here, and when I find I can't then I'm not interested in being here.

H.M.Jr: Yes.

E: Now, that's right. I'm not politically minded.

H.M.Jr: Well, you've got the week-end to think it over, but I - I've thought it over and - and you come on over and you talk as much as you feel you - you want to, that's all. ^{what} the Board has in mind on banking legislation. Now, there are other things besides the consolidation of these agencies.

E: Well, that is a problem that - of course, I understood that the - the President would expect to discuss that with - with you - ah - and he expected you to talk with me about it, but I didn't expect that - knowing that the O'Connor situation and the Crowley situation - if you expected to talk to both of them about it. I think his idea was to get some kind of plan worked out that would take care of the situation, and he didn't think that Crowley's situation would be a problem because he - he knew that Crowley had no hesitancy about leaving. And - ah - the O'Connor situation, he did recognize there's a problem, and he - he - he recognized that - I think that as a result of that he wouldn't expect all four of us to sit down together and work out a program.

H.M.Jr: Well, Marriner, this is the first time, this morning, that you've told me that you discussed O'Connor or Crowley with the President.

E: Well, he mentioned O'Connor when I - I talked to him about the need of some legislation that eliminated duplication and eliminated conflicts, and he said, "Yes, that's right." And he said, "Now, I'll write a note to Henry here," and he wrote that note that he sent to you, and asked him to talk to you about the matter. And then he went on to say, "This will -

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"There'll be no difficulty," he said, "on legislation that involved some of these questions with the Senate now, and with Glass." And he said, "It will mean the elimination of O'Connor, of course, which -" and then he went on to say that - that Crowley had talked of going anyway, so that anything that was worked out he felt it would be agreeable to him, and it was up to you and I. And that's - I - I didn't know what he said to you in the note. He just said, "I'll ask - suggest that he talk to you about it."

- H.M.Jr: Well, the note simply - I haven't got the note before me, but - but there's no indication of anything like that, and -
- E: Well, I'm - I'm -
- H.M.Jr: - other than, as I remember, to get this banking committee together; that's what I remember what the note said.
- E: Well, I thought that Monday when I talked over - talked to you over there, the first time I saw you after I had seen him, that I - that I mentioned this thing to you.
- H.M.Jr: You did, but you didn't say anything about Crowley or O'Connor.
- E: Well, I - I'm - they were mentioned. I'm just telling you what he said -
- H.M.Jr: Yes
- E: - with reference to both of them, that the -
- H.M.Jr: Well -
- E: - that a problem should be worked out, and that O'Connor would be a problem, but also that - I mean O'Connor would be a problem, but Crowley wouldn't. And he said that was the personnel aspect of it.
- H.M.Jr: Yes. Well, I -
- E: And he didn't think the Senate would be any problem in connection with that type of legislation.

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H.M.Jr: Well, that's - that's one thing - there may - I don't know what the others have and I'm not going to call Jones together secretly, and then call Crowley together secretly, and then O'Connor secretly, and you. I'm not going to do it.

E: Well -

H.M.Jr: I'm not going to be put in that position.

E: I think maybe - well, I - if I could talk to you after on this thing, I can come over there and say that I'm - we're not - I'm not prepared on anything yet, and -

H.M.Jr: Well, we can talk about it on Tuesday when we talk about the other subjects.

E: Well, it - it - of course, it's a matter that we'd have to spend considerable time on, I think.

H.M.Jr: All right, Marriner.

E: Well then, I'll see you - now, on this other matter, it's understood then that Tuesday -

H.M.Jr: Tuesday's the day.

E: And on this first matter it will be Monday morning.

H.M.Jr: Right.

E: All right, I'll see you.

H.M.Jr: Thanks.

E: Goodbye.

December 11, 1936
11:03 A.M.

H.M.Jr: Hello.

Operator: Governor Harrison.

H.M.Jr: Hello?

Harrison: Hello, Henry.

H.M.Jr: How are you?

Harrison: Well, I'm - I'm getting along, thank you.

H.M.Jr: Good.

H: Much better. My voice is still erratic, but otherwise I'm all right.

H.M.Jr: Well, are you - but only your voice, though?

H: Yes, only my voice. (Laughs)

H.M.Jr: What?

H: That's a great handicap to me, who likes to talk.

H.M.Jr: Well - George, have you seen Cable #9 from Bern, December 10? On this question of gold, 300 million gold, Swiss francs?

H: From Bern?

H.M.Jr: Yes

H: Well, it just came across my desk now.

H.M.Jr: Have you had time to think about it?

H: No, I have not. I was going to send to Knoke what it - what it meant.

H.M.Jr: Would you mind doing it, then calling me back?

H: Yes sir, I'll do that. I just - I just had it a few minutes ago, looked at it, made a note to call Knoke, but I'm talking with Burgess at the moment and I haven't had a chance to see him.

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H.M.Jr: Well, supposing you call him and as soon as you've got an idea give me a ring.

H: All right, I'll do that.

H.M.Jr: How does Burgess like my 15 percent?

H: Like your what?

H.M.Jr: The allotment. You say Burgess is there with you?

H: (Talks to Burgess) He says it's fine. He wants to talk to you about it.

H.M.Jr: Right now?

H: Well, if you've got a minute.

H.M.Jr: Sure, I got nothing but time.

H: (Laughs) How are you feeling?

H.M.Jr: Oh, I'm in a grand humor. Ah - I'm not going to let these Washingtonians get me, if you know what I mean.

H: Well, is there any -

H.M.Jr: I mean - oh no, it's all - just this morning there was a lot of fussing and people - you know, the regular old thing - this person trying to take advantage of this, that and the other thing, and I happened to come out on top of a

H: (Laughs)

H.M.Jr: No, but I mean this - you know Washington. I don't

H:

H.M.Jr: But there's always - not what's best for the Government but what's best for the individual head of some agency.

H: Well, there's a lot of that and there always has been and there always will be.

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H.M.Jr: I suppose so.

H: All right. Well, Henry, here's Burgess - and I'll call you back.

H.M.Jr: Right.

Burgess: Hello, sir.

H.M.Jr: Hello, Burgess.

B: They liked the allotment. As a matter of fact, it's just what they were expecting, what they were estimating on Monday (laughs).

H.M.Jr: On Monday?

B: Yes.

H.M.Jr: How do you mean?

B: So after wandering this way and that, they come back to the original figure.

H.M.Jr: The 15?

B: Yes

H.M.Jr: And letting the fellow - ah - in - ah - up to one thousand.

B: Well, I'm very glad you did that myself, because I've had a little conscience about that. And I've had, since talking to you last, a number of come-backs on the small subscriptions, where they couldn't take savings bonds because they had to have a coupon or -

H.M.Jr: Yes

B: - trust indenture -

H.M.Jr: Yes

B: - for the benefit of a minor and that sort of thing.

H.M.Jr: Yes, but this means that the fellow who subscribed to \$6600, roughly -

B: Yes

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H.M.Jr: - will get a thousand dollars.

B: Well, that's all right.

H.M.Jr: What?

B: I think that's all right.

H.M.Jr: Don't you think so?

B: Sure, that's all right, absolutely.

H.M.Jr: And - I don't know whether they gave you the figures, but this amounted to a little over three billion dollars.

B: Ah-ha.

H.M.Jr: And if we went up to five thousand, it would have been over seventy million dollars.

B: Is that so?

H.M.Jr: Yes

B: Ah-ha.

H.M.Jr: They blamed the -

B: - thousand's right, that's the right figure.

H.M.Jr: Well, if we'd have taken the five thousand, it would have meant that they would owe us somewhere - seventy, seventy-five million dollars.

B: Well, I don't think you could after having announced that you're -

H.M.Jr: No

B: - not giving a preferred

H.M.Jr: No, but if you talk to the President - I mean there's the - that's the explanation.

B: Yes, yes.

H.M.Jr: But the other thing amounted to about three billion two,

- 5 -

giving everybody a thousand dollars.

B: Well, that's very fair, I think, and the right thing to do.

H.M.Jr: Yes, I think so.

B: I was very much pleased about it.

H.M.Jr: I think so.

B: Now, your market today is all right. It's just under 101, and there are very few bonds available.

H.M.Jr: Yes

B: I hesitate a little bit to be buying today because there are some - some of these free riders who want to get out and I hate to give them a good price to get out on.

H.M.Jr: Oh

B: If it - if it really starts slipping a little, I think it's all right. They were going to have one problem here -

H.M.Jr: Yes

B: - I was just talking with George about.

H.M.Jr: Yes

B: There are going to be times when you want to buy for investment when the System ought not to be buying with you, I think.

H.M.Jr: Yes

B: And we're going to have to watch for those times, I think, and

H.M.Jr: Well, when that time comes let me know.

B: All right. We -

H.M.Jr: Ah - I tell you, Burgess, with this thing abroad, I'd

- 6 -

just as leave I continue today and tomorrow - anything under par, I'd like to buy bonds.

- B: All right.
- H.M.Jr: Now, if you people don't want to join me, that's all right.
- B: Well, we'll do it for your account then.
- H.M.Jr: What's that?
- B: We'll do it for your account this time.
- H.M.Jr: Well, for today and tomorrow, you do it for me.
- B: All right, unless it gets to be - if it gets to really slide, then we'd come in on our principal.
- H.M.Jr: If you get to what?
- B: If it becomes a question of control of a - of a market really slipping under us, -
- H.M.Jr: Well -
- B: - then we'd go in and help you, but otherwise we'll buy it for you.
- H.M.Jr: We have unlimited funds to invest for Postal Savings.
- B: Yes, I know and if - every time we go in, we - we limit the amount you can get, of course.
- H.M.Jr: No, I - I'd take - well, if - there won't be anything like a hundred million dollars, but I'll take any amount - I'll give it this way, for today and tomorrow twenty-five million dollars for the new bonds at under par.
- B: O.K.
- H.M.Jr: Twenty-five million today and tomorrow.
- B: Very good.
- H.M.Jr: New bonds under par. And that's -
- B: Yep.

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H.M.Jr: And you people, as I take it, want to stay out.
B: All right.
H.M.Jr: Is that right - is that your wish?
B: That's just right.
H.M.Jr: For today and tomorrow.
B: Yes, yes, under 101.
H.M.Jr: Yes
B: Yes
H.M.Jr: O.K.
B: I think that's fine.
H.M.Jr: Yes. Thank you.
B: And I'll pass word on to Marriner so he'll understand it.
H.M.Jr: All right.
B: First rate.
H.M.Jr: But tell Marriner, please -
B: Yes, I will.
H.M.Jr: - that this was your suggestion.
B: Otherwise, we'll have a war.
H.M.Jr: No, please tell him this was your suggestion.
B: Oh yes, of course I will.
H.M.Jr: Not mine, because -
B: Yes
H.M.Jr: Right?
B: (Laughs)

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H.M.Jr: No, I mean I - I'm serious about that.

B: Well, I am too. I think that's - that's of course right, yes.

H.M.Jr: And if there's any - if he - if you have changed, let me know.

B: All right, if he doesn't agree to that, I'll let you know.

H.M.Jr: Thank you.

B: Very good.

December 11, 1936
11:11 A.M.

Operator: Go ahead.

H.M.Jr: Hello.

Burton K.
Wheeler: Hello, Mr. Secretary.

H.M.Jr: Henry to you.

W: How are you?

H.M.Jr: Fine.

W: How are you feeling?

H.M.Jr: Oh, swell.

W: Say, Henry?

H.M.Jr: Yes

W: You stood the election all right?

H.M.Jr: Oh yes.

W: Why didn't you come out to Montana this summer,
though, and get acclimated out there?

H.M.Jr: Well, if I'd had a little more sense, I would have.

W: I see. Say, Henry? You remember I took up with
you about your friend Crowley.

H.M.Jr: Yes

W: And I wrote a letter to - to - ah - the Comptroller
and asked him to - you see, I got some complaints
that came in to me, and I took them up with the
Comptroller and the Comptroller said that he'd - I'd
have to take them up with you and I took the matter
up with you. At any rate, some people suggested to
me not to take the matter up until after election
anyway.

H.M.Jr: Yes

W: I didn't take it up.

H.M.Jr: Yes, sir.

W: And he announced that he was going to resign after election. What are you going to do about that bird? Are you going to keep him there?

H.M.Jr: Well - ah - it's - if you're in this neighborhood any time I'd love to talk to you about it.

W: I see. Well, I - just frankly, none of my business, but I - I think you'll - unless - unless something happens to that fellow - (clicking sound)

H.M.Jr: Hello?

W: - with him, that's all.

H.M.Jr: I didn't - we were cut off, I didn't hear you.

W: I say unless you do get rid of him I think - (clicking sound) Hello?

H.M.Jr: Yes

W: Unless you do get rid of him, I'll have to do something about it, I think.

H.M.Jr: Well, Burt, I'm going to be perfectly frank with you. I completely washed my hands of it.

W: I see.

H.M.Jr: Now, very definitely.

W: I see. Well -

H.M.Jr: And - I - I very definitely washed my hands of it.

W: Yes. Well, I think you did it wisely.

H.M.Jr: And, as I say, if you're ever down here I'll tell you just exactly what I did do.

W: Yes, all right.

H.M.Jr: And - ah - I don't - I don't - I - I never have fooled around with that kind of stuff.

W: Yes. All right, I'll drop in there some day.
I mean it doesn't mean anything to me personally.

H.M.Jr: No, but I - I very definitely have washed my
hands of the whole matter.

W: It doesn't mean a thing to me personally one way
or the other. I mean it's just a question - in
my judgment I think it's a pretty bad situation
and I feel -

H.M.Jr: I appreciate your calling me and, as I say, if
you'll come down you'll find me practice my -

W: Yes - ah -

H.M.Jr: I mean it's - I never have and I never will hide
such a thing.

W: Yes. All right, Henry.

H.M.Jr: And - ah - life's too short.

W: Sure, absolutely.

H.M.Jr: But you know just how I feel.

W: Well, I - I - I thought you would.

H.M.Jr: What?

W: I felt sure you would.

H.M.Jr: Yes

W: Yes

H.M.Jr: No, but this is (clicking sound) What?

W: And I - I think there's some stuff, Henry, some -
a fellow brought me - just between us, brought me
some stuff the other - showed me some stuff the
other day about the R.F.C. and I told him he ought
to show it to you and he ought to show it to the
Chief. He said he was going to show it to the
Chief.

H.M.Jr: Well, that's something that's - that's something

I don't know anything about.

W: Yes. I said - told him he ought to show it to you too.

H.M.Jr: Yes

W: At any rate, I just wanted to tell you about it.

H.M.Jr: Well, I - I - I mean - I mean the R.F.C., I - I don't know anything about that. But the other thing, at the time I - I say, "It's my position."

W: Yes

H.M.Jr: And then I said, "All right, then I've washed my hands of it."

W: Yes

H.M.Jr: And the way I feel is that people who are in a position of great financial trust -

W: Yes

H.M.Jr: - they've got to be better than Caesar's wife.

W: Absolutely, that's right.

H.M.Jr: And - there - it's the only way you can keep a democracy.

W: Sure, positively.

H.M.Jr: What?

W: Absolutely.

H.M.Jr: And I feel that way very strongly.

W: Yes. Well, I feel that way about it. I thought I -

H.M.Jr: What?

W: I - I felt that way about it myself. It doesn't mean a thing to me. I - I mean he doesn't mean anything to me one way or another personally.

H.M.Jr: Yes

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W: Excepting that I think it's unfortunate that -

H.M.Jr: Well, Burt, if you're ever around here, drop in; I'd love to have a chin. And if I go up on the Hill, I'll call on you.

W: All right, thanks.

H.M.Jr: Goodbye.

December 11, 1936
11:43 A.M.

H.M.Jr: Moore, State Department, please.

Operator: All right.

H.M.Jr: Hello?

Operator: Mr. Moore. Go ahead.

H.M.Jr: Hello?

R. Walton
Moore: Good morning, Mr. Secretary.

H.M.Jr: How are you, Judge?

M: How are you, sir?

H.M.Jr: Sorry to have missed you last night, but we had your very nice sister with us.

M: My sister had a delightful time. I was sorry I couldn't get there, but I'm about at the end of my string now when the -

H.M.Jr: Well -

M: comes.

H.M.Jr: - take care of yourself. Ah - Judge, without - I don't want to be - I'd like to say something sort of unofficially, see?

M: All right.

H.M.Jr: I just read this cable that came in from Bullitt about his lunch with Blum and Auriol. Hello?

M: Yes

H.M.Jr: And I - I - I'm afraid that - after all, the last word was that we should wait until the President got back. And I think that Bullitt's going to get us in a position there that - that isn't going to be very tenable, you know?

M: Ah-ha.

- 2 -

H.M.Jr: I mean the thought that they threw out was that the Europeans would combine in a - in a joint representation on debts, you see?

M: Yes

H.M.Jr: Well, the first thing we know, we - we - we might be in a rather poor trading position.

M: Yes

H.M.Jr: And I should think that before he went much further that you'd want to know just how the President felt about this.

M: Well, I agree with you exactly. Now, what I have in mind is that the President is the man to communicate with Bullitt.

H.M.Jr: I see.

M: And I - I think it would be very well for you to, as quickly as the President gets back here - to suggest to him that he caution Bullitt.

H.M.Jr: Now, listen -

M: Yes

H.M.Jr: - (laughing) he's your man, not my man.

M: What?

H.M.Jr: I'm talking to you as one friend to another.

M: I know, but you're the - you're the debt man.

H.M.Jr: Well, I get it after they've collected it, -

M: Huh?

H.M.Jr: - if, when, and so and so.

M: Well you've got to collect it.

H.M.Jr: Well -

M: Well, I tell you -

- 3 -

H.M.Jr: I tell you what I think. After the President comes back, I'd like to - if you - if it's agreeable to you, I would be delighted to see him with you.

M: All right.

H.M.Jr: How's that?

M: It's entirely - entirely all right.

H.M.Jr: But I'm talking now just off -

M: Yes, I know, and I won't repeat you at all.

H.M.Jr: No, but what I'm saying now - I mean off the record because -

M: Yes. You know - you know the relations of Bullitt to the President.

H.M.Jr: I think I do.

M: And - extremely close. And he's in correspondence with the President and the President ought to caution him. Now, I can tell you this, though, off the record.

H.M.Jr: Yes

M: The last thing that I told Bullitt before he left here - I'm very intimate with him - was to go slow, not reach any conclusions except after most careful thought.

H.M.Jr: Yes

M: And that - the President - something of that sort ought to be told him by the President generally and then specifically on the debt question.

H.M.Jr: Well, this whole conversation's off the record, but I think that Bullitt - I mean when they suggested that they were going to talk to Van Zeeland, see -

M: Yes

H.M.Jr: - in Belgium, about combining with France on the

- 4 -

debt thing, Bullitt should have run up a red light and told them, "Go easy, now," - see?

M: I tell you, I can tell you this. I had a letter from Bullitt just three or four days ago -

H.M.Jr: Yes

M: - in which he was expressing the - exactly the view that you entertain. In that letter he said that - that we ought not to assume there's anything hopeful in anything that they say, that their talk doesn't amount to much.

H.M.Jr: Yes

M: Got to wait until they offer something concrete.

H.M.Jr: Yes

M: And the President has that letter - will have it when he gets back here; I sent it over to him.

H.M.Jr: I see.

M: And that'll afford a background for the talk we'll have with him.

H.M.Jr: O.K.

M: All right, sir.

H.M.Jr: Thank you.

December 11, 1936
12:02 P.M.

H.M.Jr: Hello.

Operator: Governor Harrison.

H: Hello, Henry?

H.M.Jr: Yes, George.

H: About the Swiss cable.

H.M.Jr: About the Swiss cable.

H: They - they really ask two questions.

H.M.Jr: Yes

H: First, whether we will earmark.

H.M.Jr: Yes

H: And of course, under outstanding understandings and agreements, we would.

H.M.Jr: Yes

H: And I think we told them that in the cable of yesterday, -

H.M.Jr: Oh

H: - which was sent down to you last night. On the second question, we said that we would have to delay a reply until today or until we heard from you.

H.M.Jr: Yes

H: Now, if I were you I wouldn't do it.

H.M.Jr: You mean let - ah - what they're asking us to do, as I understand it, is to -

H: Give them gold here for gold earmarked abroad.

H.M.Jr: Yes -

H: And I don't see any reason why you should.

- 2 -

H.M.Jr: No. Well, that - that concurs with the way we feel here.

H: Now, in telling them, however, that you won't do it -

H.M.Jr: Yes

H: - I think you might make a decent gesture, if you want to.

H.M.Jr: What would that be?

H: And say that, "Of course, if you're in a hurry for dollars at any time, we'll buy gold on board ship consigned to us."

H.M.Jr: Ah-ha.

H: See what I mean? You've done that before.

H.M.Jr: Yes.

H: In other words, what they want to do is to build up a gold supply here in case they need lot of dollars.

H.M.Jr: I see. I tell you what I'll do. I'll tell Lochhead to prepare an answer, and then confer with Knoke?

H: Yes

H.M.Jr: And let the two of them work it out together.

H: I think that's the best way.

H.M.Jr: Lochhead just came in and I'll tell him about this.

H: You might suggest that one question. I talked to Knoke about it and he said he didn't think they would need dollars in that much of a hurry. But nevertheless, if they know that they can do it -

H.M.Jr: You think it's a nice gesture.

H: - then they might not feel that they've got to send gold over here to have it available for dollars.

- 3 -

H.M.Jr: All right.

H: But otherwise -

H.M.Jr: I - I - I'll take your suggestion.

H: All right.

H.M.Jr: And I'll let - I'll let Lochhead work it out with Knoke. Is that all right?

H: That's first rate.

H.M.Jr: Thank you.

H: Fine. Goodbye.

December 11, 1936
12:56 P.M.

Operator: Cochran.
H.M.Jr: Hello.
Operator: Go ahead.
H.M.
Cochran: Hello?
H.M.Jr: Yes, Cochran.
C: Hello, Mr. Morgenthau.
H.M.Jr: How are you?
C: Yes. This is quick service.
H.M.Jr: Go ahead.
C: I wanted to let you know in regard to the matter
which we spoke about the other day.
H.M.Jr: Yes
C: That our friend here is quite busy on all that.
He saw the cablegram which went in yesterday
probably.
H.M.Jr: About his having lunch with two men?
C: Yes, that's it.
H.M.Jr: I saw that.
C: Yes. Well, he anticipates that your neighbor there
is going to take this thing up as soon as he comes
back.
H.M.Jr: Yes
C: So he's postponing a decision as to whether he
shall go on a tour over here for a holiday or
come home on that business.
H.M.Jr: Oh
C: See?

- 2 -

H.M.Jr: I get you.

C: All right, fine.

H.M.Jr: Is that - I mean he - he may come back over here?

C: Yes, yes.

H.M.Jr: Ah-ha.

C: May come back there even before Christmas.

H.M.Jr: Well -

C: Get in touch with - with your neighbor.

H.M.Jr: Well, on this side, you'd be interested - ah - the acting man over here, see? -

C: Yes

H.M.Jr: - and myself are on the most friendly terms.

C: Well, that - that's fine.

H.M.Jr: And we get along beautifully.

C: Yes

H.M.Jr: And he - he doesn't - he was very much disturbed this morning.

C: Beg pardon?

H.M.Jr: He was very much disturbed.

C: Yes

H.M.Jr: But nothing can happen until my neighbor comes -

C: - I mean it's all -

H.M.Jr: What?

C: If you saw it, I don't need to tell you that.

H.M.Jr: What's that?

- 3 -

C: I say the thing yesterday had a lot of mere suggestions -

H.M.Jr: Oh - oh, he's - they - they're getting into - they're getting into a situation that's impossible.

C: Absolutely, yes. And - well - I mean I don't need to say anything more, but I just wanted you to know this.

H.M.Jr: I understand.

C: - your plans accordingly.

H.M.Jr: Well, I appreciate that. Our bond issue went very well.

C: I saw that. Heavens, to get money at that rate -

H.M.Jr: Yes.

C:

H.M.Jr: Yes. It was seven times oversubscribed.

C: Seven times over?

H.M.Jr: Yes

C: That's a

H.M.Jr: The allotment was 15 percent.

C: Yes

H.M.Jr: 15 percent.

C: Yes

H.M.Jr: And seven times oversubscribed. As a matter of fact, we took - we actually had subscriptions for five billion, two hundred million.

C: Is that so?

H.M.Jr: Yes

C: I was awfully glad to get those publications which you sent me and especially that Republico -

- 4 -

H.M.Jr: Yes

C: - affair, which has been picked up very eagerly over here by my friends.

H.M.Jr: I thought that something like that is - when you have something, it's useful for you to have something to give them.

C: Oh yes, yes, I was very happy - and if you have half a dozen copies extra, I could still use them.

H.M.Jr: How many?

C: Oh, six or eight.

H.M.Jr: Sure.

C: All right.

H.M.Jr: I - I - I'll give you nine.

C: Fine, fine.

H.M.Jr: All right. I'll see that they go right away.

C: I sent off in the mail today my story of the negotiations here.

H.M.Jr: Oh really?

C: It's real ancient history now, but still I finally got it worked up.

H.M.Jr: Oh yes, that'll be very welcome.

C: I've broken it at the third of October, and then will make a second one if you want it -

H.M.Jr: Fine.

C: - on - on the - the voyages around on the technical operations.

H.M.Jr: Yes

C: I mean make the one the devaluation, the second one the cooperation.

- 5 -

H.M.Jr: All right.

C: So I'll get that off in a few days.

H.M.Jr: All right.

C: I'm going to Basel this week-end.

H.M.Jr: Good.

C: I'll go down tomorrow night and I'll be back Tuesday.

H.M.Jr: All right.

C: Fine.

H.M.Jr: Thank you.

C: Good night.

H.M.Jr: Good night.

U

GRAY

Geneva (Part Air)

Dated December 11, 1936

Rec'd 9:15 a.m. 14th

Secretary of State

Washington

511, December 11, 11 p.m.

Consulate's 479, November 24, 4 p.m.

The Secretariat has published an advance extract from the Financial Committee's report on its current session comprising that portion of the report which deals with the last Assembly's discussions on monetary questions. The extract reads as follows: "The Committee has considered the argument advanced by the representatives of certain states in the discussions of the Second Committee of the Assembly that a settlement of foreign debts was a necessary preliminary to a de-control of exchange. In fact, the weight of the service of foreign debts has been considerably reduced in recent years by periodical arrangements and by the devaluation of the currencies of a number of creditor states. But many of the existing arrangements have been made for a duration of not more than twelve months. If there are cases where monetary authorities are prevented from taking measures to liberate their exchanges because of the consequent uncertainty as to the amount that may have to be transferred for debt service, then it may well be to the advantage of debtor

W -2- #511, Dec. 11, 11 p.m. from Geneva

debtor and creditor alike were arrangements of somewhat longer duration to be concluded.

The Committee does not suggest that such a solution would be appropriate to all classes of debts; it might be unsuited to frozen commercial credits which, as trade improves, should be automatically reabsorbed.

Were arrangements of a longer duration reached it is important that the debtor states should not forget the ultimate object of taking measures to relax exchange control. There would indeed be an additional inducement to creditors to enter into such agreements, if it were the case that, after the conclusion of such agreements, debtors would allow greater freedom of trade by relaxing currency restrictions.

The Committee is fully aware that the suggestions it has made above relate to but one item in the general complex of problems that remain for solution. The more general issues have already been dealt with in its reports and those of the Economic Committee which were laid before the Assembly in 1955 and 1956. Its immediate object is confined to indicating a single problem on which progress might possibly be achieved in the policy initiated by the joint declaration in September, last.

On the broader question, the Committee would add two observations only. First, although it may be advisable to conclude longer term debt arrangements, when

present

U -3- #511, Dec. 11, 11 p.m. from Geneva

present arrangements are shown to be an obstacle to the removal of exchange restrictions, it is clear that the most effective action to this end would be a general modification--especially by creditor states--of the present policy of commercial restrictions through quotas and prohibitive tariffs. Secondly, while exchange control may in certain circumstances be temporarily unavoidable as a defense against capital flight, its consequences in hampering the normal functioning and growth of trade become seriously aggravated when it is employed as an instrument of commercial policy instead of tariffs or commercial treaties. So long as exchange restrictions in any form are in force, the credit necessary for the conduct of international trade will be restricted; for no creditor, however solvent his foreign debtor may be, can rely on being paid. At the present moment, however, the lack of credit, where lack there is, is due largely to political anxiety. The provision of adequate credit facilities is therefore rather a political than a financial problem".

In discussing with Loveday and Stegani what took place on this subject in the Committee they told me that while no individual statements were made which would indicate government positions of particular significance they regard the report which carefully expresses the general view as of definite interest.

GILBERT

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

December 11, 1936.

The Acting Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses five copies of paraphrase of telegram No. 1225 of December 10, 1936, from the American Embassy, Paris, in which Ambassador Bullitt reports a conversation which he had with the French Minister of Finance December 10, 1936, regarding the French debt to the United States.

Enclosures:
5 copies, paraphrase of
No. 1225, December 10, 1936,
from Paris.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 10, 1936, 3 p.m.

NO.: 1235.

Today I had lunch with Blum and Auriol. The latter set forth his ideas concerning the French debt to the United States. Having carefully examined the figures, he said, he had decided the amounts already defaulted and the amounts due under the debt agreement were so great that the balance of payments would be gravely upset if they were paid at the present time. It was also certain that if he and the Premier should attempt to pay the defaulted arrears and the installment due and payable on December 15 they would be voted against by the Chamber of Deputies and the Senate.

He said, however, and Blum nodded assent, that he and Blum were extremely anxious to work out a debt settlement and had decided that they would make on December 15 a formal announcement indicating this desire.

He continued that he could see no basis of settlement unless the European debtors should lump their obligations together and make a joint offer to the United States. He hoped he could get the money for the payments to the United States by several different methods, of which the first would be a tax on exports to the United States, and the second would be an extra interest charge on any loans made

to

- 3 -

to European countries, but he said that it would be possible to devise many more methods which would not upset the balance of payments.

Beyond stating that we did not relish the idea of putting all our debtors in one boat I expressed no opinion as to Auriol's general project. I asked him to please keep in mind that the Congress of the United States would entirely control any new debt settlement and that at the present time the Congress is opposed to any alteration of the present French-American debt agreement.

Auriol said that he is soon going to consult Van Zeeland regarding the ideas he has in mind as Brussels has informed him that Van Zeeland is working on a project similar to his own.

BULLITT.

EA:FL:LWW

December 11, 1936
11:03 A.M.

H.M.Jr: Hello.

Operator: Governor Harrison.

H.M.Jr: Hello?

Harrison: Hello, Henry.

H.M.Jr: How are you?

Harrison: Well, I'm - I'm getting along, thank you.

H.M.Jr: Good.

Harrison: Much better. My voice is still erratic, but otherwise I'm all right.

H.M.Jr: Well, are you - but only your voice, though?

H: Yes, only my voice. (Laughs)

H.M.Jr: What?

H: That's a great handicap to me, who likes to talk.

H.M.Jr: Well - George, have you seen Cable #9 from Bern, December 10? On this question of gold, 300 million gold, Swiss francs?

H: From Bern?

H.M.Jr: Yes

H: Well, it just came across my desk now.

H.M.Jr: Have you had time to think about it?

H: No, I have not. I was going to send to Knoke what it - what it meant.

H.M.Jr: Would you mind doing it, then calling me back?

H: Yes sir, I'll do that. I just - I just had it a few minutes ago, looked at it, made a note to call Knoke, but I'm talking with Burgess at the moment and I haven't had a chance to see him.

- 2 -

H.M.Jr: Well, supposing you call him and as soon as you've got an idea give me a ring.

H: All right, I'll do that.

H.M.Jr: How does Burgess like my 15 percent?

H: Like your what?

H.M.Jr: The allotment. You say Burgess is there with you?

H: (Talks to Burgess) He says it's fine. He wants to talk to you about it.

H.M.Jr: Right now?

H: Well, if you've got a minute.

H.M.Jr: Sure, I got nothing but time.

H: (Laughs) How are you feeling?

H.M.Jr: Oh, I'm in a grand humor. Ah - I'm not going to let these Washingtonians get me, if you know what I mean.

H: Well, is there any -

H.M.Jr: I mean - oh no, it's all - just this morning there was a lot of fussing and people - you know, the regular old thing - this person trying to take advantage of this, that and the other thing, and I happened to come out on top of a

H: (Laughs)

H.M.Jr: No, but I mean this - you know Washington. I don't

H:

H.M.Jr: But there's always - not what's best for the Government but what's best for the individual head of some agency.

H: Well, there's a lot of that and there always has been and there always will be.

- 3 -

H.M.Jr: I suppose so.

H: All right. Well, Henry, here's Burgess - and I'll call you back.

H.M.Jr: Right.

Burgess: Hello, sir.

H:M.Jr: Hello, Burgess.

B: They liked the allotment. As a matter of fact, it's just what they were expecting, what they were estimating on Monday (laughs).

H.M.Jr: On Monday?

B: Yes.

H.M.Jr: How do you mean?

B: So after wandering this way and that, they come back to the original figure.

H.M.Jr: The 15?

B: Yes

H.M.Jr: And letting the fellow - ah - in - ah - up to one thousand.

B: Well, I'm very glad you did that myself, because I've had a little conscience about that. And I've had, since talking to you last, a number of come-backs on the small subscriptions, where they couldn't take savings bonds because they had to have a coupon or -

H.M.Jr: Yes

B: - trust indenture -

H.M.Jr: Yes

B: - for the benefit of a minor and that sort of thing.

H.M.Jr: Yes, but this means that the fellow ^{who} subscribed to \$6600, roughly -

B: Yes

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H.M.Jr: - will get a thousand dollars.

B: Well, that's all right.

H.M.Jr: What?

B: I think that's all right.

H.M.Jr: Don't you think so?

B: Sure, that's all right, absolutely.

H.M.Jr: And - I don't know whether they gave you the figures, but this amounted to a little over three billion dollars.

B: Ah-ha.

H.M.Jr: And if we went up to five thousand, it would have been over seventy million dollars.

B: Is that so?

H.M.Jr: Yes

B: Ah-ha.

H.M.Jr: They blamed the -

B: - thousand's right, that's the right figure.

H.M.Jr: Well, if we'd have taken the five thousand, it would have meant that they would owe us somewhere - seventy, seventy-five million dollars.

B: Well, I don't think you could after having announced that you're -

H.M.Jr: No

B: - not giving a preferred

H.M.Jr: No, but if you talk to the President - I mean there's the - that's the explanation.

B: Yes, yes.

H.M.Jr: But the other thing amounted to about three billion two,

- 5 -

giving everybody a thousand dollars.

B: Well, that's very fair, I think, and the right thing to do.

H.M.Jr: Yes, I think so.

B: I was very much pleased about it.

H.M.Jr: I think so.

B: Now, your market today is all right. It's just under 101, and there are very few bonds available.

H.M.Jr: Yes

B: I hesitate a little bit to be buying today because there are some - some of these free riders who want to get out and I hate to give them a good price to get out on.

H.M.Jr: Oh

B: If it - if it really starts slipping a little, I think it's all right. They were going to have one problem here -

H.M.Jr: Yes

B: - I was just talking with George about.

H.M.Jr: Yes

B: There are going to be times when you want to buy for investment when the System ought not to be buying with you, I think.

H.M.Jr: Yes

B: And we're going to have to watch for those times, I think, and

H.M.Jr: Well, when that time comes let me know.

B: All right. We -

H.M.Jr: Ah - I tell you, Burgess, with this thing abroad, I'd

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just as leave I continue today and tomorrow - anything under par, I'd like to buy bonds.

B: All right.

H.M.Jr: Now, if you people don't want to join me, that's all right.

B: Well, we'll do it for your account then.

H.M.Jr: What's that?

B: We'll do it for your account this time.

H.M.Jr: Well, for today and tomorrow, you do it for me.

B: All right, unless it gets to be - if it gets to really slide, then we'd come in on our principal.

H.M.Jr: If you get to what?

B: If it becomes a question of control of a - of a market really slipping under us, -

H.M.Jr: Well -

B: - then we'd go in and help you, but otherwise we'll buy it for you.

H.M.Jr: We have unlimited funds to invest for Postal Savings.

B: Yes, I know and if - every time we go in, we - we limit the amount you can get, of course.

H.M.Jr: No, I - I'd take - well, if - there won't be anything like a hundred million dollars, but I'll take any amount - I'll give it this way, for today and tomorrow twenty-five million dollars for the new bonds at under par.

B: O.K.

H.M.Jr: Twenty-five million today and tomorrow.

B: Very good.

H.M.Jr: New bonds under par. And that's -

B: Yep.

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H.M.Jr: And you people, as I take it, want to stay out.

B: All right.

H.M.Jr: Is that right - is that your wish?

B: That's just right.

H.M.Jr: For today and tomorrow.

B: Yes, yes, under 101.

H.M.Jr: Yes

B: Yes

H.M.Jr: O.K.

B: I think that's fine.

H.M.Jr: Yes. Thank you.

B: And I'll pass word on to Marriner so he'll understand it.

H.M.Jr: All right.

B: First rate.

H.M.Jr: But tell Marriner, please -

B: Yes, I will.

H.M.Jr: - that this was your suggestion.

B: Otherwise, we'll have a war.

H.M.Jr: No, please tell him this was your suggestion.

B: Oh yes, of course I will.

H.M.Jr: Not mine, because -

B: Yes

H.M.Jr: Right?

B: (Laughs)

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H.M.Jr: No, I mean I - I'm serious about that.

B: Well, I am too. I think that's - that's of course right, yes.

H.M.Jr: And if there's any - if he - if you have changed, let me know.

B: All right, if he doesn't agree to that, I'll let you know.

H.M.Jr: Thank you.

B: Very good.

December 18, 1936

For the Secretary:

Mr. Eccles called me on the telephone late yesterday afternoon to verify the change in time of meeting of the lending agency heads from ~~Tuesday~~ Wednesday to Tuesday, and to say that he probably would be unable to attend. He asked why he was wanted at the lending committee meeting, and I explained that it was because of the industrial loans that the reserve banks make.

He went on then to discuss (a) the question of some reorganization of the banking agencies of the Federal Government, and (b) sterilization of future acquisitions of gold. ✓

With respect to the first matter he reviewed some of the same ground that he had covered earlier in the day in the telephone conversation with the Secretary, explaining that all he would be able to do at the Monday meeting would be bring forward some minor amendments to the Reserve Act, not being able at all to discuss ideas which he has in mind for the elimination of the Office of the Comptroller of the Currency and changes in the FDIC set-up because of the presence of O'Connor and Crowley of the agencies involved in the plan. He said that the President had requested that he and the Secretary study reorganization possibilities. The President could have asked Crowley to make such a study, he could have asked O'Connor to make such a study, but he didn't do either of those things, he asked Eccles and Morgenthau to make it.

Mr. Eccles went on to say that he thinks it vitally important that an effort be made to set the banking system up on a sound basis. I suggested that he present his plan to Taylor and me on Saturday afternoon or Sunday, and be ready to bring it up Monday for discussion, but he thought it could not be perfected in that time. In any event he is unwilling to talk about it with O'Connor present. I asked him if he thought we could get any such plan through the Congress, and his reply was that we ought at least to try. He continued that he is not interested in a routine administrative job and unless he can get some real constructive things accomplished he will be inclined to yield to his private interests which are pressing for his return to Utah. He is ready to quit unless there is some chance for getting his program adopted.

He asked me if I did not agree that someone other than the agencies interested should study out a program for consolidation of banking agencies. I replied that perhaps the most satisfactory thing would be to have some agency outside the Government similar to the President's Committee on Administrative Organization do the job. He thought they were not sufficiently familiar with the situation. I then told him that of course the Federal Reserve was also an interested agency, and for that matter the Treasury, and perhaps it was as improper for him and the Secretary to do this as for the others to be included. His reply was that the President trusts him and the Secretary and had asked them to do it.

To close that discussion I told him more or less facetiously

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that when he and Ransom and Taylor and I get together I shall put forward a plan under which the Treasury would take over the Federal Reserve, and that I would have no hesitancy about doing it in his presence. As a matter of fact, I said I thought I might make such a proposal on Monday to make it easier for him to make a counter proposal that the Federal Reserve take over whatever it is they want. Of course he knew I had no such intention.

Turning then to the matter of sterilization of gold, Mr. Eccles referred to the memorandum which he had given the Secretary earlier in the day, and asked if I had seen it. I told him that while I knew such a memorandum had been presented, I had not read it. He then discussed what is probably contained in the memorandum.

Mr. Eccles said that he could not agree to the Treasury proposal unless it were definitely understood that its operation would be automatic and continuous and only abandoned after their approval had been secured. I told him that it seemed to me everyone had been agreed on Tuesday that it would be automatic and continuous, but that the Treasury was still on a twenty four hour basis and that there could be no commitment to indefinite pursuit of any particular idea. He said that the present proposal was more fundamental than a good many things and was something to which the twenty-four hour policy could not attach. It runs too deep for that.

The Congress has given the Federal Reserve the duty of regulating the domestic economy. It has not used up the powers that it has. How can the Treasury explain to the Congress and the public an increase in the public debt to do the job that was given the Federal Reserve to do? In any event what is the need for hurry, he said. The immediate problem of the Treasury --- unfreezing the gold in the working balance of the Stabilization Fund --- can be taken care of as heretofore, by depositing gold certificates. True enough, that further increases excess reserves, but \$2 billion 500 million is no more alarming than \$2 billion 400 million.

I suggested that the Treasury was advancing this suggestion in the belief that it would be helpful to the Federal Reserve and pleasing to them. He said yes, but how can the Federal Reserve ask us to help when they have not used all of their own powers. It is a question of timing. Why not wait until they have raised reserve requirements, and then it might not be necessary. I suggested that if it were necessary, there would be the same objection that they had not used up all their powers in that they had not sold their portfolio. He replied that that was different, and that they would not object to our helping out at that stage. I suggested that they might ask Congress for additional power to raise reserves, but he said not. I then asked if he planned to ask for the right to issue debentures and borrow direct from the market. He

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said that they would probably seek Treasury agreement for asking Congress for that authority. In that event, I pointed out, there never would come a time when the Reserve System had used up all its powers and so there never would come a time when they was any necessity to ask the help of the Treasury in offsetting gold imports. With that he agreed, and said that it was a central banking function anyway.

He wondered how far the Treasury would go in increasing debt to offset reserve increase. Suppose it is necessary to borrow two or three billion for that purpose, and suppose the short term interest rate rises so that it is costing us a good deal, and suppose the gold inflow increases even so, will the Treasury at some future date abandon its program and dump the whole responsibility for domestic credit conditions back on the Federal Reserve? Why should the Federal Reserve ask the Treasury to do something it can do itself, especially when it has been given the duty and responsibility for doing it? They should either ask Congress to deal with it, By God, through the issuance of debentures if necessary, or the whole duty and responsibility should be transferred to the Treasury. Power is bound to move in one direction or the other. It is all right to talk about cooperation and concord, but some day in all probability the Federal Reserve will want to tighten money and credit and the Treasury will not want to, or vice versa.

The Treasury, he said, has been given authority to buy gold to keep the exchanges stable and has no responsibility for excess reserves at all, or for the domestic economy. The

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proposal now under consideration has to do wholly with a function of central banking. The public and the Congress will not understand or approve. At least wait until the Stabilization Fund has been renewed, so as not to complicate that issue.

Mr. Eccles said that he realized the Treasury could do this without asking them, but that in that case it would be done without their approval. He asked why we didn't do the same thing with silver, at which, with merry laughter I told him not to confuse the issue with that red herring.

I told Mr. Eccles that last Tuesday I had written a memorandum to myself predicting that he would object to the proposal for the very reasons he is now advancing. He said that proved to him he is right, because that was evidence that I would take the same position if I were he. I told him not at all, but rather it was because I knew his mind so well, and the attitudes of central bankers generally.

Our whole conversation was pleasant, and there seemed no bitterness or over-critical attitude on his part toward the Treasury --- rather were we attempting to think the whole thing through by making points back and forth on both sides.

Upm

On one thing I guessed wrong. I thought Eccles would favor our proposal as a help in reducing the flow of foreign funds to this country. Instead he thinks it would hinder the adoption of what he regards as the only sound solution ---- some form of taxation of foreign funds which come here.

December 12, 1936

For the Secretary:

As a result of the Eccles memorandum of Thursday, I want to go on record:

1. The Treasury should not consent to his insistence that the proposal be automatic and continuous and only terminable or changed with approval of the Federal Reserve Board.
2. The Treasury should not consent to his insistence that we agree now that when gold begins to flow out we will buy bills to the amount of sterilized gold and to that amount only. (When gold goes out it may be a very bad time to buy bills and put more money in the market.)
3. I am strengthened in my belief that ~~if~~ and when we put our proposal into effect, we do it directly and not through the Stabilization Fund. For two reasons:
 - (a) It ^{will} have less of the character of central banking.
 - (b) It may look a little far-fetched to some for the Stabilization fund to buy newly-mined domestic gold and secondary gold for the purpose of regulating the foreign exchange value of the dollar. Moreover, if the Stabilization Fund were ever transferred out of the Treasury, it should not carry with it the power to purchase domestic gold.

4. There is some reason for hurry, because the sooner we begin to accumulate a supply of sterilized gold, the more we will have to take care of an outward movement without affecting bank reserves.

B U T

5. Since the Federal Reserve feels that excess reserves are its responsibility and not the Treasury's, and since it feels that domestic credit conditions are its responsibility and not the Treasury's, and since we can solve ~~our~~ immediate problem of unfreezing the gold in the Stabilization Fund working balance without this action (even though in the process excess reserves are increased) -----

A N D

Even though I think the Secretary is right and Eccles wrong,

I think we ought to be very slow about taking an action with which they are in disagreement.

We might suggest that they "use up their power" by raising reserve requirements at once, or very early in January anyway, and then their main objection -- that of timing --- would disappear.

Upm


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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 12, 1936

TO Secretary Morgenthau

FROM Mr. Haas 

Mr. Parker requested an appointment with Mr. Oliphant to discuss tax revision program for 1937. Meeting was held in Mr. Oliphant's office December 11, 1936 - Those present were: Mr. Parker of the Joint Committee on Internal Revenue Taxation; Mr. Oliphant and Mr. Kent of the Office of the General Counsel; Mr. Zucker and Mr. Haas of the Division of Research and Statistics.

Mr. Parker presented for discussion a series of tentative proposals for tax revision, the substance of which was to be included in his report to the Joint Committee. The matters considered involved possible revision of the undistributed profits tax and, in addition, suggestions for changes in certain of the miscellaneous taxes.

The principal items presented by Mr. Parker were as follows:

(1) Revision to be made in the "dividend credit" provision which would have for its purpose the granting of additional relief from the application of the undistributed profits tax in cases of hardship. Methods suggested by Mr. Parker were:

- (a) To exempt the small earning corporation (\$5,000 to \$10,000), from the application of the undistributed profits tax.
- (b) To allow dividend credit to cover fixed debt-payment requirements.
- (c) To allow dividend credit to cover expenditures for necessary expansion.
- (d) To allow special dividend credit for the first few years to newly organized corporations.
- (e) To adjust the provision dealing with allowable dividend credit in cases involving contracts not to pay dividends.

(f) To make some special provision applicable to so-called deficit corporations.

(g) To allow a special dividend credit to cover sinking fund requirements with respect to interest on bonds and dividends on special preferred stock.

(2) Statutory revision of the corporation income tax to cover special situations arising from administrative difficulties and from apparent inequities.

(a) Eliminate the \$2,000 capital loss limitation for purposes of the undistributed profits tax only.

(b) Restore a net loss carryover to cover operating losses sustained for a prior period of two or three years - this to apply only in determination of the income subject to the undistributed profits tax.

(c) Consider the problem arising in connection with the payment of an undistributed profits tax on an amount which is charged as income by virtue of a forgiveness of indebtedness.

(d) Administrative difficulties arising as a result of dividend payments at the close of the year, and not received by the stockholders, as well as the hardships incumbent upon corporations required under the existing Statute and Regulations to determine the full extent of dividend payments out of earnings for a year which, in many cases, cannot be properly determined until the first or second month after the close of such year.

(e) Difficulties with the application of the undistributed profits tax, arising as a result of Bureau audits effecting a shift in income from one year to another, or in determining additional income on which deficiencies are asserted.

(f) Changes in methods of inventory, allowing a weighted average method in lieu of or in addition to the first-in and first-out method.

Secretary Morgenthau 12/12/36 - 3

(3) As a single substitute remedy for many of the items covered under (1) and (2) the proposal was made to exempt the first 10 or 15 percent of the adjusted net earnings from the application of the undistributed profits tax. This Mr. Parker explained would act as a cushion against the hardships and inequities flowing from some of the above-enumerated items.

While the list of items is relatively large, Mr. Parker indicated that he included some that he does not favor, together with some that he partially favors, and a few that he feels strongly toward. In the latter group are four items, viz., elimination of the capital loss limitation; the allowance of an operating net loss carryover; the allowance of a 10 or 15 percent cushion free from the undistributed profits tax; and the allowance of a dividend credit to cover dividends paid in a period shortly after the close of the taxable year. Discussion was had on all the points raised. In connection with those lending themselves to measurement of the effect on the revenue, it was decided to request estimates from Mr. McLeod, covering estimated loss of revenue in the event of their enactment.

In reply to an inquiry from Mr. Parker as to factual material on the miscellaneous taxes, he was advised that a study covering the history and application of these taxes has been completed in the office of the Deputy Commissioner of the Miscellaneous Tax Unit, and was prepared under the supervision of the Division of Research and Statistics. It was decided that a committee consisting of a member of the Joint Committee, the Office of the General Counsel, the Division of Research and Statistics, and the Miscellaneous Tax Unit, go over the report and determine upon recommendations pertaining to the repeal, the revision, or the reenactment of certain of the miscellaneous taxes.

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Sunday Evening, Dec. 13, 1938

Mr. Lochhead telephoned to the Secretary's home this evening and gave him the contents of the attached cable from Shanghai. The Secretary told Lochhead that he had already received the substance of the cable from Puleston, and that he did not believe there was any action we could take at the present time.

TELEGRAM

W20 40 Govt Rush - PDN Washington D.C. 13 12:34P

THOMAS GORMAN
1730 IRVING ST

IF POSSIBLE CONTACT SECRETARY OR LOCKHEAD REPORT LOCAL SITU-
ATION EXTREMELY SERIOUS STOP GENERAL CHIANG KAI SHEK SIX
OTHER GENERALS CIVIL GOVERNMENT SHENSI PROVINCE PRISONERS
REBELLIOUS ARMY OF CHANG KSUEH LIANG AT SIANFU STOP EXPECT
STRONG REACTION EXCHANGE MARKET ON OPENING MONDAY MORNING
STOP NOW ELEVEN OCLOCK SUNDAY NIGHT HERE

NICOL 4th MARINES SHANGAI

T E L E G R A M

WFO 49 Govt Rush - PDN Washington D.C. 15 12:54P

THOMAS GORMAN
1730 IRVING ST

IF POSSIBLE CONTACT SECRETARY OR LOCKHEAD REPORT LOCAL SITU-
ATION EXTREMELY SERIOUS STOP GENERAL CHIANG KAI SHEK SIX
OTHER GENERALS CIVIL GOVERNMENT SHENSI PROVINCE PRISONERS
REBELLIOUS ARMY OF CHANG KSHUEH LIANG AT SIANFU STOP EXPECT
STRONG REACTION EXCHANGE MARKET ON OPENING MONDAY MORNING
STOP NOW ELEVEN OCLOCK SUNDAY NIGHT HERE

NICOL 4th MARINES SHANGHAI

T E L E G R A M

W20 4g Govt Rush - PDW Washington D.C. 15 12:34P

THOMAS GORMAN
1750 IRVING ST

IF POSSIBLE CONTACT SECRETARY OR LOCKHEAD REPORT LOCAL SITUATION EXTREMELY SERIOUS STOP GENERAL CHIANG KAI SHEK SIX OTHER GENERALS CIVIL GOVERNMENT SHENSI PROVINCE PRISONERS REBELLIOUS ARMY OF CHANG KSUEH LIANG AT SIANFU STOP EXPECT STRONG REACTION EXCHANGE MARKET ON OPENING MONDAY MORNING STOP NOW ELEVEN OCLOCK SUNDAY NIGHT HERE

NICOL 4th MARINES SHANGAI

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December 14, 1936

Mr. Haas reported to the Secretary at the 9:30 meeting this morning that Mr. Parker had met with the Treasury officials to discuss the tax revision program. (See Mr. Haas' memorandum on the meeting, dated December 12.)

The Secretary inquired of Mr. Haas whether the tax studies were completed and Haas replied that they were not. Oliphant, too, said that he was not ready.

The Secretary then told Mr. Haas and Mr. Oliphant that just as soon as they were ready, to let him know and he would give them as much time as they needed to discuss the program with him.

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December 14, 1936

At the conclusion of the meeting of the Banking Committee in the Secretary's office this morning, the Secretary asked Mr. Taylor, Mr. Bell and Mr. Upham to remain, and called in Mr. Haas, Mr. Oliphant and Mr. Lochhead.

The Secretary said to this group, "I find that I have two funds in Europe. One is the \$70,000,000 gold fund, which represents gold purchased through the Bank of England at the fixed price of \$34.77, per ounce, in London. The other is the \$50,000,000 fund, representing gold purchased under the workings of the Tripartite Agreement and consisting of the proceeds of Sterling purchased in support of the market which, in turn, was converted into gold to prevent the risk of exchange.

"My thought," he said, "is to move the \$70,000,000 worth of gold which I bought before the Tripartite Agreement to the United States. I don't want to keep much more than \$50,000,000 in London. I am nervous. I think I can justify bringing back the \$70,000,000 which I bought prior to the Tripartite Agreement. The best thing to do is to do the thing which is right."

Continuing, the Secretary said, "Eccles will think I am doing this as a trick. It is my responsibility and, frankly, it makes me nervous to have \$125,000,000 of gold in London. I cannot tell you how he is going to interpret my doing this. I can't begin to figure how it is going to affect him. I just feel that it is the right thing to do and I want to do it. I am going to handle it in the perfectly normal manner. I cannot tell what effect it will have on him. My original reason for handling the gold so that it would not go into the excess reserves was to help him. He is trying to read into this thing all kinds of hidden motives. My mind does not work that way."

Mr. Bell remarked, "This \$70,000,000 is already included and it will not affect the Federal Reserve as it was a part of our working balance of \$200,000,000

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-2-

and will only affect the monetary stocks when and if it is transferred from the Stabilization Fund to the Treasury and utilized by Treasury spending."

"This only changes the location," the Secretary explained. A movement of this kind will excite comment. It may take two or three months to bring this money back. I am just doing this as a matter of national defense. This gold should not be in London."

Mr. Bell added the statement, "This first step does not affect Eccles."

The Secretary then said, "I was trying to do something to help Eccles and he said that he would agree to this if I agreed that I would wash my hands of domestic economy. This is a 'horse's laugh'. He is trading with me and I am not going to trade. I will go before the Board and tell them that what they have put up to me is impertinent. They can't show a single thing that they have done these last couple of years, except talk."

At this point, Mr. Oliphant remarked, "I think there is one more issue to be settled. If we will look back 50 years from now we will find that the opportune time to have settled the issue between the Treasury and the Federal Reserve was right after election; that is, whether the Government through the Treasury should control the monetary policy of the Government or whether this control should be exercised through the Federal Reserve Banks who are privately owned and dominated by individuals who are banker-minded."

The Secretary said, "I am trying to cooperate and he is trying to push me in the corner."

Mr. Lochhead remarked, "During Sprague's recent visit he made the following comment, 'Whenever a situation exists whereby there may be conflict between the Government and a privately owned Central Bank as to policy, careful attention should be paid to the opinion of the Central Bankers, but the final decisions must be that of the Treasury'."

The Secretary concluded the meeting by saying, "Well, I didn't want to remove this \$70,000,000 without first consulting with you."

~~SECRET~~

Monday, Dec. 14, 1936

The Federal Reserve Bank of New York, as fiscal agent of the Treasury, holds gold in the Bank of England for account of the Stabilization Fund. This gold is maintained ⁱⁿ two accounts as follows:

Account A. This represents gold purchased under our standing order maintained with the Bank of England to buy gold in their market at \$34.77 per ounce. These purchases are made on a straight dollar basis, and the order is kept with the Bank of England to take care of any large offerings of gold which might be made in their market at times when the bids might be limited.

Account B. Gold in this account represents the proceeds of sterling purchased under terms of the Tri-party Agreement as a part of the joint operations of the Stabilization Fund. Such purchases of sterling are immediately converted into gold in order to prevent the possibility of loss due to a depreciation in the price of sterling.

As these accounts are kept separately with the Bank of England it would seem logical, when moving any gold, to take it from Account A, which account was established before the Tri-party Agreement went into effect, and leave gold in Account B until the last.

In accordance with Secretary Morgenthau's instructions, the Federal Reserve Bank of New York has started in to arrange for the movement of a part of the gold in Account A. The United States steamship lines are being contacted to ascertain what boats are available for such shipments at the present time, and arrangements are also being made to cover the necessary insurance. \$20,000,000 of this gold will be moved as soon as possible in order to bring the total in

Monday, Dec. 14, 1936

London below \$100,000,000, and as soon as this \$20,000,000 is moved, the question of further shipments will be taken up with the Secretary.

The Federal Reserve Bank of New York will notify the Bank of England that we propose to move a portion of this gold as a routine transaction.

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LONDON - NEVILLE CHAMBERLAIN, CHANCELLOR OF THE EXCHEQUER, INFORMED COMMONS TODAY THAT IT HAD BEEN DECIDED TO INCREASE THE BANK OF ENGLAND'S GOLD CURRENCY RESERVE BY 65,000,000 POUNDS (ABOUT \$325,000,000) AT THE SAME TIME, THE FIDUCIARY ISSUE WILL BE REDUCED BY 60,000,000 POUNDS (ABOUT \$300,000,000).

CHAMBERLAIN ANNOUNCED: "AS A TEMPORARY MEASURE IT HAS BEEN DECIDED TO INCREASE THE AMOUNT OF GOLD HELD BY THE ISSUE DEPARTMENT OF THE BANK OF ENGLAND BY 65,000,000 POUNDS STERLING. "SUCH A STEP BY ITSELF WOULD MEAN THE SHARPEST EXPANSION OF THE CREDIT BASIC, FOR WHICH THERE IS NO JUSTIFICATION AT PRESENT. THEREFORE, AT THE REQUEST OF THE BANK OF ENGLAND, I HAVE DIRECTED THAT THE FIDUCIARY ISSUE BE REDUCED BY 60,000,000 POUNDS STERLING, THUS LIMITING THE EXPANSION TO SMALL DIMENSIONS."

"THERE IS NOTHING PERMANENT IN THIS ARRANGEMENT, SINCE THE FIDUCIARY ISSUE MAY BE INCREASED OR DECREASED AT ANY TIME," CHAMBERLAIN ADDED. WILLIAM THORNE, LABORITE, ASKED THE CHANCELLOR WHAT HE MEANT, CHAMBERLAIN REPLIED: "I CANNOT EXPLAIN THAT IN ANSWER TO A QUESTION BUT I WILL TELL THE HONORABLE GENTLEMAN LATER IF HE DESIRES." THE BANK OF ENGLAND ANNOUNCED THE PURCHASE OF 65,000,000 IN GOLD BARS.

December 14, 1936. ~~231~~

At 10 o'clock the following group met in the office of the Secretary of the Treasury to discuss possible banking legislation.

Mr. Morgenthau,

Mr. Eccles, Chairman of the Board of Governors of the Federal Reserve Board,

Mr. Jones, Chairman, Reconstruction Finance Corporation,

Mr. Crowley, Chairman, Federal Deposit Insurance Corporation,

Mr. O'Connor, Comptroller of the Currency,

Mr. Taylor, Assistant Secretary of the Treasury,

Mr. Bell, Assistant to the Secretary,

Mr. Upham, Assistant to the Secretary.

Mr. Morgenthau referred to the fact that last year the President had asked the group to get together and agree on banking legislation and that he wanted to do the same thing this year. So far as the Treasury is concerned, Mr. Morgenthau said, although he does not know what Mr. O'Connor has in mind, the only thing in which we are interested is the extension of the Stabilization Fund. The President wants that extended without any changes. Senator Glass thinks it can be done without difficulty and so does Chairman Somers.

Mr. Morgenthau said that Mr. Jones, Mr. Eccles, Mr. Crowley, Mr. O'Connor and himself were all appointed by the President and that if there are any differences of opinion or rows it will be much better to have them out here than in Congress or in the newspapers. He offered his cooperation for what it is worth and suggested that everyone be completely frank.

Mr. Crowley said that if this group could agree on legislation it would be very helpful, but if we are going to go to the Hill with different ideas after agreement has been reached here any legislation

will be delayed.

Mr. Jones said that the RFC wants no banking legislation.

Mr. O'Connor said that he had a thick file of suggestions which had accumulated over the years, that he is now dictating his Annual Report, that it will contain no suggestions for banking legislation except those which were made last year and had not been enacted into law and that unless some general banking bill is offered he will have no other suggestions, but if one is he will want to make a study of the material in his files.

Mr. Morgenthau said that we should reexamine the legislative proposals which were left unenacted at the adjournment of Congress last year before renewing them.

Mr. O'Connor agreed with this saying that some of them perhaps should not be renewed.

Mr. Morgenthau said that he was doing the same thing with other legislation with Mr. Oliphant. He recalled to the minds of those present the Executive Order which directs that all legislation be cleared through the Bureau of the Budget.

Mr. Jones said that anyone was pretty good who could get anything through the Bureau of the Budget, to which Mr. Bell replied that "he stood ready always to lighten the burden of Congress".

Mr. Crowley referred to the fact that there had been much bickering and trouble on legislation in 1934 and 1935 and said that there was no reason that agreement should not be reached here and stood by. The FDIC does not want to interfere with other agencies or be interfered with. He is willing to discuss legislation here but after it has been cleared here that should end it. The corporation would like some things but if there is no general banking legislation they can

get along without them.

If there is to be a general claiming contest for more powers the FDIC will put in its claim.

Asked by Mr. Morgenthau what he meant by a claiming contest, Mr. Crowley replied "claim for greater power".

Mr. Crowley suggested that they had some non-controversial matters such as a possible change in the basis of assessment on banks. It is now based on total deposits which means that the First National Bank of New York which has 1% of its deposits insured pays an assessment on its total deposits. He thought a change might be made to a basis of total resources.

Mr. Eccles said that the legislation the Federal Reserve system needs is non-controversial so far as the other agencies were concerned. If there is any legislation he will have some proposals to advance. If it is decided to have no legislation he supposed they could get along. The items he mentioned were: authority for the Board to delegate to one or more members the power to act in certain cases; make members of the Board eligible for participation in the retirement fund and amendments to make the margin requirement sections of the law more practical. These matters are being studied and have not been considered by the Board yet.

Mr. Morgenthau asked if any other agencies were affected by these changes and Mr. Eccles said "no" -- that the Board would make no suggestions which would affect other agencies. He added that of course the Securities Exchange Commission is interested in the margin requirements but there would be complete accord between them.

Mr. O'Connor referred to one bill he has in mind as of great

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importance. It was recommended last year but no bill prepared. It would be a revision of the building and loan code of the District of Columbia which he characterized as, at present, unfair and unsafe and a contributing cause to the failure of the Fidelity Building & Loan Association.

Mr. Crowley suggested that the Federal Home Loan Bank would be interested in any legislation affecting building and loan associations.

Mr. Eccles indicated that the legislation making Government securities eligible collateral for Federal Reserve notes, which expires on March 3rd, should be renewed. He said it should be made permanent and not left as an emergency power.

Mr. Jones asked how imperative it was that it be extended and Mr. Eccles replied that while there was no immediate need for making use of it, that once it is permitted to expire it will be more difficult to get it reenacted than it would be to have it extended now.

Mr. Crowley suggested that each one present send to Mr. Upham a statement of the legislation desired and that Mr. Upham send each one the proposals of all the others and then we come back for further discussion on December 21st.

This was agreed to.

Mr. Morgenthau commented that the meeting was so peaceful and added that Mr. Crowley stated it well when he said that he "won't grab unless others do".

Mr. Jones suggested that the pockets of those present should be searched to see what they are holding out.

Mr. O'Connor asked Chairman Eccles if it is the law that in an emergency the FDIC could go to the Federal Reserve and get currency

for its government bonds without having to sell them.

Mr. Eccles was of the opinion that it could, just as any other corporation can although it was not intended that the FDIC should be included in that blanket authorization.

Mr. Crowley interposed to say that the corporation can come to the Secretary of the Treasury and sell debentures to him.

Mr. Bell added that probably the Treasury could buy the bonds held by the corporation for sinking fund or some other purpose.

Mr. Morgenthau said that if there is to be general banking legislation he wants to get back from the Federal Reserve the \$100 million which is allocated to it for making loans to industry. It is needed for the retirement of national bank notes.

Mr. Eccles said, why not do it anyway since they are paying 2%. He was willing to have the \$100 million cancelled because they won't use it. He agreed with Mr. Morgenthau, however, that if the matter of cancellation is opened up the Federal Reserve Banks will make an effort to have the \$100 million returned to them as surplus.

Mr. Crowley said that some legislation should be perfected for a better administration of the banking system but toes would be stepped on in the process. The corporation cannot do what it wants to without interfering with the Comptroller and the Federal Reserve and, perhaps, vice versa. If the banking structure is to be revamped it will lead to no end of trouble. He would like to have it and he believes it would strengthen the banking picture, but it is not imperative.

Mr. Morgenthau said that he too would like to change some of the words in the Gold Reserve Act setting up the Stabilization Fund but can get along without the changes.

Mr. O'Connor mentioned as one of the things that might be taken care of if there were to be changes in the Stabilization Fund setup a relinquishment of the power of the Secretary to license banks as being no longer necessary.

Mr. Jones said that if there is to be legislation he would like to have the Federal Reserve System directed to buy from the RFC the loans to industry which it has made.

Mr. Crowley referred to a proposal made by Luther Haar, Secretary of Banking for Pennsylvania, that the preferred stock in banks should be transferred from the RFC to the FDIC.

C.B. Upham.

December 14, 1936

The Secretary today instructed Mr. Lochhead to cable Buck and Nicholson for information in regard to the kidnapping of General Chiang Shai Shek. (Copies of the cables he sent them are attached.)

The Secretary also asked Lochhead to get similar information from the Chase and National City Banks. To carry out this instruction, Lochhead called the Federal Reserve Bank of New York and asked them to contact the two banks named. The Federal Reserve will ask them to request their Hong Kong branches to send cables reporting any information they might have on the situation in China.

Mr. Lochhead was also instructed to get in touch with Mr. Parker of the Socony Vacuum, to ask him to communicate with his Shanghai office, for the same purpose, and to telephone the Secretary direct when he had received a reply. Upon telephoning, Lochhead learned that Mr. Parker is abroad and is not due back until around the 22nd of this month. The Secretary, when he received this information, decided not to follow through further with the Standard Oil.

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Dec. 14, 1936

Mrs. E. S. Friedman

Mr. Lockheed

Please transmit the following cable to Professor Bask, Shanghai,
China:

"Please try and see Kung at once and ask him to give you
explanation of capture of Chiang Kai-Shek. It seems unbelievable
that an old hand like Chiang Kai-Shek should fall into such a
trap. Morgenthau."

Also please transmit the following cable to Nicholson, Shanghai:

"Reference your messages Dec. 13 and 14

"Please get me all possible information on capture of Chiang

Kai-Shek. Morgenthau."

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

December 15, 1936.

Dear Henry:

I want to add this informal note for you personally to what is contained in the letter giving the opinion of the Board on this matter of sterilizing gold. I have given this whole question the best thought of which I am capable and I have discussed it at great length with members of the Board and staff.

I don't suppose it is necessary for me to say so, but I want to assure you that I am in no way influenced by questions of prerogative as between the Treasury and the Federal Reserve System. What I feel is important above all else, as I know you do, is to make sure that everything is done to preserve the spirit of complete cooperation which has been brought about between the Treasury and the Federal Reserve Board. I have no anxieties on that score so long as you and I are here, but I am thinking ahead to the time when one or both of us may not be here, and if some of the questions involved in this important and complicated matter are left up in the air, with uncertainty as to obligations under the law and how far and for how long either the System or the Treasury is to deal with this problem, there is a real danger, it seems to me, of confusion and impairment of the one thing which both of us wish to see preserved.

The President and you both know that you will always have my full and frank cooperation as long as I am in Washington. I have taken it for granted that in matters of this sort, as well as in all others, when you have consulted me you have wanted me to give you my own thoughts candidly and without reservation, as I have attempted to do in this instance.

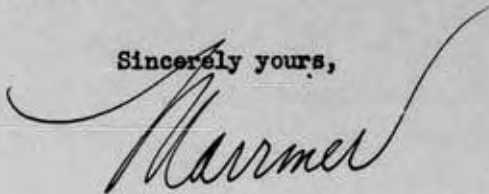
Now, Henry, if I have in any way incurred your displeasure it would certainly cause me the deepest regret and be contrary to my desires, and I want you to know that whatever



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your decision may be in this matter, you will continue to have my wholehearted cooperation.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Warren". The signature is written in dark ink and is positioned below the typed phrase "Sincerely yours,".

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

TREASURY DEPARTMENT

Washington

The summary in the statement setting forth the principal financing operations of the Treasury Department in the period December 1, 1933, to December 15, 1936, which was released for publication in morning newspapers of Monday, December 14, 1936, should be amended to read as follows:

SUMMARY

Gross debt on November 30, 1933	\$23,534.1
Treasury bills issued (net)	\$1,100.3
Adjusted Service bonds issued (net)	462.8
U. S. Savings bonds issued (net)	448.9
New financing, as above	\$24,199.0
Less:	
1. Refinancing of debt out- standing Nov. 30, 1933.	\$12,018.1
2. Refinancing of issues subsequent to Nov. 30, 1933	4,070.3
	<u>16,088.4</u> 8,110.6
Net increase in special certificates of indebtedness, special notes, matured debt and debt bearing no interest	<u>575.5</u>
Net increase in debt	<u>10,698.1</u>
Gross debt on December 9, 1936, adjusted to reflect Decem- ber 15, 1936 financing (including \$400.4M Treasury bills maturing on that date)	<u>34,232.2</u>

This change is necessary in order to reflect the payment of \$400,000,000 in Treasury bills maturing December 15, 1936.

TREASURY DEPARTMENT

Washington

The attached statement, summarizing the principal financing operations of the Treasury Department in the period December 1, 1933, to December 15, 1935, is released for publication in morning newspapers of Monday, December 14, 1936.

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PRINCIPAL TREASURY FINANCING OPERATIONS, DECEMBER 1, 1933, TO DECEMBER 15, 1936

(Excludes Treasury Bills and United States Savings Bonds)

(In Millions of Dollars)

DATE OF ISSUE	CERTIFICATES OF INDEBTEDNESS			TREASURY NOTES			TREASURY BONDS			TOTAL AMOUNT
	RATE	TERM	AMOUNT	RATE	TERM	AMOUNT	RATE	TERM	AMOUNT	
December 1, 1933 (pending exchanges)	-	-	-	-	-	-	-	-	554.8	554.8
December 15, 1933	2-1/4%	1 yr.	\$992.6	-	-	-	-	-	-	992.6
January 29, 1934	2-1/2%	7 1/2 mo.	524.7	2-1/2%	15 1/2 mo.	\$128.1	-	-	-	1,052.8
February 19, 1934	-	-	-	2-1/2%	22 mo.	418.3	-	-	-	627.0
March 15, 1934	-	-	-	3%	3 yr.	428.7	-	-	-	-
March 15, 1934	-	-	-	3%	4 yr.	355.2	-	-	-	455.2
April 14, 1934	-	-	-	-	-	-	3-1/4%	12 yr.	1,022.0	1,022.0
June 15, 1934	-	-	-	2-1/2%	5 yr.	528.5	3%	14 yr.	624.5	1,352.0
September 15, 1934 (Bonds additional to April 14, 1934 issue)	-	-	-	2-1/2%	2 yr.	514.1	3-1/4%	12 yr.	452.0	1,507.1
September 15, 1934 (2-1/2% notes additional to June 15, 1934 issue)	-	-	-	2-1/2%	4 yr.	596.4	-	-	-	-
December 15, 1934 (2-1/2% notes additional to June 15, 1934 issue)	-	-	-	2-1/2%	12 mo.	693.2	3-1/2%	12 yr.	491.4	1,945.2
March 15, 1935	-	-	-	2-1/2%	5 yr.	725.2	-	-	-	-
March 15, 1935	-	-	-	2-5/8%	5 yr.	513.0	2-7/8%	25 yr.	1,858.0	2,071.9
June 1, 1935 (Additional to June 15, 1934 issue)	-	-	-	-	-	-	3%	14 yr.	96.7	96.7
June 15, 1935 (2-5/8% notes and bonds additional to March 15, 1935 issue)	-	-	-	2-5/8%	5 yr.	864.5	2-7/8%	25 yr.	746.4	2,329.3
July 1, 1935 (Bonds additional to June 15, 1934 issue)	-	-	-	2-1/2%	5 yr.	738.4	-	-	-	-
July 1, 1935	-	-	-	-	-	-	3%	14 yr.	112.7	112.7
July 15, 1935	-	-	-	2-5/8%	4 1/2 yr.	526.2	-	-	-	526.2
July 29, 1935 (Additional to March 15, 1935 issue)	-	-	-	-	-	-	2-7/8%	25 yr.	102.0	102.0
August 5, 1935 (Additional to March 15, 1935 issue)	-	-	-	-	-	-	2-7/8%	25 yr.	106.5	106.5
August 19, 1935 (Additional to March 15, 1935 issue)	-	-	-	-	-	-	2-7/8%	25 yr.	96.2	96.2
September 16, 1935	-	-	-	2-1/2%	3 1/2 yr.	941.5	2-3/4%	12 yr.	566.7	1,510.3
December 15, 1935 (Additional to September 16, 1935 issue) (bonds)	-	-	-	2-1/2%	5 yr.	737.2	2-3/4%	12 yr.	615.7	1,352.9
March 15, 1936	-	-	-	2-1/2%	5 yr.	676.7	2-3/4%	15 yr.	1,225.5	1,900.2
June 15, 1936	-	-	-	1-3/8%	5 yr.	603.2	2-3/4%	15 yr.	1,026.7	1,630.9
September 15, 1936	-	-	-	-	-	-	2-3/4%	25 yr.	981.6	981.6
November 15, 1936	-	-	-	2-1/4%	5 yr.	805.0	2-1/2%	17 yr.	1,295.0	1,600.0
TOTAL:			1,517.2			10,629.5			12,070.3	24,199.0

SUMMARY

Gross debt on November 30, 1933	-----	\$25,536.1
Treasury bills issued (net)	-----	\$1,800.7
Adjusted Service bonds issued (net)	-----	452.8
U. S. Savings bonds issued (net)	-----	446.9
New financing, as above	-----	\$24,199.0
Less:		
1. Refinancing of debt outstanding		
November 30, 1933	-----	\$12,018.1
2. Refinancing of issues subsequent to November 30, 1933	-----	4,070.3
	-----	16,088.4
		8,110.6
Net increase in special certificates of indebtedness, special notes, secured debt and debt bearing no interest	-----	675.5
Net increase in debt	-----	11,026.5
Gross debt on December 15, 1936, adjusted to reflect December 15, 1936 financing	-----	\$34,632.6

December 15, 1936.

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Chairman Eccles came over for luncheon with the Secretary at 1 o'clock. Mr. Taylor and Mr. Upham were there also.

Mr. Morgenthau asked Mr. Eccles if he had reached any conclusion with respect to the proposal that the Treasury sell bills to acquire and isolate newly imported and newly mined gold.

Mr. Eccles said that he had discussed the matter with those members of the Board who are in town. In the case of Mr. Ransom who is ill at home, the discussions had been carried on partly by telephone and partly through the medium of Mr. Elliot Thurston. In the case of Governor Davis and Governor Broderick, who are in California and Texas, respectively, discussions were had on the telephone.

Mr. Eccles presented a two page letter which was read aloud by Mr. Morgenthau. It said in effect that the Federal Reserve people think it unnecessary and undesirable for the Treasury to take the action proposed, and indicated that if it is done against their advice, their hope is that it will be continuous and automatic. Mr. Morgenthau told Mr. Eccles that he did not like to be told "you can rape me if you want to, but I won't like it" and insisted that what he hoped to achieve is agreement and cooperation.

Mr. Morgenthau told Mr. Eccles that everyone in the Treasury who had been consulted thought that the Treasury proposal was proper and desirable and that all of those who had read Mr. Eccles' memorandum of a few days ago were of the opinion that either the Treasury proposal was not understood or there was something in the back of the picture which was influencing Federal Reserve action but which they were not revealing.

Mr. Eccles said there was no hidden motive and the only things they were thinking about were the responsibility which had been placed on the Federal Reserve in connection with excess reserves and domestic credit. He indicated his belief that there are two ways of handling excess reserves and that it can be done either by the Federal Reserve or by the Treasury and that in his opinion the power of the Board should be exhausted before anyone else entered the picture.

Mr. Morgenthau showed to Mr. Eccles an item which had just come over the news ticker reporting action announced by Neville Chamberlain, Chancellor of the Exchequer in which he was adding gold to the reserve of the Bank of England and reducing the fiduciary issue.

Mr. Morgenthau indicated that the Treasury interpretation of this is that Great Britain is doing much the same thing that we are proposing.

Mr. Morgenthau said that he is much more concerned about what will happen when gold goes out than he is when gold comes in.

Mr. Upham asked Mr. Eccles if there was not a distinction to be made between the power of the Federal Reserve and the power of the Treasury in that the Treasury has power to accumulate and isolate a supply of gold which can, when gold flows out, be released without effect upon the banking reserves of the country. The Federal Reserve has no such power.

Mr. Upham suggested that the proper approach to the problem is not whose is the responsibility, nor what agency should take action, nor the drawing of lines between authority over domestic

credit and over international exchange stability, but rather, ~~is~~ is it a good thing to accumulate a supply of idle gold for use later and if it is, what agency has the power to do it -- all in the national interest, not in the interest of the discharge of a responsibility by any particular group or agency.

Mr. Morgenthau indicated his opinion that that is the issue. He stated that in his opinion the Treasury has not been able to make its attitude understood by Mr. Eccles and his associates. He felt that the attitude of the Federal Reserve people is that the Treasury should not intrude into a field which the Federal Reserve regards as its own. He paced the floor back and forth, and spoke with great vigor, showing apparent impatience with the refusal of the Federal Reserve Board to accept the Treasury proposal at face value rather than attempting to see in it an effort to insert itself into a field they regard as reserved to themselves. He suggested that Mr. Eccles was bringing up trivial excuses, but no real reason against Treasury action.

Mr. Morgenthau pointed out that the Treasury cannot keep out of the bank reserve field. It created excess reserves and they now exist because of it. It can do many things if it so desired to offset and negate any credit regulating action which the Federal Reserve might take. He described himself as being backed into a corner and told that he should not interfere in domestic credit conditions. While he did not approach the problem with any intention of interfering with domestic conditions, being in a corner makes him regard the possibility of perhaps so interfering.

Mr. Taylor told Mr. Eccles that he did not understand the

reasoning by which it was thought that all of the powers of the Federal Reserve should be exhausted as a means of bringing to the attention of the Congress and the people the need for further grant of power to them. He said he thought it would be brought to their attention as dramatically by the proposed action of the Treasury. He told Mr. Eccles that a good deal of the New York agitation for increased excess reserves resulted from a desire to tighten money rates for the benefit of bank earnings.

Mr. Eccles argued that the whole thing resolved itself into a question of which of two ways to handle excess reserves -- it could be done either by the Treasury following this proposal or it could be done when gold moves out by lowering the reserve requirements which are now being raised. He referred to the \$2 billion in the Stabilization Fund plus \$3 billion of Federal Reserve gold certificates as constituting a \$5 billion fund of gold which could flow out with no other action than a reduction in reserve requirements.

Mr. Taylor was of the opinion that lowering reserve requirements would "drive the country nuts".

Mr. Eccles referred to the possibility that the President would not approve of increasing the public debt for the purpose of buying gold.

Mr. Morgenthau suggested that he and Mr. Eccles might see the President together and in that event Mr. Eccles stated that he would like to suggest to the President that there are two ways of accomplishing the desired result, one of which involves increasing the public debt and the other not.

Mr. Morgenthau reiterated that he thinks it important to begin

at once to accumulate a supply of gold which can go out when necessary without disturbance to the banking system. The only way to do that is through some method such as is proposed by the Treasury. He said that he was afraid the Federal Reserve people had some idea that he was attempting to do something more than that and he stated explicitly that he has nothing else in mind.

Finally, upon that statement being made, Mr. Eccles suggested that he could go back to his Board and tell that the Treasury had only one thing in mind, which is, not to exercise control over excess reserves as such but to build up a fund for gold which will eliminate from the excess reserve situation future inflow and outflow of gold so that the Federal Reserve can be free to follow a domestic credit policy with that out of the picture.

Mr. Morgenthau reiterated that up until now the Treasury had been an active influence in the bank reserve picture, having created the excess reserves and that his desire is simply to withdraw and eliminate himself as a factor in that situation -- to be helpful to the Federal Reserve system rather than otherwise. He asked what the Federal Reserve would do after they had used up their powers, and added they would have to come to the Treasury then. Mr. Eccles thought they might seek additional powers from the Congress.

Mr. Morgenthau said he could not understand an attitude calculated to burn out present brakes so more could be asked.

Mr. Eccles suggested the possibility of a reduction in Federal Reserve portfolio, and thought it might be accomplished through a shift into long terms, keeping yield the same.

Mr. Eccles agreed to talk the thing over again with the members of his Board and let Mr. Morgenthau know by Thursday how they feel.

Mr. Eccles, Mr. Taylor and Mr. Upham continued the discussion in Mr. Taylor's office for an additional period.

Mr. Eccles seemed satisfied that the intentions of the Treasury were good and seemed willing to make an effort to bring his Board around to our point of view. He thought, however, that it was very helpful to explore the arguments on the other side and said that he would feel that it was too bad if he could not argue such matters out fully and completely in a friendly way.

Mr. Eccles expressed a fear that Mr. Morgenthau had not fully understood his desire to demonstrate that there are two ways of reducing excess reserves. He referred to the fact that some of the Board and its staff are reluctant to get away from the old ideas and old systems.

Mr. Eccles reverted again to his proposal for a reorganization of banking agencies.

Mr. Taylor told him the place to argue that out was when he got the President and the Secretary together.

C.B. Upham.

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December 15, 1936.

A group met in the Secretary's office at 10 o'clock to discuss possible legislation for lending agencies. Those present were:

Secretary Morgenthau,

Jesse Jones, Chairman, Reconstruction Finance Corporation,

John H. Fahey, Chairman, Federal Home Loan Bank Board,

Preston Delano, Governor of the Board of the Home Owners Loan Corporation,

W.W. Alexander, Acting Administrator, Resettlement,

C.B. Baldwin, Assistant Administrator, Resettlement,

W.D. Flanders, Deputy Administrator, Federal Housing,

Abner H. Ferguson, General Counsel, Federal Housing,

E.K. Burlew, Administrative Assistant to the Secretary, PWA,

F.F. Hill, Deputy Governor, Farm Credit Administration,

M.S. Eccles, Chairman of the Board of Governors of the Federal Reserve,

Warren M. Pierson, President of the Export-Import Bank,

Wayne C. Taylor, Assistant Secretary of the Treasury,

D.W. Bell, Assistant to the Secretary,

C.B. Upham, Assistant to the Secretary.

Mr. Morgenthau explained that the President had set up the Interdepartment Lending Committee a year ago and he thought it would be well to have a general meeting to discuss legislation which any one of the lending agencies might have which might affect other agencies. He expressed the view that if there are any conflicts or differences of opinion it is better to iron them out at a meeting such as this than in the newspapers or on the Hill.

Mr. Fahey said that aside from technical details, the HOLC and the Federal Home Loan Bank Board had not yet cleared their minds on

anything of a broad character on mortgage financing or the housing problem. He referred to the fact that an amendment adopted two years ago prohibiting the HOLC from retiring its bonds if they were quoted at over par, was hampering their refinancing program. He also thought it might be well to have a revolving fund to take care of building and loan associations in times of distress. In support of this he referred to the fact that member banks of the Federal Reserve can rediscount and that both the RFC and the FDIC can sell their debentures to the Treasury.

Mr. Morgenthau suggested that Mr. Fahey send to Mr. Upham any suggestions that he might have so that they could be cleared by exchange with other agencies.

Mr. Fahey agreed and asked for a policy of reciprocity in that respect. He expressed the view that there should be a fairly prompt decision on the whole matter of housing policy.

Mr. Alexander said that the Resettlement Administration is tied up at present with the commission on farm tenancy which is having a meeting tomorrow and that there can be no clear idea on what is likely to be done until then.

Mr. Morgenthau said that if there is to be a change in the setup of the Resettlement that he thinks both the FCA and the housing agencies will want to discuss it. He indicated that there has been direct conflict heretofore with FCA and with such activities as the Greenbelt and of interest to both FHA and PWA. He suggested that if there are to be any rows they better be here in executive session than in the newspapers or on the Hill. He

expressed some doubt that Secretary Wallace would want to continue in the Department of Agriculture semiurban and farm credit lending.

Mr. Morgenthau indicated that the Resettlement Administration requirements for the Deficiency Bill have not yet been submitted.

Mr. Baldwin was under the impression that they had been.

Mr. Morgenthau said that if Resettlement, in its present form, is transferred to the Department of Agriculture there is going to be a row.

Mr. Alexander indicated that he would take the matter up with Secretary Wallace.

Mr. Flanders said the FHA did not plan any overlapping legislation. Their recommendation will be that the authority to make modernization and repair loans under Title I be permitted to expire without extension on April 1. They have insured under Title I about \$450 million worth of loans, on which there will be a loss of \$5 million or slightly more than 1%. While it is their view that Title I has served its purpose he anticipates that there will be some "free rider" lenders and builders who will press for its extension.

Mr. Flanders indicated that the FHA would ask for an extension of the government guarantee of debentures issued under Title II. They have an insurance fund of \$10 million which, through additions of appraisal fees and insurance premiums has been increased to \$15 million which they regard as a very small cushion for the half billion mortgages. The government guarantee does not apply to mortgages made after July 1 next.

Mr. Morgenthau indicated that Mr. McDonald would have to do some missionary work to win him to that extension.

Mr. Fahey said that he would like to talk the matter out with FHA but opposes insurance of existing mortgages on the ground that private lending institutions can take care of them without insurance.

Mr. Morgenthau said it would be difficult to convince him to extend a government guarantee on anything and added that he is of the opinion that we have reached the stage where it is no longer necessary. He said he would rather give cash than a guarantee. Mr. Bell agreed.

Mr. Eccles said that the FHA could not exist without a guarantee or more adequate capitalization, or at least without the accumulation of a larger reserve.

Mr. Eccles said that Title I had been successful in getting the banks to enter the lending field which they had not been in before. The insurance feature can now be dropped and they will continue to make such loans. It will take a little more time for them to manage without Title II.

Mr. Burlew said the only thing they are interestedⁱⁿ/is the extension of PWA and PWA housing beyond June 30th. He regarded it as almost imperative that they be extended. It will take them two years to clean up the housing projects they have started. They have 2200 projects under way. Twenty-five of these are slum clearance projects involving some \$60 million. The room cost is \$6 or \$7 which is too high. In his opinion housing activities ought to be consolidated.

Mr. Fahey said that they are very much interested in projects with subsidies which compete with private agencies and which have an effect upon the 10,000 homes that the HOLC has on hand.

Mr. Burlew suggested that a housing sub-committee be appointed and was of the opinion that the persons interested in the lending committee were the only ones who would get anywhere on housing. It was mentioned that there is a central housing committee and Mr. Morgenthau indicated a desire to consult the President before doing anything.

Mr. Eccles said that he has been interested in housing as a recovery measure for the past three years but is convinced that nothing will be accomplished until the President or Secretary appoints somebody who will study the functions of the various agencies and present recommendations to bring the agencies together. Impartial report is necessary.

Mr. Fahey expressed doubts about any outsider coming in and contributing anything -- citing the experience of Peter Grimm as a demonstration of this.

Mr. Morgenthau countered with the idea that all the insiders are interested in taking care of their own organization primarily.

Mr. Fahey said that the housing setup at present is wholly illogical and incompetent. From the standpoint of unemployment, a balanced budget and economic development generally it is time the government took over effective leadership in the housing field. No one else can. There are obstacles but it must be done. We must develop a sound mortgage system to stand the shock of depressions and to put brakes on improper developments such as those which

helped to cause the depression. He said he would have no objection to transferring some of their troubles to other agencies.

Mr. Eccles suggested that the Federal Reserve loans to industry be transferred to the RFC but Mr. Jones countered with the suggestion that he had gotten ahead of him by suggesting yesterday that the transfer of this class of loans be from the RFC to the Federal Reserve.

Mr. Hill said that they would have little legislation of any importance but that probably some Congressman would ask for an extension of the interest subsidy now given land bank borrowers. He also said there probably would be proposals to continue crop loans.

Resettlement evinced interest in this.

Mr. Alexander said that the matter of crop loans had come up before the election while Mr. Morgenthau was out of town and that the President had said they would be settled after election.

Mr. Morgenthau told Mr. Alexander that he was terribly worried about the RA -- that they were busted -- that he was afraid Mr. Wallace didn't know it and that unless they were pretty aggressive they would be lost in the shuffle.

Mr. Pierson, who arrived late, said that the Export-Import Bank had no legislative needs and they would be taken care of through the RFC.

C. B. Upham

December 14, 1936
1:51 P.M.

H.M.Jr: Hello

Carter
Glass: Hello Mr. Secretary.

H.M.Jr: How are you, sir?

G: I'm fairly well.

H.M.Jr: I -

G: Well, I'll come to your office at three o'clock tomorrow afternoon.

H.M.Jr: Oh you will.

G: If that suits you.

H.M.Jr: Well, I - as I said, I'll be glad to come to you if it's any better.

G: No, I don't see that it would be any better or as well.

H.M.Jr: All right, sir.

G: I'll be up there at three o'clock tomorrow afternoon.

H.M.Jr: Thank you very much.

G: I hope you're well.

H.M.Jr: I'm very well, Senator.

G: Thank you, sir.

H.M.Jr: Thank you.

INTER OFFICE COMMUNICATION

DATE December 16, 1936.

TO Secretary Morgenthau

FROM Mr. Haas *EA*

Subject: Probable explanation of the transaction referred to by Chamberlain before the House of Commons as reported by cable December 15th.

The transaction reported by cable is as follows:

- (a) An increase in the gold held by the Bank of England by £85,000,000.
- (b) A decrease in the fiduciary issue of the Bank of England by £80,000,000.

(Inasmuch as the Bank of England still records its gold and notes in statutory pounds, the reported sum of £85,000,000 probably refers to old £, not current valued sterling. If so, the sum referred to would be equivalent to approximately one-half billion U. S. dollars.)

Most likely explanation of the transaction.

The British Exchange Equalization Account is most likely filled up with gold. According to our own estimates (or, rather, "guess-timates" based on British Treasury and Bank of England operations and gold movements into England), the additional gold received as repayment of the French loan would have filled the account to its maximum of £350 million.

The Account, therefore, had to sell some of its gold in order to be able to absorb future imports of gold. The sale of gold was to be made without increasing the credit base, as it is felt that expansion is proceeding rapidly enough now in England. The Account, therefore, transferred gold to the Issue Department of the Bank of England, in exchange for which it received an equivalent amount of Government securities that had been held against the Note Issues of the Bank of England.

If the amount of fiduciary issue were left unchanged, the Issue Department could thereafter issue an additional equivalent amount of Bank of England notes (currency) without exceeding the legal limit of

197A
~~22~~

Secretary Morgenthau - 2 - 12/15/38.

its fiduciary note issue. Had an equivalent amount of Bank of England notes been issued, the credit base would have been increased to that extent. The limit was, before yesterday, £260 million. The amount outstanding (in circulation and in the Banking Department) was at the legal limit £260 million. The Chancellor of Exchequer (Note: he was given the power by the Currency Act of 1928 to raise or lower the amount of fiduciary note issue of the Bank of England if he wished to do so when requested by the latter) reduced the amount of notes the Bank of England could issue without 100 percent gold reserve (i.e., fiduciary issue) by an almost equal amount.

The net result of the reported transaction will be as follows:

- (a) The British Equalization Account has replaced one-half billion dollars of gold in its assets with Treasury Bills of a like amount.
- (b) The Bank of England has replaced one-half billion of Treasury Bills in its assets with one-half billion of gold, (i.e., $\frac{1}{2}$ billion in \$).
- (c) The power of the Bank of England to issue more notes is no greater than it was. It has one-half billion more of 100 percent gold-backed notes outstanding, and an equal amount less of fiduciary notes outstanding. It can still issue 5 million pounds of sterling fiduciary notes.

If and when necessary by virtue of outflowing gold, the reverse operation can take place.

- (d) The British Treasury has decreased its outstanding debt and thereby its interest burden at the expense of the Bank of England.

December 15, 1936
10:35 A.M.

B: - under 101.

H.M.Jr: Yes, I'd continue.

Burgess: All right. I don't think there's any

H.M.Jr: Any particular reason for it?

B: No, except this fellow Goldsmith had a - a somewhat bearish -

H.M.Jr: What?

B: This fellow Goldsmith, you know, who has this service, -

H.M.Jr: Yes

B: - recently established service. He had rather a bearish letter out.

H.M.Jr: I didn't see it.

B: Oh, it isn't - we aren't really weak, you know.

H.M.Jr: No

B: The bonds are just about where they were last night.

H.M.Jr: No, we - we'll continue as we were.

B: All right.

H.M.Jr: I'd like to.

B: You'd like to have some for investment?

H.M.Jr: Yes, yes, Burgess.

B: Yep.

H.M.Jr: Thank you.

B: O.K.

H.M.Jr: Thank you.

Extra copy

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December 15, 1936
10:35 A.M.

B: - under 101.

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B: Yep.

H.M.Jr: Thank you.

B: O.K.

H.M.Jr: Thank you.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: December 15, 1936, 10 a.m.

NO.: 1255

FROM COCHRAN.

This morning I got back from Basel where on Sunday and Monday the BIS directors held their meeting. The directors decided to recommend to an extraordinary meeting of BIS shareholders (to be convened immediately following the ordinary annual meeting in May, 1937) that No. 39 and other pertinent articles of the BIS statutes be amended to do away with the position of alternate of the President, and to make the offices of chairman of the Board and President of the Bank distinct and separate.

Beyen, it was further decided, was to serve as President when the change in statutes has been made. Then either Trip might continue as Chairman of the Board, or the position might be passed to other members of the Board in some order of rotation. All of the directors are pleased with Beyen, and they want to give authority for the running of the Bank to him, thereby hoping to retain his services. Some of the older governors of Central Banks, however kindly they feel toward Beyen, have thought it wrong to have a young private banker serve as their chairman.

I was told by Beyen that the proposed arrangement made him entirely happy. Beyen is anxious that there be participation in the BIS by the United States. Should this

be

- 2 -

be arranged, then Beyen would perhaps like to make a visit to the United States in order to establish personal contact with the appropriate officials there. I myself have a high opinion of Beyen, and I believe that

END SECTION ONE.

BULLITT.

EA:LWW

SECTION TWO. Paraphrase. No. 1255 of December 15, 1936,
from the American Embassy, Paris.

whether or not we may participate officially in the BIS,
his remaining at Basel will be favorable to us.

I spoke with President Trip of the Netherlands Bank and the BIS, who told me that he was pleased with the arrangements made with his country for gold reciprocity under the tripartite agreement to which they recently adhered. He told me that the telegram which he had received from the Federal Reserve Bank after their adherence was quite satisfactory, and it followed the lines of the declaration given me by the Dutch. In the present circumstances, he said, it is more advantageous for him to acquire gold from London even against dollars than in New York. However, he is happy to have the facility which may be availed of in case of a shift in rates. Improvement in the Netherlands, Trip said, is continuing, and a move toward recovery is being seen in the Netherlands Indies especially.

The American "hot money" situation was of keen interest to Trip, among others. He expressed the hope that the United States would enact no legislation which would penalize bona fide investments such as those made by Dutch capitalists for many years in American railway and other securities. Governor Norman said to me on this same point that he sympathized fully with the American authorities

- 2 -

ities in their concern over large masses of flight funds, but he added that it was difficult to envisage what legislation would be practicable and wise, if there were any at all. Our three phases of gaining gold were summarized by Norman. First he referred to our post-War lending, through which we obtained commodities in turn for gold yielded by foreign borrowers.

Then he took up as a second phase the period when Americans became dubious as to their foreign securities, and these depreciated to such an extent that foreign borrowers used gold in order to buy them back.

Norman cited as the third, and present stage the movement of (omission - gold?) to the United States in payment for equities in American industry.

Norman said he believed that figures corresponding to these three phases would do much to explain the amount of gold which we hold now. He requested an English BIS economist to prepare a brief memorandum for him containing available data on (1) British capital in our country, (2) the part of it that is "on Wall Street". I was told by the economist that he was familiar with the recent statistical publication of the American Treasury on this subject, and I gave him further pamphlets which might be of possible use to him.

The opinion was expressed by Norman that eventually the United States would have to resume international

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lending in spite of our declaration and policies opposed to such a procedure. However, he remarked, it would be a question to find borrowers that would be suitable. At present the foreign countries which have good credit rarely need funds from the outside. He does not believe that it would be wise to lend to the poor debtors such as the Eastern European and the Near Eastern countries until their present status may be improved. In order for that to be improved, a writing down of their outstanding expensive foreign loans which are now altogether or partly in default is essential.

END SECTIONS TWO AND THREE.

BULLITT.

EA:LWW

PARAPHRASE.

SECTION FOUR. No. 1255 of December 15, 1936,
from the American Embassy, Paris.

Jacobsson, Swedish economist of the BIS, speaking of the "hot money" situation, recommended to American consideration the recently consummated double taxation treaty between France and Sweden, wherein most favorable terms were secured by Sweden in return for agreeing to furnish the authorities in France with specific data regarding the amounts and identity of French funds in that country. The Swedish economist insists that money which is on foreign markets in order to evade fiscal measures in its country of origin is really of little or no benefit to the country which receives it, and is not entitled to protection from the tax authorities of its own country. Jacobsson mentioned that much of the capital on the American market is really of this type, and that, considering the extent of our funds abroad of which we wish to keep track, we might quite effectively and also advantageously enter into reciprocal agreements with regard to it.

I was asked by Governor Norman what I thought about the situation in France. I mentioned to him the recent strengthening of the Blum Government, certain economic gains, and Rueff's confidential assurances which he gave me some days ago regarding liberalization of the French policy concerning gold. Norman said the ^{constant} strain on the franc worried him, as well as the extent to which the gold

- 2 -

belonging to the French stabilization fund had been depleted in defending the franc against sterling. Norman does not believe that the problem will be solved by the technical arrangements which are now likely to be taken in France, because even if French gold hoarders should give up their gold as a result of a more favorable price at the Bank of France, or to buy Treasury bonds, as long as the present lack of confidence continues the gold would not remain in France but as soon as the profit from revaluation had been obtained it would be reexported. It is Norman's opinion that as long as the Popular Front Government with its Communist element is in power France cannot realize the confidence necessary for financial recovery and monetary security.

Norman said he thought that France had done the right thing in not asking for an extension of the British banking loan and in repaying it. Under the present circumstances, he said, he would oppose a new loan of this nature as it would constitute only "patchwork" and the basic trouble would not be remedied thereby. Any such borrowing by France was also opposed by Governor Labeyrie, he said, but he added that Labeyrie is more conservative than the French authorities who might make the decision about this matter. In this connection Norman mentioned his unhappiness over the recent changes which had been made in the Ministry of

- 3 -

Finance, including Baumgartner's removal, not only on the grounds of lack of permanency in French Treasury policy, but also because of the respective merits of some of the individuals concerned and their capacity but(which?) could not inspire confidence of French capitalists as well as the confidence of other governments.

Norman expects that, unless something is done in France other than resort to halfway measures of a technical sort, the French will be driven to formulate(exchange?) control or to permitting the franc to decline seriously. Norman thinks that, as for the appropriate rate, the present depreciation is sufficient, adding only confidence and good financial administration could be restored in France.

Views quite similar to those of Norman were expressed by Trip of the Netherlands bank. The latter believes that Labeyrie would be inclined to weaken toward exchange control if his bank may be called upon to give up important quantities of gold in order to give it to the stabilization fund to build up their supplies. On the other hand, he thinks Rueff would be disposed to let the franc decline and "find its appropriate level" without having the courage to insist on measures necessary to create an atmosphere wherein they could effectively check the weakness of the franc. Reference in complimentary terms was made by several of my

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friends to recent United States Treasury financing, and contrast in this respect was made between the American and the French situation.

It was pointed out by Jacobsson that for three principal reasons the financial burden of France is heavy. These reasons are: (1) expenditures for military purposes, (2) high carrying charges on public debt, (3) railways. International agreements on disarmament are necessary to remedy the first condition; Jacobsson recommends a forced conversion, to pay 3%, to remedy the second; he suggests for the third the appointment of a foreign expert to make a survey of the railways of France, which expert should thereafter be given extensive authority to carry out the reforms which he finds essential.

The Swiss National Bank President, Bachmann, expressed pleasure at the smoothness with which the three additions of countries eligible to gold reciprocity were made. Bachmann believed that this had been effected at a propitious time. Since his country has been drawing so much gold he is not now seeking to acquire gold on the market in the United States, he has, on the contrary, been shipping gold to New York to build up a deposit in that city. Bachmann has fixed definite sale and purchase prices for gold, and it can thus be calculated what the gold export and import

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import points are. Therefore he thinks it more appropriate that his currency be held stable against the dollar (a fixed gold currency) rather than against sterling, and he is delighted that he has the necessary arrangement with us. He may, however, want to make further inquiries of us about the earmarking of gold abroad. The Federal Reserve gave him a negative answer on this point.

The beginning of the Swiss winter sports season and the outlook for a good influx of visitors is extremely pleasing to the Swiss people.

National Bank of Belgium Governor, Franck, said everything was satisfactory from his viewpoint in so far as concerns the tripartite monetary agreement. The unbusiness over the French financial situation of other observers that I have mentioned is shared by Franck. He thought that this would prove to be the real test of the monetary agreement. Galopin of Belgium said that there was continued recovery in his country, and that it was actually impossible to find workmen in certain lines, such as mining, in spite of a fair number of people who are still unemployed.

Generally it was conceded that for a considerable period the present system of management of international gold movements will be needed. There seemed to be more of

- 6 -

a disposition on the part of central bankers toward satisfaction with the progress that has so patently been achieved in moving toward de facto stabilization. The central bankers seemed willing to give the present method a thorough try rather than insist upon the rights of central banks and their generally conceived ideas of orthodoxy. The central bankers, as managers of stabilization funds or as fiscal agents of their treasuries, are cooperating satisfactorily; a meeting place is offered them by the BIS. However, it would be too much to expect that central bankers would suddenly become converted to the idea that it is desirable as a permanent policy to have Treasury management of currencies. It was assumed, of course, that in January legislation would be enacted permitting continuation of the American stabilization fund so the Treasury will have a required instrument in the scheme of international control of gold movements and of progress toward stability of ^{the} currency.

Bachmann, incidentally, showed to me a communication from the Political Department of Switzerland, in which was reported information from Paris that France had sounded out the United States regarding an early monetary and economic meeting of the six "gold reciprocity" countries, and that it had been received favorably by the President, and he would, when he got back from Buenos Aires, give

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the matter his attention. I told Bachmann that I had no knowledge whatsoever of any such proposal. It is Bachmann's personal idea that it is better to try out the present arrangement for a while. My opinion if it were solicited, would be, however, that no conference is necessary and more complications than benefits might result therefrom in the present circumstances.

I was asked by Dr. Schacht to come to see him. He told me he enjoyed his recent trip to the Near East, but he encountered very stiff British commercial competition in Turkey. Dr. Schacht asked me to assure my people that he was not seeking to follow a lone trail, and he wanted his country to resume her proper place in the trade and finance of the world. However, he told me that when he has not the means to implement a policy such as the tripartite declaration, it would serve no purpose for him to make a pious pledge of adherence to it. He expressed willingness to devalue the mark whenever he might be convinced that this would really be to the best interest of his country, but that he could not raise exchange control if he devalued now. Should he raise exchange control, Jews and some others would promptly take out of Germany what capital they still have there. Also, commercial houses would start building up deposits abroad, and con-

cerns

- 8 -

cerns in a position to do so would hasten to export capital to redeem their depreciated securities on markets in foreign countries. In the circumstances Schacht considers the present economic policies of Germany inevitable. He declared that he is anxious to alter them whenever and as he may be able to do so. He made reference to the speech which he made recently at Frankfort with regard to the need of Germany for colonies. As I told him before, I again said that I did not see what the United States could do for Germany in the latter case, and he replied that we certainly could use our good influence. He mentioned that America was striving for world peace, but that this was impossible without European peace, and Germany would have to figure in European peace. I reminded Schacht of the usual suggestions which appear in the press stating that Germany is taking the lead in armaments and that Germany could more quickly recover her internal prosperity and international position if she spent on other raw materials the exchange disbursed for war materials. He denied that Germany had taken the lead in armaments, and said that only after seeing her neighbors arm after the war had Germany commenced building up a force sufficient to maintain German national self-respect and territorial integrity. He told me that Germany was ready to

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to discontinue arming and even to start disarming whenever a disarmament pact might be reached with the neighboring countries. Great Britain, he said, was the principal offender at present. I then asked him whether Germany's actions had not been responsible for British policy, but he emphatically denied that such was the case. He said that for three years he (the British?) had watched Germany rearm without becoming in the least worried about it, and it was only when Italy demonstrated to Great Britain the former's threat to dominance in the Mediterranean that a feverish program of rearmament was inaugurated by the British.

Schacht said that when he was in France the past summer he definitely extended the olive branch to Blum. Blum was disposed to accept it; i.e., to cooperate toward permitting Germany access to raw materials in a scheme for checking rearmament. Blum in turn took up the matter with the British. According to Schacht, the British refused to participate in such a move and nothing came of it. In this connection Schacht's assistant, Hechsler, mentioned to me the efforts of Germany to collaborate with Portugal in the economic development of the Angola colony.

A summary along the following lines was made by one of my Basel friends of the views unofficially exchanged at

Basel

- 10 -

Basel. There was concurrence by all observers that actual improvement can be seen in the United States, Latin America, the sterling area, Switzerland, Belgium and the Netherlands. There was even some pick-up in Bulgaria and Hungary, because of good crops. Spain, China, France and Germany were mentioned as the four slime(?) spots. On Sunday Basel got news of the Chinese complication. There was considerable concern about it, especially among the Germans, although the situation could not be understood fully because of insufficient details. There was a feeling of uneasiness for France because of the budgetary situation, and for Germany because of her policies on foreign and monetary matters. Observers entertained little hope for a real solution of the difficulties in either of these two countries as long as control is in the hands of the present leaders.

One of the visitors at Basel during the meeting of the BIS was Constantine Maguire, the Bank of Nicaragua's American adviser.

January 11 has been set as the date for the next meeting of the BIS directors.

END SECTIONS FOUR - TWELVE.

END MESSAGE.

BULLITT.

EA:LWW

U

GRAY

London

Dated December 16, 1936

Rec'd 11:10 a.m.

Secretary of State

Washington

613, December 16, 1 p.m.

FOR TREASURY.

Surprise was caused in the City yesterday by the announcement that the Bank of England had taken over from the exchange equalization fund 65,000,000 pounds of bar gold at its statutory price of 84 shillings 10 pence per fine ounce. In answer to questions in the House of Commons last evening the Chancellor of the Exchequer stated: "As a temporary measure it has been decided to increase the amount of gold held in the Issue Department of the Bank of England by 65,000,000 pounds. Such a step by itself would, of course, mean a very sharp expansion of the credit base for which there is no justification at the present time. I have, therefore, at the request of the bank directed the reduction of the fiduciary issue by 60,000,000 pounds under the powers conferred by the Currency and Bank Notes Act, 1928, thus limiting the expansion to small dimensions. I would add that there is no greater permanence in these arrangements than may seem desirable

U -2- #613, Dec. 16, 1 p.m. from London

desirable since the fiduciary issue may be increased or diminished at any time in the future in accordance with the provisions of the Act named".

He further continued: "It is not limited in time. There was no specific time mentioned by me in answer to the question but I explained that it is a temporary measure and if conditions change there is sufficient flexibility in the arrangement to enable us to alter it." He further added that he felt he could give a definite assurance that this process will not have an adverse effect upon trade.

FINANCIAL TIMES editorial states: "In order to prevent, in accordance with the Gentlemen's Agreement, the undue appreciation of sterling which will be thereby implied it may be that it has been found better by conversion of 65,000,000 pounds of its gold to restore to the equalization fund its elasticity as both seller and buyer of sterling".

FINANCIAL NEWS: "Only possible explanation for such a large transfer of gold from the exchange equalization account is that the sterling resources have become depleted as a result of its gold purchases".

TIMES, City editor: "The operation is not deflationary but it can be looked upon as likely to check undue inflation. No thoughtful observer of economic tendencies can fail to be impressed with the sharp rise in commodity prices,

U -3- #613, Dec. 16, 1 p.m. from London

prices, for their upward tendency becomes daily more marked. While a substantial rise in commodity prices over the 1931 level was sooner or later inevitable, there is always a result that it may be carried too far when the basis of credit is being rapidly increased by large gold influx; the reduction of the fiduciary issue should tend indirectly to diminish that risk".

BINGHAM

KLP

RB

GRAY

PARIS

Dated December 16, 1936

Rec'd 4:03 p. m.

Secretary of State

Washington.

1259, December 16, 6 p. m. (SECTION ONE)

FROM COCHRAN.

On continental exchange markets today sterling showed strength particularly against the dollar, presumably as a result of the British official decision to transfer 65,000,000 pounds of gold from the equalization fund to the Bank of England and to reduce the fiansiary circulation of the bank by 60,000,000 pounds. Florin also strong following the transfer from the Dutch stabilization fund of 100,000,000 florins to the Bank of Netherlands. The British action was undoubtedly the result of the large gain of gold by the British equalization fund through the repayment of the French banking credit. The Dutch stablization fund has for some time been acquiring gold on the London market in exchange for sterling and dollars which it had protected in an effort to prevent a rise in the florin. The forward discount on the franc declined significantly today upon the announcement by Minister of Finance Auriol of the

RB

-2-#1259, December 16, 6 p. m.
from Paris (SECTION ONE)

of the terms of a Treasury loan to be launched tomorrow, the possibility of which has been rumored for some time.

I have just visited Rueff at the Ministry of Finance in order to confirm my understanding of the operation as given over the radio. Rueff gave me the full text of Auriol's declaration which states that those people who may hold certificates indicating that they have deposited gold with public paying offices between October 1, 1936, and January 15, 1937, will be permitted to submit these certificates at the rate of 100 francs old parity in subscription to the next loan. The bonds given therefor will pay $3\frac{1}{8}\%$ and will be reimbursed after 3 years at 140 (END SECTION ONE)

BULLITT

KLP

JS

Gray

PARIS

Dated December 16, 1936

Rec'd 5:37 p.m.

Secretary of State,
Washington, D.C.

1259, December 16, 6 p.m. (Section Two).

1259, December 16, 6 p.m. (Section Two).
Holders of the 1936 Auriol baby bonds of six months and one year may exchange them for new bonds. The new bonds given therefor will be reimbursed after nine years at 140 and will pay four per cent. Both categories of bonds will be acceptable as security against advances at the Bank of France and after one year they will be acceptable for advances under the so called "thirty day" provision. The bonds given against gold certificates will be acceptable in payment of inheritance taxes up to thirty per cent and those given against Auriol bonds will be accepted up to twenty per cent. Both categories of bonds will be exempt from special taxes applicable to securities. The identity of subscribers will be respected and no penalties will be applied for the reason that the time limit for surrendering gold was yesterday prolonged until February 1, 1937.

Auriol hopes that the above operation may liquidate the backbone of devaluation and will also lead to the essential collaboration of French capitalists with the task of reconstruction and peace undertaken by the

Government

-2-

From Paris, Dec. 16, #1259, Sec. 2.

Government. The Minister of Finance emphasized the view that the recent international monetary agreement "made it unnecessary for France to have recourse to any methods of coercion in order to guarantee the exchange rate of its currency." This agreement he continued was intended to safeguard between the principal nations the free circulation of capital upon which depended the economic convalescence of the world. He said this free circulation will remain intact; that the exchange stabilization fund possessed the means of assuring it and will insure it.

Auriol condemned rumors tending to discredit the French financial situation. He insisted that from now on the French monetary regime will be one of complete freedom. French capitalists may freely purchase foreign currencies or invest abroad and foreign exchange dealings are unrestricted. It is only required that tax laws be respected. He pleaded for public confidence and faith in the credit of the country.

End Section Two.

BULLITT

EMB NPL

PAPARBASE OF SECTION THREE OF telegram No. 1280
of December 16, 1936, from the American Embassy, Paris.

I was told by Rueff that the first market reaction to the above declaration had been good. He will give me a copy tomorrow of a letter from the Bank of France which confirms an undertaking with the Minister of Finance, to take effect tomorrow, that hereafter ordinary Treasury bills will be taken at the Bank of France without limit, and it will not be necessary for the holders of the bills to use intermediaries in the transactions. I will not be able to give you confirmation of the details before tomorrow. It is Rueff's opinion that these measures will go far toward quieting the rumors that the stabilization fund of France is threatened with exhaustion of its gold resources, or that exchange restrictions are likely to be imposed by France.

END MESSAGE.


BULLITT.

EA:LTW

December 16, 1936

The Federal Reserve Bank of New York forwarded the attached copy of a letter received from the Banco de la Republica Oriental del Uruguay Montevideo, together with a draft of their proposed cable reply.

Mr. Knoke of the Federal Reserve Bank stated that they felt that the answer prepared by them was technically correct but that they wished to receive the approval of the Treasury before dispatching it. At Secretary Morgenthau's request, I took this up with Assistant Secretary Taylor, who approved of it, and around 2 P. M. discussed it with the Secretary over the telephone and he also approved of the dispatch of the cable by the Federal Reserve Bank. I notified Mr. Knoke by telephone accordingly.



Letter to Federal Reserve Bank of New York from Banco de la Republica
Oriental del Uruguay Montevideo

Dec. 4, 1936

Gentlemen:

We have come to the seasonal period of our exports which causes abundant supply of foreign exchange, a circumstance which permits us to build up our holdings to satisfy the demands during the time of decline in the export of our product.

It is our intention to keep part of our foreign exchange reserve in gold bars, which bars we would acquire through you in your market and entrust to your care under "earmark" for this bank.

In effect, we would employ the dollar balances which we still have available in New York and also the proceeds from the sale of pounds sterling which we would transfer from London.

As you know, the Banco de la Republica Oriental del Uruguay fulfills the functions of a Central Bank and as such maintains an account with the Bank of England.

Before making a decision, and as a measure of precaution, we should like to know if we would later encounter difficulties of a legal order in freely moving such gold, be it for export, sale, effecting payment in New York, etc., or for making payments abroad.

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For this reason, we request that you cable us full information regarding this point as well as on all other details connected with the operation we propose. We thank you for your attention to our request.

(Signed) Silveira Zorzi, Manager.

Draft of Cable to Banco de la Republica Oriental del Uruguay Montevideo
from Federal Reserve Bank of New York

Dec. 15, 1936

Your letter December 4. Gold for earmarking as contemplated by you can be obtained from the U. S. Treasury only under license issued by the Secretary of the Treasury as set forth in Article 5 Section 34 of the Provisional Regulations forwarded you with our letter of March 24, 1936. If you will cable us the amount of gold which you think you may wish to acquire, we shall be glad to make prompt application to the Treasury and are hopeful that the license may be granted.

As you know the Treasury's present selling price for gold is \$35 per fine ounce plus 1/4% handling charge. Any gold acquired here under license of the Secretary of the Treasury and placed with us under earmark for your account, may, under license granted us by the Secretary of the Treasury, (a) be purchased from you by us as fiscal agent (as set forth on page 2 of our letter to you of March 24) and the proceeds would be at your free disposal, or (b) be exported by us to you or your order.

We wish to use this opportunity to draw your attention to the statement on the tri-partite agreement issued in Washington, Paris and London on September 25 and in particular to that part which invites the cooperation of other nations. If you should therefore be interested to discuss the general question of reciprocal dealings in gold we suggest that this matter be taken up by your Treasury with our Treasury through your Legation in Washington. If the general question is decided through this channel we would be glad to discuss further details with you.

December 16, 1936.

Memorandum of Conference in the Secretary's Office,

Wednesday, December 9, at 11:45 a.m.

Present: The Secretary
Mr. Oliphant
Mr. Gibbons
Mr. Gaston
Mr. Graves
Mr. Berkshire
Mr. Williamson

The conference concerned the disposition of the so-called Barney Franklin case, involving a violation of the liquor laws in the Northern Illinois Judicial District.

Mr. Graves briefly stated the facts in the case, which arose in June, 1934, saying that the Alcohol Tax Unit at that time discovered in Franklin's barroom in the Loop District in Chicago an illicit rectifying plant with certain quantities of untaxpaid spirits, counterfeit strip stamps, fraudulent labels, etc.; that in the period which has since elapsed the District Attorney at Chicago has shown no disposition to prosecute the case; that the case had come up in court many times but had been continued, sometimes by dilatory tactics by defense attorneys and other times on motion by Assistant United States Attorney Glasser, who handled the case throughout; that an offer in compromise had been made on behalf of Franklin which this Department has consistently recommended should be rejected; that the Treasury Department had consistently recommended prosecution of the case; that on November 30, notwithstanding the consistent recommendations of the Treasury Department, Assistant United States Attorney Glasser had recommended that the case be disposed of by fining Franklin the sum of \$1,650, this being the amount of the offer in compromise above referred to; and that the Court had taken this recommendation under advisement and had set Thursday, December 10, as the day when Franklin's sentence would be imposed.

Mr. Graves further stated that he had brought these facts to the attention of Mr. Oliphant, Mr. Gibbons, and Mr. Gaston, and all agreed that they should be presented to the Secretary, with a view to his calling them personally to the attention of the Attorney General. Mr. Oliphant stated it as his opinion that the Secretary would be justified in requesting the Attorney General to secure a further continuance of the case, with a view to assigning a special prosecutor to make an effort to secure a more severe sentence for Franklin other than the fine suggested by the United States Attorney, preferably a penitentiary sentence.

Mr. Morgenthau put in a call for the Attorney General but was advised that the latter was at the moment engaged in a press conference, at the conclusion of which he would call the Secretary. Mr. Morgenthau stated that he would request the Attorney General to see Mr. Oliphant

personally, with a view to securing some more satisfactory action in the case. This concluded the conference.

Mr. Morgenthau later telephoned Mr. Oliphant that he had talked with the Attorney General and stated the matter forcibly to him, referring to an editorial in the Chicago Daily News. Mr. Morgenthau further said that the Attorney General would have Mr. McMahon see Mr. Oliphant at once and asked to see the editorial, which the Secretary sent to Mr. Oliphant asking him to send it over to the Attorney General by hand.

The editorial was sent to the Attorney General and a short time thereafter Mr. McMahon called Mr. Oliphant and a conference in Mr. Oliphant's office was arranged. This conference occurred the same afternoon in Mr. Oliphant's office attended by the following: Mr. Oliphant, Mr. Graves, Mr. Berkshire, and Mr. Avis, for the Treasury; and Assistant Attorney General McMahon and Mr. Lawrence, for the Department of Justice. At this conference, the facts of the case and its handling by District Attorney Igoe's office were fully discussed, and Mr. McMahon agreed, subject to the Attorney General's approval, to request Mr. Igoe by telephone to secure a continuance of the case for the purpose above indicated. He also stated that should Mr. Igoe's attitude be unsatisfactory, he would personally telephone Judge Sullivan, before whom the case was pending, present the facts to him, and request him to continue the proceedings.

Mr. Yellowly, on December 10, called Mr. Berkshire saying that one of his men had been in court when this case was called before Judge Sullivan, that Assistant United States Attorney Glasser had renewed his recommendation of a fine of \$1,650 on one of the counts and a one year suspended sentence on the other counts. Mr. Berkshire phoned this to Mr. Oliphant, who called the Secretary before taking the matter up with Mr. McMahon. The Secretary approved Mr. Oliphant's calling Mr. McMahon, who said he had heard nothing, and when Mr. Oliphant told him of the outcome, he expressed regret. When Mr. Oliphant asked why a continuance was not obtained, he said he had called Igoe and Igoe had said there could be no continuance because Judge Sullivan was insisting upon an immediate disposition of the case. Mr. Oliphant asked Mr. McMahon if he had called Judge Sullivan as he had said he would. Mr. McMahon said that he had not, that after leaving the conference mentioned above, he had thought the matter over further, had talked to the Attorney General, and it had been decided that it would be improper for Mr. McMahon to telephone Judge Sullivan.

Mr. McMahon did not advise Mr. Oliphant that there was to be no continuance.

When the foregoing outcome was communicated to the Secretary by Mr. Oliphant, he said that he would now prepare a complete record which he would send to the Attorney General over his own signature. Mr. Oliphant undertook to have such a record prepared, working with Mr. Graves thereon.

(Signed) H. OLIPHANT
HAROLD N. GRAVES

TREASURY DEPARTMENT
Washington

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FOR RELEASE, MORNING NEWSPAPERS,
Wednesday, December 16, 1936.
12/15/36

Press Service
No. 9-14

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of 2-1/2 percent Treasury Bonds of 1949-53 and 1-1/4 percent Treasury Notes of Series C-1941.

Subscriptions and allotments were divided among the several Federal Reserve districts and the Treasury as follows:

2-1/2 PERCENT TREASURY BONDS OF 1949-53

Federal Reserve District	Total Cash Subscriptions Received	Total Cash Subscriptions Allotted
Boston	\$ 447,164,800	\$ 67,425,350
New York	2,421,950,900	363,988,700
Philadelphia	305,678,000	46,880,150
Cleveland	310,184,200	47,781,650
Richmond	151,279,100	23,313,450
Atlanta	141,498,250	21,869,850
Chicago	464,570,250	71,496,400
St. Louis	136,293,650	20,213,600
Minneapolis	65,113,150	10,157,050
Kansas City	99,478,300	15,901,700
Dallas	88,340,250	13,952,250
San Francisco	314,081,800	47,490,600
Treasury	6,032,350	966,000
TOTAL	\$ 4,251,668,000	\$ 751,436,750

Federal Reserve District	Total Exchange Subscriptions Received (December Notes)	Total Exchange Subscriptions Received (February Notes)	Total Exchange Subscriptions Received (Allotted in full)
Boston	\$ 6,164,600	\$ 6,063,800	\$ 12,234,400
New York	142,784,000	187,837,700	330,621,700
Philadelphia	1,743,800	4,282,400	6,126,200
Cleveland	3,731,700	4,313,900	8,045,600
Richmond	25,989,600	6,014,500	32,004,100
Atlanta	1,381,900	3,131,500	4,513,400
Chicago	50,333,900	40,514,600	90,848,500
St. Louis	8,561,600	3,190,400	11,752,000
Minneapolis	1,246,200	2,776,700	4,022,900
Kansas City	3,663,300	9,505,000	13,174,300
Dallas	1,522,100	3,686,700	5,208,800
San Francisco	4,311,600	18,329,300	22,640,900
Treasury	3,770,900	6,249,000	10,019,900
TOTAL	\$255,211,200	\$296,001,500	\$551,212,700

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1-1/4 PERCENT TREASURY NOTES OF SERIES C-1941

Federal Reserve District	Total Exchange Subscriptions Received (December Notes)	Total Exchange Subscriptions Received (February Notes)	Total Exchange Subscriptions Received (Allotted in full)
Boston	\$ 2,001,900	\$ 4,828,800	\$ 6,830,700
New York	76,135,600	79,047,800	155,183,400
Philadelphia	1,964,600	5,377,100	7,341,700
Cleveland	1,435,100	3,799,300	11,234,400
Richmond	1,803,600	1,542,100	3,345,700
Atlanta	286,700	153,300	440,000
Chicago	3,437,100	3,277,200	6,714,300
St. Louis	2,343,500	645,000	2,988,500
Minneapolis	2,318,400	4,572,900	6,891,300
Kansas City	690,900	949,100	1,640,000
Dallas	109,700	156,700	266,400
San Francisco	1,332,400	2,379,000	3,711,400
Treasury	135,400	72,000	207,400
TOTAL	<u>\$93,994,900</u>	<u>\$112,800,300</u>	<u>\$206,795,200</u>

Total Cash allotment of Bonds	\$ 751,436,750
Total Exchange allotment of Bonds ..	551,212,700
Total Bonds allotted	<u>\$1,302,649,450</u>
Total Notes allotted	206,795,200
Total Bonds and Notes allotted	<u>\$1,509,444,650</u>

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TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE
Friday, December 18, 1936.

Press Service
No. 9 - 10

Secretary of the Treasury Morgenthau announced today that beginning January 1, 1937, a new series of United States Savings Bonds would be offered for sale. The new series is designated Series C, to differentiate these bonds from those sold prior to January 1, 1937. The issue price of the bonds of Series C is the same as for the bonds of Series B, the sale of which will terminate on December 31, 1936. The new series is governed by Treasury Department Circular No. 571, dated December 16, 1936.

Savings bonds are on sale at post offices of the first, second and third classes and at selected post offices of the fourth class; they may also be purchased by mail upon application to the Treasurer of the United States, Washington, or to any Federal Reserve bank. In addition, certain Federal Savings and Loan Associations and Federal Credit Unions are authorized to act as fiscal agents of the United States in accepting applications for savings bonds from their members.

United States Savings Bonds are sold on a discount basis, the issue price being \$75 for each \$100 maturity value payable 10 years from the issue date. They are redeemable before maturity (but not within 60 days after their issue date) at fixed redemption values which increase at the end of the first year, and each 6 months thereafter to maturity. If savings bonds are held to maturity the investment will increase one-third, or 33-1/3 percent, which affords an investment yield of about 2.9 percent per annum compounded semiannually; if redeemed before maturity, the investment yield is less.

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Savings bonds are issued in convenient denominations of \$25, \$50, \$100, \$500 and \$1,000, maturity value, and only in registered form, the name and address of the owner being inscribed on the face of each bond and recorded at the Treasury Department. They are not transferable. Savings bonds may be registered in the name of a single individual, or in the names of two individuals as co-owners, or in the name of an individual with a single designated beneficiary in case of death; they may also be registered in the names of fiduciaries, corporations, associations, etc.

United States Savings Bonds are offered primarily for the small investor, and the amount issued during any one calendar year which may be held by any one person is limited by law to a maximum of \$10,000 maturity value. This limitation applies separately to bonds issued during each calendar year, and accordingly one may hold the maximum amount for each year.

The sale of savings bonds was inaugurated March 1, 1935, and to November 30, 1936, cash receipts from the sales of these bonds aggregated \$506,782,000 representing bonds with a maturity value of about \$675,000,000. During the same period cash redemptions at the option of owners aggregated \$22,248,000.

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This material was sent to the President
December 17 and returned by him on
December 18.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE December 17, 1938.

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Recent political developments in China.

1. Authority of the Central Government greatly strengthened during the past year.

The greatly improved currency situation and accompanying recovery in prices and business conditions, together with unusually good crops, have favored the strengthening of the Nanking Government's authority. Chiang Kai-shek's bloodless victory over the Southwestern independents, and his moderately successful campaign against the Communists have helped achieve a greater degree of Central Government control over what is left of China than has existed for a decade.

Simultaneously with the strengthening of the Central Government internally, the Nanking Government has been showing extraordinary firmness in diplomatic negotiations with Japan. These negotiations, carried out over a period of several months, were terminated two or three weeks ago without settlement -- China insisted upon the discussion of its demands upon the Japanese, before discussion of the Japanese proposals.

2. Opposition of Chang Hsueh-liang to Chiang Kai-shek arises from a difference over Japanese policy.

General Chang wants war with Japan at once and is ready to combine with all Chinese groups, including the Chinese Communists on that anti-Japanese program. Chiang Kai-shek, on the contrary, wishes to avoid war with Japan and is pursuing a program of economic and political unification of China. As an essential part of that program he is carrying out a rigorous campaign against Chinese Communists.

General Chang was Military Governor of Manchuria in September 1931 when the Japanese began their military campaign to control the province. When he was forced to withdraw from Manchuria in 1931 he had a fairly well equipped army of from 200,000 to 250,000 troops. In accordance with the wishes of the Nanking Government, his army pursued a policy of non-resistance to the Japanese controlled Manchurian forces and

PLEASE DESTROY

Secretary Morgenthau - 2 - 12/17/36.

concentrated their efforts on military campaigns against the Chinese Communist forces in the Northwest. During the past few years Chang's army has been decreased by one-fourth and its equipment has deteriorated.

During the past few months General Chang has become much more insistent in his demand that an aggressive stand be taken against Japanese incursions into China. He fears that unless aggressive action is taken soon Japanese controlled forces will insert a wedge between U.S.S.R. and China by capturing the whole of Inner Mongolia, thereby cutting China off from her one reliable ally and making it possible for Japan to swallow the rest of China without much danger. He believes that Chiang Kai-shek's compromising tactics have so far served only to speed Japan's conquest of China.

The recent invasion of Suiyan by Japanese controlled Mongolian and Manchurian forces had been anticipated for many weeks at least. The possibility of an extension of Japanese control into China at so strategic a point stimulated General Chang to cooperate more closely with Communist forces on an anti-Japanese united-front program. General Chang is reported to have reached an understanding with two of the outstanding Communist leaders, Chu Teh and Mao Tse-tung, to combine against the Japanese. Large bodies of Communist soldiers are reported to have recently moved into General Chang's territory.

This policy of cooperation with the Communists is in direct opposition to the Central Government's policy and in direct violation of Chiang Kai-shek's orders. Two months ago two of General Chang's important officers were arrested by Chiang Kai-shek's agents for communicating with the Communists. Thereupon General Chang, with the aid of two regiments, brought about the release by force of these two men and then imprisoned the agents responsible for the arrest. The agents were released only after General Chiang sent special representatives to negotiate with General Chang.

Because of General Chang's opposition to Chiang Kai-shek's Japanese program, and his overt disobedience, Chiang Kai-shek decided to strip General Chang of most of his power. On December 10th Chiang Kai-shek issued several orders, replacing Chang as Commander-in-Chief of the Northwestern Suppression Army and ordering him to move his own troops to Fukien and Kiangsi in the Southwest. General Chang, in retaliation, seized the opportunity to capture Chiang Kai-shek, with the hope of forcing an alteration in the Central Government's policy and possibly of protecting his own position.

3. Chiang Kai-shek was warned of an uprising against himself.

In anticipation of trouble Chiang spent the night at a bath resort near Sian instead of in the city. On the 12th an uprising was staged

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Secretary Morgenthau - 3 - 12/17/36.

in Sian while part of Chnag's troops left for the place Chiang was staying. They succeeded in capturing him after killing the majority of his bodyguards and several of his important subordinates. Several of Chiang's military planes attempted to rescue him, but without success.

Another confidential report communicates a different version of Chiang Kai-shek's capture. The report emanates from Finance Minister Kung, who states that General Chang called Chiang Kai-shek back to Sian from his place of abode forty miles away on a ruse and detained him after his arrival.

Upon Chiang Kai-shek's capture, General Chang sent a circular telegram to the whole nation urging:

- (1) Immediate war against Japan for restoration of four Manchurian provinces.
- (2) Admittance of Communist elements in the Government and for a united front with Communists for war against Japan.
- (3) Formation of military alliance with U.S.S.R.
- (4) Reorganization of Nanking Government, which is now fascist in form and ruled by a dictator.

4. Situation at present:

Difference of opinion prevails among important generals and public officials regarding steps to be taken. Mse. Chiang, Kung and some powerful generals, including General Feng Yuh Siang, urge the Government to consider Chang's terms and to exercise utmost patience in dealing with him. But numerous of Chiang Kai-shek's military subordinates advocate immediate military action be taken to surround Sian before Communist forces enter Sian and kill Chiang. There is ^{some} A doubt that the Communists will kill Chiang -- if Chang has not already done so -- even should they get hold of him.

It is confidentially reported that a punitive expedition under the command of the present Minister of War is headed for Sian in hopes of saving Chiang if they can.

If General Chang is pressed too hard he may be compelled to line up with the Communists. It is estimated that with China's Red Army he will have a force of no less than half a million men.

Though the Nanking Government insists that most of the provinces support the Central Government and deory Chang's capture of Chiang Kai-shek, it would be surprising if in the known event of Chiang Kai-shek's death, General Chang will not be able to rally some support to his anti-Japanese program.

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CONFIDENTIAL PLEASE DESTROY

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

SECRET

17 December, 1936
10:05 p.m., Shanghai time

From: Spagent, Shanghai, China
To : Secretary of the Treasury

Message from Nicholson Nanking is making a display of force with talk of punitive expedition, but it is extremely improbable that any military force will be used against Chang if it is believed Chiang is alive; and if it is believed or becomes known that he is dead, I doubt that there will be any immediate action against Chang, as the militarists and politicians at Nanking will be first concerned with question of who will succeed to Chiang's military and political power and the decision may take considerable time with considerable probabilities of matters becoming much more involved and chaotic before a solution is reached.

SECRET

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TREASURY DEPARTMENT
United States Coast Guard

Washington

17 December, 1936
10:15 p.m., Shanghai time

FROM: Spagent, Shanghai, China
TO: Secretary of the Treasury

Message from Nicholson. For past year or two Chang has ostensibly been in charge of bandit and Communist suppression but in recent months has come to view that he and so-called Communists have something in common which is extremely important to Chang, namely, hatred for and determination to oppose Japanese aggression. In recent months Chang has given evidence of friendship for Communist forces which he was supposed to wage war against. When Chiang was made prisoner he was in act of breaking up this Chang-Communist coalition by sending large part of Chang's troops to Fukien and relieving Chang of his position as head of bandit and communist suppression. I believe Chang and Communists were in position where they had to take immediate drastic action against Chiang. Any compromise at present time which would leave Chang with any standing or prestige in China would result in tremendous loss of political and personal standing and prestige of Chiang. Having in mind all foregoing, I believe possibility of Chiang's having been assassinated or being assassinated is considerable.

Note: Due to omission, underlined portion doubtful.

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THE SECRETARY OF THE TREASURY

WASHINGTON

OFFICIAL BUSINESS

PENALTY FOR PRIVATE USE TO AVOID
PAYMENT OF POSTAGE, \$300

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

CONFIDENTIAL

Conference with the President December 17, 1936,
regarding the sterilization of gold coming into
the United States.

Those present besides the President were the Secretary of the
Treasury, Chairman Eccles, and Mr. Bell.

The Secretary explained that the conference was for the
purpose of discussing with the President the policy of freezing gold
coming into the United States (both importations and domestic
production) for the purpose of keeping it out of the bank reserves.
The President asked the question why gold is now coming to the
United States from abroad. Chairman Eccles gave his personal opinion
that a great deal of it is due to conditions abroad, the threat of
war and other problems. The recovery in England is now more or less
at a standstill and this gold is undoubtedly coming here to get the
benefit of our recovery program.

Mr. Eccles stated that the deposits today are four billion
dollars more than they were in 1929, and that he wanted to talk to
the President some time very soon about the whole credit situation
and steps that should be taken with a view to controlling the present
inflationary tendencies.

The President asked whether or not a reduction in present interest
rates would not have the effect of increasing loans of the banks and there-
by enable the taking up of some of these excess deposits. Mr. Eccles
took the position that if you increased the loans of the banks, you
would thereby increase deposits. He said that there was a great
competition among the banks today for a loan, and that you can borrow

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money today on good collateral at very low rates. He said that the banks can today loan on an average of $6\frac{2}{3}$ times their reserves. Present reserves being between two and two and one-half billion dollars, there is a credit expansion of approximately fifteen billion dollars.

The President then wanted to know what would happen to this gold in case of a war. Mr. Eccles said that if there were a war in Europe, the governments involved would secure the United States securities owned by their nationals, sell them on the American market for the purpose of taking the gold home, and that the gold we are now freezing would be readily available for export.

The President then asked the question whether or not this procedure could be applied to present gold holdings. In other words, could we ask the Federal reserve banks to deliver to the Treasury some of its gold certificates and thereby freeze some of the gold that is now in this country? Mr. Eccles said that had not been discussed and so far as he knew, it was not contemplated. The President was told, however, that the plan could be made to include that if it were later desired.

Mr. Eccles then said that he would like to have the President know that there are other mechanics available to the Board of Governors of the Federal Reserve System which

3.

would accomplish the same purpose as the proposed procedure, but that he did not recommend them and preferred the procedure advanced by the Secretary to any of those available to the Board of Governors.

He said that the Board of Governors of the Federal Reserve System could sell its own bills or debentures, but this would require legislation and then, too, it would put the coat of paying the interest on the Federal Reserve System rather than on the Treasury. It could also sell some of its present holdings of Government securities on the market. That would also affect the earnings of the Federal Reserve System which are not now large enough to meet its operating expenses. The most important point is that it would use up one of its brakes on excess reserves. The other power which would require legislation would be to get authority to increase the reserve requirements so as to reduce the excess reserves. He thought that the proposal put up by the Secretary of the Treasury was the most direct. It would operate in cooperation with the Board of Governors; it was flexible enough to stop it at any time; and the procedure could be reversed in case there was an outflow of funds.

The President said after listening to the discussion concerning the matter that it had his approval, and authorized the Secretary to prepare for his signature the necessary orders putting the proposal into effect at the earliest possible moment. The Secretary said he would immediately have all orders drawn and will again discuss the matter with the President on Monday morning, with a view to announcing it at his Monday afternoon press conference at four o'clock.

SWB

December 17, 1936
10:10 A.M.

H.M.Jr: See?
Captain
Puleston:

H.M.Jr: I just left the President.

P: Yes

H.M.Jr: And he has nothing on China.

P: Yes

H.M.Jr: And I told him that I would prepare a memorandum for him giving him what we've got.

P: Yes

H.M.Jr: Also said - told him that you people had a lot of stuff -

P: Yes

H.M.Jr: - which he's not received.

P: Yes

H.M.Jr: Now, I wonder if we couldn't just make it a sort of a joint memorandum, you see?

P: Yes

H.M.Jr: Taking things that we have, from Nicholson and Buck, and then taking what you had. Now, can you do that - I mean without getting into -

P: (Laughs) Well, I - I - because I - I'll have to go up and see my - ah - Admiral Standley

H.M.Jr: Supposing you go up to Standley, and if he wants to call me he can call me, see? Hello?

P: Wait - wait a minute, now - now, Mr. Secretary, I could give you - ah - our estimates here -

H.M.Jr: Why can't -

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P: - and you - and you could - ah -

H.M.Jr: Why can't you do - I mean you don't - you don't have to know this is going to the President.

P: No, no, I could give it to you and you send it as - as your memorandum.

H.M.Jr: Why don't you - well, I mean I'll send it on Treasury - on your Navy stationery so you get the credit.

P: Well -

H.M.Jr: I mean I've told the President two or three times how helpful you are and that - and that - how much it means to us.

P: Yes

H.M.Jr: I did again this morning.

P: Yes

H.M.Jr: Supposing I ask you now -

P: Yes

H.M.Jr: - for a memorandum and a little map, see?

P: Yes

H.M.Jr: Showing where these armies are and all that.

P: All right.

H.M.Jr: And that's for me and if I want to send it to the President, why that's -

P: Yes, well that's quite all right, yes, because we've already got permission to do that, see?

H.M.Jr: Well, why isn't that all right?

P: That's splendid. And - and I'll - I'll do that - I'll get it over to you -

H.M.Jr: Oh, say by two, three o'clock?

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P: About what?

H.M.Jr: By three o'clock?

P: Yes. Oh yes, I'll have it over there by that time.

H.M.Jr: Then you don't have to ask anybody.

P: No, no, - no, that's the best way.

H.M.Jr: O.K.

P: All right.

H.M.Jr: I think - I think that's the easiest, don't -

P: I think so too. It's - it's - it'll - otherwise we'll have too much

H.M.Jr: But for your information, I'll send the original document that you sent me directly to the President.

P: All right, then. All right.

H.M.Jr: And that does - that cuts all the red tape.

P: Yes

H.M.Jr: You're a man after my own heart.

P: (Laughs) All right, Mr. Secretary.

H.M.Jr: Some time when I see you I'll tell you what happened to me in the Army when I tried to make arrangements with them.

P: All right, sir.

H.M.Jr: They were going to divide me up and have me contact ten different divisions.

P: I know it, I know, but that's -

H.M.Jr: Did you hear about it?

P: No, I didn't, but I can imagine; I've had some

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H.M.Jr: I told them that I couldn't work that way and I didn't have time to work that way, and I -

P: (Laughs)

H.M.Jr: - and I couldn't fool around.

P: (Laughs) Well, I - I'll - I'll tell you something. It's a great pleasure to me to work with you, so - (laughing) - so it's all right.

H.M.Jr: I can't fool around with ten different divisions -

P: No

H.M.Jr: - in the Army.

P: No

H.M.Jr: And they wanted me to put down in writing what I wanted.

P: I know.

H.M.Jr: I told them to forget it.

P: Yes

H.M.Jr: Imagine if I wrote - put this conversation with you in writing.

P: I know it.

H.M.Jr: Huh?

P: I know it. Well, that's just the trouble; some people haven't any imagination.

H.M.Jr: I know.

P: They - they just - they just see nothing but a blueprint of a - of an organization, and they think they've got to go down this dotted line and that one.

H.M.Jr: Well, you get this over to me for myself.

P: All right.

H.M.Jr: And you'll know what happens to it.

P: All right. Goodbye.

December 17, 1936
11:08 A.M.

Eccles: Hello.

H.M.Jr: Hello, Marriner.

E: How are you this morning, Henry?

H.M.Jr: Well, thank you.

E: Could I see you for a few minutes? The other day, you remember, I told you I'd try to get this thing cleared up with the Board by Thursday.

H.M.Jr: Right.

E: And I've got the thing entirely cleared up and I know it'll be - I know it'll be satisfactory.

H.M.Jr: Well why not let's say 12:30?

E: Fine.

H.M.Jr: Is that a good time?

E: That's all right.

H.M.Jr: That - that'll be fine.

E: Yes. All right, well then I'll be over at 12:30.

H.M.Jr: Thank you.

E: All right.

December 17, 1936
3:55 P.M.

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

H.M.Jr: The President asked Mr. Eccles and myself to come over to see him on this question of sterilization of gold - and Mr. Bell. I'll let Mr. Bell report.

Bell: Mr. Eccles did most of the talking. The Secretary remarked afterwards that he did a better job arguing the Treasury side than any other. He has completely come over to the Treasury and -

H.M.Jr: May I interrupt you just a minute?

Bell: Sure.

H.M.Jr: He was over here at 12:30 and he used every single argument at 12:30 that we have used. I swear, in my whole experience - excuse me for interrupting; I'll just tell that part because I was alone with him - in my whole experience I have never seen anything like it, and the thing that frightens me - you can start in a minute - is that a man can so completely reverse himself. It scares me to death; I'm absolutely serious. Every single argument that we have pounded into that man for the last two weeks he used, and the only excuse was that he felt that it was his job to think of every reason why he shouldn't and then, having exhausted that, he then took the arguments that we used. But every argument that I or any of the rest of us have used here, he used on me at 12:30. Now, excuse me for interrupting.

Bell: That's all right.

H.M.Jr: And I tell you it scares me to death.

Bell: That's virtually the story. He said that, taking

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up this question originally, he had assumed that the Treasury had thought of every reason why it should be done and that he had put himself in the position on the opposite side, thinking of every reason why it shouldn't be done, and that was one reason why he was so stubborn a week ago. And then, after he thought of all the reasons why it shouldn't be done, he couldn't get anything that way, so he started on the other side, as the Secretary says, thinking from the Treasury's viewpoint, and from that angle sold it to the Board completely, and he says they are all in agreement on it and he told that to the President in very strong language. And then, to complete the story, he told the President the things that the Board could do that would accomplish the same results, but he thought this was the most direct method and would take the expense off of the Federal Reserve System. He came back to that several times. And he strongly recommended that, instead of the others that the Board could use -

Oliphant: Did he say anything about the increase in the public debt?

Bell: Who?

Oliphant: Did Eccles, to the President, say anything about increasing it?

Bell: He said that that was one thing that it would do and some criticism might be directed at that. But there wasn't any objection raised to it as a serious -

H.M.Jr: And then the President - I haven't the slightest idea where he got it - he said, "Of course, where the Treasury handles it they get the quarter of one percent on the gold and you don't get that, do you, Marriner?" I don't know where he got that idea from.

I was over there this morning for 45 minutes, but when I saw the President this morning I didn't know that Eccles was going to turn somersaults at 12:30, and when I told this to Dan at 5 minutes to two, he wouldn't believe me.

B

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And the other thing was that - very interesting thing, entirely his own idea - of the President's. He said, "Well, how about if we want to take some of the existing gold?" and he says, "Could the Treasury redeem 100 million dollars of the existing gold certificates in order to reduce - ?" And Eccles says, "Oh no, no, we haven't discussed that."

Bell: That's another problem.

H.M.Jr: No, we haven't discussed that. But it would be all right if at any time they wanted to do this. And the thing that interested the President was the fact, which I sold him this morning, when I saw him, was when gold goes out it will not affect the economy. And the other - of course, this is all ultra- ultra-confidential - is that Eccles is no longer talking about the Federal Reserve System ruling domestic economy; that this thing simply - that by this action it simply removes the Treasury from controlling the present situation. And that's the way Mr. Eccles is talking now - and it permits the Federal Reserve Board to do their job and he is no longer talking that he has the full responsibility for domestic gold.

Bell: He says this completely frees them from this responsibility and leaves them with their present brakes to operate on the reserves.

H.M.Jr: You know, I want to say - I want to thank each and all of you for what you have done, for helping me. But I consider this one of the historic moments in the monetary history of this country. I am perfectly serious. Why Mr. Eccles changed I don't know; I just can't understand. Never mind that. But I do think this thing, this decision that we are going to do Monday at four, really, from a monetary standpoint, is a very historic occasion.

I also want to tell this in strictest confidence: that, with Bell present as a witness, Eccles turned to me and said, "Now, Mr. Secretary, I want you to join me alone and get rid of this man O'Connor," and then he says, "you and Crowley and I can sit down and decide what the future banking system of

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America should be." To which I answered that I would be no part or parcel of any such thing and that if he wanted to do that that was his business, but I would take no part whatsoever, and I didn't care even if the President asked me to, I would not do it; and that if he wanted to take that on, that was his job, that I would not be part or parcel of any such secret agreement.

Taylor: This was before or after?

Bell: Before we saw the President, while we were waiting.

H.M.Jr: And Bell was there.

Now, we have agreed that we'd do this thing at four o'clock Monday. Bell has a couple questions he wants to ask and - as to publicity - I said that Gaston, he'll be back; maybe he is back.

Mrs Klotz: He ought to be.

H.M.Jr: (On phone) If Mr. Gaston is in, ask him to come right into my room, please.

Now Dan, you go ahead please.

Bell: Well, first question I want to raise is, when I talked to you the other day, Archie, about the one quarter of one percent you now deduct from the purchase of gold - I believe that that ought to go into the Treasury to offset to some extent the expense of borrowing. There would be less criticism; if there was any, there would be less if we do it that way than to put it in the Stabilization Fund.

Lochhead: I - about that - I mean about this quarter of one percent, I'm not thinking of that. I think one point in your argument is that it would be a good deal simpler for you to handle that way.

Bell: Well, that's true.

Lochhead: Now, I'm thinking of the newly-mined and secondary gold.

Bell: That's another -

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Lochhead: If that's going to be handled through the Stabilization Fund and -

Bell: That's my second question.

Lochhead: I don't think that we can handle it and take the quarter. That's the whole point. We could take the quarter if it was newly acquired gold coming in from abroad and just being handled in the one assay office; it could be cleared right through the Stabilization Fund and the quarter taken off, I think, without much bookkeeping trouble. But if you have to take every bit of gold that comes in and passes through the Stabilization, I don't know, from a bookkeeping standpoint, now you can work out that.

H.M.Jr: Well, there is also - I don't know whether the word is "ethical" or "proper" or what it is, but I question whether newly mined gold and scrap gold - if we handle that through the Stabilization Fund, whether some people might not question whether the Stabilization Fund was really created - whether we are not stepping beyond our bounds by handling that; and also, whether there would be the eventual criticism from the Federal Reserve System that the Stabilization Fund was created to stabilize the external dollar and we are using the Stabilization Fund to -

White: But it wasn't.

H.M.Jr: Well -

White: I mean specifically was not.

Oliphant: I think it is created to control, among other things, the gold supply.

(Gaston comes in)

H.M.Jr: Hello, how you feeling?

Gaston: All right.

H.M.Jr: Just to bring you up-to-date, we have just left the

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White House and Eccles has completely turned a somersault and is even more strongly in favor of the Treasury doing this than ever I was.

Gaston: Oh, this is another somersault.

H.M.Jr: Yes

Gaston: All right.

H.M.Jr: And we are going to do this Monday at four o'clock and we are now discussing some technical things, how the thing should be done. And then, as to publicity, I suggested that he have his man get in touch with you. But we are just starting the discussion as to handling the technical phases of this thing.

Gaston: Yes. Is he going to talk?

H.M.Jr: We announce it here.

Gaston: Yes

H.M.Jr: I told him he could follow my announcement with an announcement or I'd be glad to have him come into this press conference and make his announcement. But we announce and he follows it with a statement. But you will have a chance -

Gaston: Yes

H.M.Jr: Bell is just raising some things.

Bell: Well, as to the mechanics of the thing, we can handle it. It will be rather difficult, because every assay office and mint would have a Secretary's special account to which they would have to put this gold, and there would be many adjustments due to the fact that the metal you receive has not only gold but silver, and you will want to buy the silver in the Stabilization account. I would prefer personally to handle all of the domestic gold through the General Fund.

Oliphant: Sterilize it but do it through the other fund?

Bell: That's right.

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- H.M.Jr: Well, we agreed at the White House that all gold would be sterilized, but now through which fund isn't quite clear in my own mind, and I'm going to listen a little bit longer, please.
- Bell: Well, the gold coming in from abroad would be handled through the Stabilization Fund, and as it accumulates from time to time it would be sold to the General Fund, or currently, whichever you prefer. And as it is accumulated in the General Fund we would sell bills to the market and in effect pay for it. Now, as the newly mined gold comes in, we'd pay for it just the same way we do now, out of the General Fund; but instead of depositing that gold, or the gold certificates back of that gold, with the Federal Reserve Bank, receiving credit for the purpose of paying for that check when it is presented, we borrow money with which to do that, and hold that gold frozen in the Treasury just the same as the imported gold.
- H.M.Jr: Let me see if I understand. As to the imported gold, if Archie buys 50 million dollars worth of gold, or when an American bank takes 50 million dollars worth of gold - now, as to the gold that Archie buys in London, he has to buy that with the Stabilization Fund, and that comes here and he pays that out of the 200 million dollar revolving fund. Is that right?
- Bell: Yes
- H.M.Jr: And then when the 200 million dollar revolving fund reaches its saturation point, he goes to the General Fund and gets the money to reimburse the Stabilization Fund.
- Bell: That's right. He turns the gold over to the General Fund and the General Fund will give him the money.
- H.M.Jr: Now, supposing the Guaranty Trust of New York buys five million dollars in London, brings that over. When it arrives in New York, how do they get paid for it?
- Bell: Under the present procedure, if that wouldn't come

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through the Stabilization Fund, they get paid by a Treasury check drawn by the assay office in New York. But under this new scheme, Archie would pay for it out of the Stabilization Fund.

- H.M.Jr: In other words, whether the Stabilization Fund bought the gold or whether the Guaranty Trust bought the gold in London, both of those transactions would clear through the Stabilization Fund.
- Bell: Under this new procedure, in other words, the Stabilization Fund buys all imported gold.
- H.M.Jr: All imported gold.
- Bell: That's right. And all domestic gold, that is, newly mined gold plus scrap gold -
- H.M.Jr: - would enter directly into the General Fund.
- Bell: That's right.
- H.M.Jr: The way it does now.
- Bell: The way it does now.
- H.M.Jr: There would be no change in that.
- Bell: No. But when we go to pay for that, instead of going to the Federal Reserve System and getting gold certificates, you go to the open money market and get bills.
- H.M.Jr: Yes.
- Now we'll come back to Archie's one quarter of one percent. On the gold which he gets from abroad, he gets his one quarter of one percent - yes or no?
- Bell: Yes, he deducts it when he pays for it.
- Lochhead: That's where the - you're bringing it up - that is, the gold that I would buy abroad and bring in here, we would get the one quarter under the present plan because we deal with the Treasury just now at \$35 an ounce flat.
- Bell: That's right.

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- Lochhead: Now, the other - the gold that the Guaranty or anybody else brings - buys abroad and brings in and sells to the Stabilization Fund - whether you want that quarter of one percent to go right to the General Fund or to the Stabilization Fund -
- Bell: You buy that from the Guaranty Trust Company, we'll say, at \$34.92 - that's about right. You ought to sell that to the Treasury at the same price, \$34.92.
- H.M.Jr: I think I'm going to make this much simpler; I'm going to argue - I think that the fund who has to pay the interest on the money that we borrow should get the one quarter of one percent.
- Bell: That's the General Fund.
- H.M.Jr: I think the General Fund should get all of that. I don't think the Stabilization Fund should get any of it.
- Oliphant: Even the stuff that the Stabilization itself buys in London?
- H.M.Jr: That particular fund that is going to pay the interest should get the one-fourth of one percent, because that would most likely pay the interest on the money for one year.
- White: May I raise objections?
- H.M.Jr: That's what you're invited here for, Mr. Eccles.
- White: Do I have to turn a somersault?
- (Hearty laughter)
- H.M.Jr: Oh geez, this is more fun. Believe me, I never used to walk out of the White House without a headache. And coming back you could hear me laughing clear across the street. Oh geez, times have changed.
- Now, you go ahead, Dr. Eccles.
- White: With regard to the General Fund handling the domestic

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gold rather than the Stabilization Fund, I can well see where it would be simpler; but if it is merely a matter of saving a little bother to some bookkeepers, I would prefer to see the matter handled in the Stabilization.

H.M.Jr: Did you hear that? So -

White: Well, that's what it amounts to, doesn't it? I mean we don't do the work on that. And I'd prefer to see the Stabilization Fund handle it because if you have the General Fund handling that, it is one step for a lot of people to ask, "Well, if they handle domestic gold, why all this bother about the Stabilization Fund handling the imported gold?" And I'd like to see no distinction drawn between - in any way, even a slight distinction drawn in the treatment between incoming gold and domestic gold. The Stabilization Fund is to stabilize the dollar, it is to stabilize the gold movements, and whether those gold movements come from within or without, I think there is something definitely to be gained by not drawing a distinction between the two, which would create in the minds of many the idea that the Stabilization Fund has special concern with regard to the incoming, or the foreign purchasing power of the dollar, and not with regard to the other side. If it is merely a question of some bookkeeping transactions, I think that the other is more important. If later you find it ceases to be of importance, you can readily shift.

H.M.Jr: Just wait a second. I'm going to tell a gentleman I'm going to see him at another time. When you people get through, there won't be anything left.

(Secretary goes out and returns)

H.M.Jr: Now go ahead, White, take your time.

White: The second point, I take it, is not a question of cost to the Government. Obviously, whether the Stabilization Fund or the General Fund gets it, in both cases it is Government revenue. Therefore, the question has to be determined on other ground.

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I don't think it is a very impressive argument to say that, the General Fund having to borrow in order to get some of this gold, that act will appear less onerous to the public if there is a quarter of a percent profit obtained; because anyone could simply remind whoever raises that objection that the Government got that one quarter of one percent anyway and it was merely a transfer between funds. And I think there are some reasons why the Stabilization Fund should build up a profit - as much of a profit as possible. We never know what losses we are going to operate in. It is absolutely essential that the Stabilization Fund make a good showing when it is necessary to make an accounting. And that quarter of a percent mounts up, so that when there is some occasion that arises where it may be necessary to take a loss, for monetary reasons, there will be a little less reluctance to do that than there would be if there were no profit and the Fund had to show a loss in the end of the year statement.

So, on the one hand there is a question of a little easier way of operating properly the Stabilization Fund, as against an attempt to impress the people with a special gain which they could recognize as accruing to the Government in any case.

Lochhead: My feeling is I think that on the domestic gold and the second-hand gold the quarter of one percent doesn't belong to the Stabilization Fund. It would be hard work building up a case on that for Stabilization. In the gold imported by other banks brought in, I think it is a question that it could go to either one or the other.

On the gold purchased abroad, however, by the Stabilization Fund, I think it should be handled at \$35, not as a matter of profit but as a matter of operation. In other words, if the Stabilization Fund has to work exactly on the same basis with every commercial bank, if we have to do our figuring at exactly the same level that they do, we are just standing still and competing with the banks. A quarter of a percent makes a big difference in operating. We can freeze out at any time the

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commercial banks by raising up our offer and taking advantage of that quarter of one percent, and it wouldn't show us a loss. But if we didn't have that quarter of one percent it would mean we were showing a loss in the Stabilization Fund every time we wanted to operate in that way. So it is not so much a question of profit but ease of operations that we are after.

H.M. Jr: Well, look. Knowing this daily operation, I don't want to get down to the \$34.77. \$34.82 we can bid. We can bid \$34.82; sometimes it is very convenient - a few pennies. I think that Eccles has convinced - I mean - excuse me, I mean Lochhead has convinced me that - let's take one step at a time - that on the gold that the Stabilization Fund buys in the world's market, let's say, that that one quarter of one percent should go to the Stabilization Fund. Well, I agree to that.

Now, that's Number One. Now let's take the next. Now let's take the gold that the Guaranty Trust buys.

Oliphant: Stabilization Fund. I'd put it in the Stabilization Fund, for the reason that White states.

Bell: You can't operate the Stabilization Fund on the basis of profit and loss, and you can't operate the Stabilization Fund at the expense of the General Fund. We bought some silver from the Stabilization Fund, which I am a little bit ashamed of, frankly, because the Stabilization Fund bought it at 33 to 45 and sold it to us - what for, Archie? - 50, 60 cents.

Lochhead: Oh no, not 50-60. The Government came along and took away the Stabilization Fund silver. It nationalized it. It treated the Stabilization Fund just like every independent individual. We could have made more if we held on to it, if we could have sold it to the Government at 75. We relinquished a good profit when we let them nationalize silver. I've been waiting for that to come up.

(Hearty laughter)

- Bell: This has been in the back of my head and I wanted to -
- Lochhead: No, sir, Dan. I mean the Government treated the Stabilization Fund just like an ordinary individual, and it nationalized the silver it had here, took it away at 50 cents an ounce.
- Bell: I agree, but nevertheless I - you have to agree that the General Fund stood that difference, and a substantial part of your profit is due to silver operation.
- Lochhead: No, I mean that's the basis of that. I mean the Stabilization Fund was treated just as anyone else. It's not as if the Stabilization Fund took silver at a cheaper price and held it for a profit. We have been very careful, Dan. Outside of that silver, every bit of silver that the Stabilization Fund has got has been turned over to the General Fund at exact cost. That was the only one and, as I say, that was when you nationalized silver. We weren't ready to turn that silver over, and -
- Bell: You were going to sell it to me at 75; yes, I know.
- Lochhead: Well, after all, it wasn't the Stabilization Fund that was running the price of silver up. That was you that was doing that.
- Bell: Nationalization just helped you out.
- H.M.Jr: Well, wait a minute. On the gold that the Stabilization Fund buys in the world markets, it gets the one quarter of one percent. Now, what about the gold that the private banks bring in? What about that?
- White: Why should any distinction be made between those two operations?
- Lochhead: That is just as I have said. On the gold that we buy abroad we should take that one quarter of one percent, but on the gold the other people bring in, I'm not making a brief for the Stabilization Fund there just because it is imported gold.

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White: You have given an additional reason why the quarter of one percent should be given on that gold, but there is still room for the reason that the profit of the Stabilization Fund should be built up wherever possible.

Lochhead: Well, that's the element you are using on the second one. That's the argument for giving the Stabilization a quarter.

H.M.Jr: It isn't clear yet - I mean just because they should have it. Let's just leave that hanging in the air for a minute. Now, the newly mined gold, is there any argument about that?

Taylor: Yes, I think Harry's got a pretty good argument there. You don't need the quarter, but I mean as far as your routing.

H.M.Jr: That should go through the Stabilization Fund?

Bell: You mean to build up the profit?

Taylor: No, there wouldn't be any profit.

Bell: Well, the quarter of one percent.

Taylor: I didn't think there was any quarter on that.

Lochhead: Yes there is.

Taylor: Oh, there is on that - oh.

Lochhead: They deduct a quarter and they also deduct the mint - the regular mint charges, the expenses.

H.M.Jr: Personally I think the easiest way to do this would be that the foreign gold go through the Stabilization Fund and they get the one quarter of one percent; the domestic gold through the General Fund, and they get the quarter.

Bell: You mean all foreign gold?

H.M.Jr: Huh?

Bell: All right.

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- H.M.Jr: All foreign gold goes through the Stabilization Fund and all domestic through the General Fund.
- White: I feel opposed to it. I think you are making a distinction which we don't want to make. You are making a distinction which you yourself wished to avoid when you spoke of Eccles no longer stating the distinction between the domestic and the foreign dollar. I mean it is another emphasis that there is a distinction between domestic gold and foreign gold, and I hold we should do everything in the opposite direction to indicate that there is no distinction.
- H.M.Jr: Well, it isn't settled.
- Oliphant: The central function of the Stabilization Fund, one of the central functions envisaged in the legislation, is that it control the supply of gold.
- Taylor: I don't think that the quarter has any bearing on it one way or the other. I'm thinking in terms, I think, of what Herman tried to bring out.
- H.M.Jr: What do you think?
- Taylor: I think through the Stabilization Fund.
- H.M.Jr: Why?
- Taylor: Just to emphasize that that is where your national gold reserves are handled, centralized.
- Oliphant: And your gold control.
- H.M.Jr: Let me put it another way -
- Bell: That's really the only reason, to centralize your gold.
- Taylor: It is the only one, but I think it is the important one.
- H.M.Jr: Supposing they want to take a hundred million dollars worth of gold out of the country.

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Oliphant: Out of the Stabilization.

H.M.Jr: Then would I be faced with the problem that I'd have to take it out of two funds?

White: It would still go through the Stabilization Fund, whether you take it out of the General Fund or the Stabilization Fund.

Bell: Well, it depends on how much you've got left.

H.M.Jr: Well, let me put it this way. If the one quarter of one percent - let's say we have all gold, domestic and foreign gold all goes through the Stabilization Fund; then the one fourth of one percent goes entirely to the Stabilization Fund. And then who pays the first year - who pays the first year's interest?

Bell: General Fund.

H.M.Jr: Well then, you don't get any of that one quarter.

Bell: No, it just counts as an interest charge on the Budget, just increases your interest bill.

H.M.Jr: I'd like to be able to say that the one quarter of one percent goes against the interest.

Bell: That's the only reason I - the bookkeeping is a consideration, but I don't mind that.

H.M.Jr: Couldn't you have the Stabilization -

Bell: Well, you can do it this way if you want to - put it through the Stabilization Fund and then every three or four months draw a check for the profit and turn it back into the Treasury.

H.M.Jr: Well now, I tell you something, gentlemen. I consider this thing pretty important. I don't want to do it like this. I'd like to have you all think about it and I'd like to have you get together tomorrow morning and kind of chew this over in the Undersecretary's room. And I think it's important. Then what am I doing? - have I got anything at around 12?

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Mrs Klotz: Tomorrow? No, only at 11.

H.M.Jr: What have I got at 11?

Mrs Klotz: You wrote this yourself.

H.M.Jr: Oh yes, that won't - I'll be ready for you people at 11:30, 12 o'clock. Why not say we meet at 12 o'clock tomorrow on this thing, and you people - why don't you people go - say, go in there at 10 o'clock tomorrow? Go in there 10 o'clock tomorrow and talk this thing over. I think this is pretty important, and I'm tired.

Oliphant: Did Dan have any more questions?

Bell: That's all I have.

H.M.Jr: But that's pretty important. I don't want to just -

Oliphant: I think it is very important.

H.M.Jr: After all, if you fellows talked from 10 to 12, think of any new angles on this, come in here at 12, and let's do it. But it's too important, I mean.

I just want to say this. As to - I don't - the argument that you used that I give the least weight to is building up the profit in the Fund.

White: Well, I don't know, Mr. Secretary; there's a psychological deterrent that I don't know whether you would be wholly cognizant of at the time, but anyone who's in control of a fund is possibly impressed or somewhat influenced by the necessity to take a loss, and -

H.M.Jr: All right, all right, now; now, the Fund right now - we have earnings right now of about five times our expenses, more than five times.

And that brings me right up to the decision I want to make right now. We bought today a little over three and a third million dollars of new 2½'s, see, and I'd like to put those in the

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Stabilization Fund.

Lochhead: Here are some more figures on that, probably about the same though. (hands Secretary sheet).

H.M.Jr: Well, it is approximately; yes, it is the same. Now, I'd like to put three and a half million of the new 2½'s in the Stabilization Fund.

White: Of course, you're putting money out in excess reserves.

H.M.Jr: I know, but that doesn't - it's small compared to - I mean what I'd like to do is if we could buy ten million of these 2½'s to be at work in the Fund against the day that I may have to take some losses.

White: Well, did you say that profits play no role in your operation of the Stabilization Fund?

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

White: I thought you implied that.

H.M.Jr: No. I want to make this decision on the possible profits of this kind, which are non-recurring - which are non-recurring profits, and I don't think that this decision - I mean we've got to go before the public and explain why we are willing to increase the public debt by a billion dollars in order to sterilize gold, and I've got to explain why we are willing to pay interest on this when I could issue money, and I've got to explain to the kind of fellow like Thomas and Owen and Father Coughlin, and those sort of people, why I am willing to pay interest to sterilize gold, permit the foreigner to buy up the American securities, and so forth and so on - and make the taxpayer pay the interest on it. Now, that is far more important, to get that story right, than it is to think of one quarter of one percent which may go to the Stabilization Fund; and I want that story so that I can sell this thing and because I have to take the brunt on it. Why am I willing to increase the public debt, pay interest on this thing, charge the taxpayer, when I could do this thing - shove it over on the Federal Reserve System or just issue money?

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White: I think there's a way out. I'll throw it open for discussion tomorrow morning.

H.M.Jr: Do you see what I mean when I say that? That's why I say that the possible one quarter of one percent is insignificant compared to this whole big thing which I've got to be able to explain and sell. Huh?

Bell: Now, you want this to go Monday afternoon.

H.M.Jr: Yes.

Bell: Now, Clarence has got a job drawing, I take it, an Executive Order.

Oliphant: We've got that.

Bell: You've got that already.

Opper: The biggest job is going to be the thing which will embody this decision that you are talking about now. That's the thing we haven't been able to proceed on until these questions were settled.

H.M.Jr: What's that?

Opper: I say that the letter to the President and the authorization, that's all ready, but the mechanics -

Bell: I'm not worried about that.

H.M.Jr: If this thing is settled by noon tomorrow, you've got from noon Friday until noon Monday. That gives you longer than you usually have.

White: May I say an obvious word with regard to these bonds? I presume that if any such action were taken, the Federal Reserve Board would be informed of that fact, since that very definitely operates to increase holdings.

H.M.Jr: Well, they know; I've told Eccles.

Bell: That's no different than any other purchase we are investing.

- 20 -

- Lochhead: We invest them all through the Federal Reserve Bank of New York, and they send a notice around of all purchases.
- H.M.Jr: I had a partnership with Mr. Eccles to buy 50 percent of the bonds, and the - when the thing gets hot he backs up; he comes in when everything's fine and easy, and the thing - just as soon as the bonds come too fast, Mr. Eccles withdraws, and hasn't been my partner since December 11.
- Oliphant: Since when?
- H.M.Jr: Since December 11. I mean just as soon as this thing gets hot, he quits. He quit on me on December 11. And he was going to - he was the fellow that's going to look after domestic economy - and some partner.
- Oliphant: With the greatest of ease.
- (Hearty laughter)
- H.M.Jr: But again I want to say one thing. I want to again say I really want to thank you all for what you have done, because I consider this a great victory. I don't know what Mr. Eccles' reasons are; I don't give a hoop. But I really think it is of tremendous significance.

December 17, 1936.
4:54 p.m.

H.M.Jr: Hello

Operator: Senator Glass.

H.M.Jr: Hello.

Glass: How are you Mr. Secretary.

H.M.Jr: I'm sorry I delayed in calling you back but we had a terrific session - long session at the White House.

G: Yes,

H.M.Jr: I just got in a few minutes ago.

G: Well did you save the country?

H.M.Jr: Ah - (laughs) I think the country's been saved. (laughs). Ah - I don't know.

G: What's the use of long sessions then if everything is all right.

H.M.Jr: Yes, everything is still all right - I mean we haven't done anything.

G: Mr. Secretary, I've written you a letter.....

H.M.Jr: Yes sir.

G:saying what I had wanted to say to you over the phone.

H.M.Jr: Yes.

G: I wanted to venture to express the opinion that it would be well if your Advisory Committee or the President's Advisory Committee on Banking Legislation....

H.M.Jr: Yes.

G:would take formal action against this banking legislation.

H.M.Jr: Yes.

- 2 -

G: I think if we undertake this banking list I'm sure we're going to disturb the business anxiety of the country and there's no necessity for anything in the world but what you proposed.

H.M.Jr: Yes.

G: And I think that's what ought to be done.

H.M.Jr: Yes.

G: Now your friend Eccles, I'm very reliably informed informed, wants to absorb every federal agency he can lay his hands on.

H.M.Jr: Yes.

G: He wants to have the right of reviewing proposed tax bills and he wants to have exclusive right of examinations and he wants to pass upon the budgetary estimates and he wants to be everything except President and he'd like to be that if he can.

H.M.Jr: Ah-ha - well..

G: And I think that - I think that your Committee ought to - ought to take action against that sort of thing and then let me have a talk with the President about it.

H.M.Jr: Well Mr. - Senator - ah - ah - I told you, in talking with you the other day, that as far as I'm concerned I don't want to see anything new, see?

G: Well none of the other members of the committee do.

H.M.Jr: And - and if I change my mind after talking to the President - you know he told me that he had something in mind - that I'd come and talk to you first.

G: Yes.

H.M.Jr: Now I'd be delighted - I mean if you saw the President or if you'd ask me to go with you - either way. I'd be delighted to be present but since I

G: I'd - I'd like to have you there.

H.M.Jr: As a matter of fact this thing that we were talking about in the strictest of confidence to-day is this question of how to handle this gold that's coming in, you see?

G: Yes.

H.M.Jr: It has nothing to do with any legislation.

G: No that has anything to do with it.

H.M.Jr: But to tell them how best to handle this gold.....

G: Yes.

H.M.Jr:which keeps coming in. That's what we - just for your own private information that's what we were talking about.

G: Yes.

H.M.Jr: And we did not...

G: That doesn't require legislation.

H.M.Jr: No it does not require it. It's just a question as to what is the best way to handle it.

G: Yes.

H.M.Jr: But my position is just what it was the other day and....

G: Well I hope you'll stand firm.

H.M.Jr: And - and if I change my position because the President wants me to I'll come and see you.

G: But what we want to do or what we would want to do I should think was not to have the President change your position.

H.M.Jr: Yes, well, as I say, if you would see him, and I think it is very important that you do see him.....

G: Yes.

H.M.Jr: Ah - if you'd like to have me present or whether you feel..

G: Oh I'd want you present.

H.M.Jr: I'd be delighted to be there but as I told you the other day as far as I can see we could run along for a year without any legislation of any kind.

G: And without any disturbance at all.

H.M.Jr: And we'd have much less disturbance.....

G: Yes.

H.M.Jr:if we didn't have any because I know that just as soon as they start monkeying with this banking legislation a lot of people are going to bring in a lot of damn-fool stuff.....

G: Exactly.

H.M.Jr:and then the fat's in the fire.

G: Yes.

H.M.Jr: And - and my position hasn't changed one iota and when it does I'll call you on long distance or come and see you wherever you are.

G: Well before there is any necessity for a change supposing we get together and go and see the President.

H.M.Jr: Suits me.

G: And tell him what we think about it.

H.M.Jr: It suits me fine and I'm going.....

G: That - that other fellow is going there with a - oh with a sweeping sort of legislation that would - in the first place he's not going to get it through and in the second place he ought not to get it through and in the first place he ought not to and in the second place he can 't get it through.

H.M.Jr: Well as I told you the other day I'm sure they'll be times when we differ but I always want to hold your respect.

G: Well you have that.

H.M.Jr: And the only thing I've got in this town is my word.

G: Yes - well your word is all right.

H.M.Jr: And so if.....

G: Well let us get it to the President before the other fellow does.

H.M.Jr: Suits me.

G: All right.

H.M.Jr: Thank you sir.

December 17, 1936

Capt. Puleston telephoned that the situation in China still looks as though it will turn out all right. It looks as though they will continue to negotiate -- probably a peaceful solution. Mr. Donald, according to the news flash, is on his way back to Sian where he will probably continue the negotiations.

December 17th

The President said that both he and Walton Moore were very much upset to think that they are not getting any information out of China. Walton Moore told him that he thinks it is a lot of smoke and nothing to worry about. I told him I disagreed with him and thought there was a lot to worry about. The President agreed with me. I told him that I would prepare a memorandum for him giving him the information which we had on China. The President says that he has absolutely nothing.

I asked him about Landis for Under Secretary and whether we could not come to see him together and he laughed and said, "No, I will not let the two of you gang up on me". He said, "Let me look over the list and see if I can't make a suggestion within the next twenty-four hours". I said, "I wish you would because I have gone to the Congressional Directory and I cannot find anybody but Landis". He laughed again. I said, "I feel encouraged and I am going to keep working on you" and he replied, "That is O.K." He told me that when he got my cable that I wanted to move gold on account of the situation in England that he and his son Jimmy said, "What is Henry worrying about? There is nothing to worry about in England". He said that the five of them sat around a table in the evening and all wrote out on a piece of paper what they thought the situation would be on January first and every one of them wrote down that they thought Edward still would be King. He said that the information they had over the radio general news all played down the crisis in England and they were simply dumb-founded when he abdicated and then they remembered my cable.

I told him how worried I was the day of our issue and I made up my mind that I would carry the responsibility and not worry him. He said, "Now looking back he realized how worried I must have been".

I told him that two days after I sent him the cable about the Japanese Foreign Exchange that the Japanese Minister of Foreign Affairs offered his resignation and it is my belief that the Japanese Cabinet would have fallen if it had not been for General Chang seizing Chiang Kai-shek. I then told him, which I could see was news to him, that following the agreement between the Japanese and Germans, the Russians had refused to sign a fishing treaty between themselves and the Japanese. Immediately following this move by the Russians, the Japanese Minister of Foreign Affairs offered his resignation. Next came the seizing of Chiang Kai-shek and, I said, "To show you that this whole thing, I believe, goes completely around the world take a look at Spain and see the clash there between the Russians and the Germans." I am quite positive that the President had not

- 2 -

realized how this whole thing was inter-woven and I am sure that Walton Moore had not pointed it out to him.

He then immediately carefully cross-examined me on the sterilization of gold. He got the picture very quickly. I told him that after having agreed to this Eccles changed his mind. We felt that Eccles had been influenced by Elliott Thurston and that this was not only a fight for publicity but also a fight that Eccles was putting up to get more authority for the Central Banks as against the government and the Treasury. I pointed out to the President that I was much more interested in preparing ourselves for the time when gold would go out than I was in the immediate situation of stopping the increase of excess reserves through the inflow of gold. I pointed out to him what Neville Chamberlain had just done and he had read it and understood it, namely, a transfer of gold from the Treasury to the Bank of England and I said, "That is what we will most likely have to do at some future date".

He then asked me two very interesting questions showing that he had really been thinking about this. He said, "First, could we not handle some of the gold that had already come into the country in the same manner and in that way reduce the excess reserves" and I said, "Yes". Then he said, "Couldn't we also take some of the sterilized gold and put it back into the Federal Reserve system and increase excess reserves if and when necessary" and I said we could. This showed that he had a real grasp of the situation. He was ready to go ahead at once but I said no I wanted to have him see Eccles and me together and I think we are going to see him right after lunch to-day. I do not look for any trouble from the President on this score. I told him that Eccles and I had a long heated discussion on this subject but all in a friendly manner and that there was no bad feeling between Eccles and myself.

The President said, "I will give you a good man. I will give you Berlew who is not happy where he is" and I said, "What do you want to give him to me for - so I can fire him?" He said, "If you don't like Berlew, I will give you J. Edgar Hoover. He is not happy". So I said, "You have been reading the papers recently" and he replied, "You bet I have". He said, "I have a new slant on Palestine. I have been talking to somebody about it and I was surprised to learn that only 10% of the Jews who have settled recently in Palestine have had any previous agricultural training". I said, "I understand it is so. That is one of the troubles that they are having." He made this remark after I told him that I wanted to make a religious speech and I would like him to go over it on Sunday.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 17, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHFROM: L. W. KnekeDE. NEDERLANDSCHE BANK

Mr. de Jong called me at 10:51 and inquired whether we had received his cable No. 117. I told him we had and that we should, of course be happy to execute his order. I inquired whether 54.75 was his net price and explained cost of brokerage and remuneration for our intermediary, totaling 9/10 of a point in the rate. de Jong agreed that in that case we should sell at 54.75 only. I inquired whether, together with an order to sell guilders, he also planned to give us a lower limit for the purchase of guilders. He replied that they were not thinking about "the other half yet," that they had not advanced that far, had not made up their minds on that point and were interested at the present not to let the guilder go above their limit of 54.75, if they could help it. de Jong inquired whether I saw any objection if they were trying to hold the guilder rate down by also buying dollars in Amsterdam, beginning their operations at a somewhat lower figure and gradually working up to the 54.75 point in order to prevent the guilder from rising up to 54 3/4 too quickly. If so, for what amount would we be willing to have them operate in Amsterdam. I replied that it seemed to me, considering that we were all feeling our way, it would make mighty little difference whether he began operating at 54.70 or 54.65, or thereabouts, and that I would suggest that we agree to a total of 10,000,000 guilders for his and our operations together. As far as this market was concerned, I did not think we would be able to operate on a large scale; consequently the bulk of the business probably would have to be done by him in Amsterdam.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 17, 1938.CONFIDENTIAL FILESSUBJECT TELEPHONE CONVERSATION WITHFROM L. W. EnckeDE NEEBERG ANDSCHE BANK.

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After a total of 10,000,000 guilders had been done, or if they changed their mind as to the rate, I suggested that we get in touch with each other and discuss these matters further. Meanwhile we would consider his order in force until we both together had done 10,000,000 guilders unless we heard from him that they had substantially changed their idea as to the rate. I reminded Mr. de Jong of that paragraph in our cable No. 62 of November 24, which stipulated that we would keep each other advised daily of all transactions as a result of which gold was to be earmarked or released under the arrangement. He replied that he would not fail to advise us regularly by cable in the afternoon. de Jong referred to the old difficulty of differentiating between Federal funds and clearinghouse funds and pointed out that all he could buy in his market were the latter. As a result he would furnish us dollars for two days delivery but could get his gold only on the third day. I replied that we understood that such dollars would be convertible into gold on the third day, that is after they had become Federal funds.

I mentioned to de Jong that any time he wanted to buy sterling against dollars, it might pay him to approach us because we might, at times, be in a position to do business with him. Mr. de Jong promised he would keep this in mind.

LWK:EMC

C O P Y

INCOMING CABLEGRAM - SERIAL NO. 3329

RECEIVED ON DECEMBER 16, 1936

Amsterdam, December 16, 1936.

Federal Reserve Bank of New York

New York

No. 117 CONFIDENTIAL

ONE Thanks for your letter of December 1 and enclosures.

TWO We request you to open in your books special dollar account and special gold account as suggested at the end of your cable No. 62.

THREE We intend to call you up by telephone tomorrow December 17 about 10:15 A.M. American time in order to ask whether you would be prepared to sell for our account in your market up to 10,000,000 Dutch guilders as and when you can make for the guilder a rate of 54.75 or better.

De Nederlandsche Bank.

CA

Gray

P..RIS

Dated Dec. 17, 1936. A

Recd 410 p.m.

Secretary of State,
Washington.

1267, December 17, 4 p.m.

FROM COCHRAN

Statement of Bank of France as of December 11, showed no change in gold; discounts down 183,000,000 francs, advances to the treasury under Article 3 up 800,000,000; circulation down 494,000,000; deposits up 1,400,000,000; coverage 61.27 versus 61.59.

Dollar was weak against franc but has strengthened since opening with one Paris American bank buying dollars importantly. Sterling has ranged from 105.12 with Bank of France yielding small amount at latter figure. Florin exceptionally strong with report from Amsterdam that Dutch stabilization fund is buying important amounts of sterling and dollars. French rentes up 15 to 46 centimes. Internationals slightly lower. Receipts for gold deposits made with Government's paying offices which sold at 115 yesterday have advanced to 126 on publication of terms of treasury issue described in my 1259, December 16, 6 p.m.

Rueff has given me the letter mentioned in final paragraph of 1259. It is dated 18th and is from
(END SECTION ONE)

BULLITT

EMB RGC

Ci.

Gray

PARIS

Dated Dec. 17, 1936.

Recd 5:05 p.m.

Secretary of State,
Washington.

1267, December 17, 6 p.m. (SECTION TWO)

Governor of Bank of France to Association of Paris and Provincial Bankers. A translation of pertinent paragraphs follows.

"Article 13 of the law of July 24, 1936 providing for the reorganization of the Bank of France stipulates that 'all bills of the floating debt issued by the Public Treasury and coming to maturity within a maximum period of three months are admitted without limit to rediscount at the bank of issue except for the benefit of the Public Treasury.'

I have the honor to confirm to you that in execution of this legal provision the Bank of France will accept without limitation for rediscount all bills of the floating debt issued by the Public Treasury which are presented to it with the sole reserve that their maturity is reached within a maximum delay of three months after the date of their presentation and without taking into account the presenter's own credit or activity nor the destination which the presenter proposes to give to the proceeds of this discount.

I desire to make clear to you furthermore that the Minister of Finance has been good enough to give me the assurance

CA

--2---

1267 Paris Dec 17 6 p.m. sec. 2...

assurance that in conformity with the provisions of the article of the law of July 24, 1936 referred to above the Treasury will continue to prohibit all operations which may be considered as constituting or implying directly or indirectly a discount for the benefit of the Treasury and that henceforth the rate of three months treasury bills will continue to be fixed at a level slightly less than discount rate."

BULLITT

JS

PARAPHRASE OF SECTIONS THREE AND FOUR OF
No. 1287 of December 17, 1936, from the American
Embassy, Paris.

Reaction to the letter must be awaited, as it has not yet been published. It may be presumed that this step will facilitate the issuance of Treasury bills and negotiation thereof at the Bank of France, and that through this means fresh money needed by the Treasury may now be sought. The interpretation that probably will be given to the move is that as Auriol bonds are converted into the new issue there will be a corresponding increase in the Treasury's authorization for issuing bills.

Reference appears in the British financial press to the French Treasury issue, and especially to Auriol's promise of freedom for capital movement, praising the reversal of the policy of the Treasury. The press believes that the result may be reconciliation between Government and French capital. This partial correction of what French financial journals have consistently deemed a mistake in French Treasury policy is welcomed by these journals. However, they mention that while Auriol may be turning from threatening to reconciling capital, the speeches given recently by his ministerial colleagues in which they expressed favor for nationalization of credit and insurance, and the continued labor difficulties, do not inspire the confidence which is necessary for encouraging disbanding and repatriation of capital in France.

Today I had talks with officials of the Paris branches of three leading American banks. These officials expect that, under the attractive terms offered, Auriol bonds will be

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be quickly and fully converted to the new issue. It is their opinion that certificates for gold already deposited will be largely sold to the insurance companies which are bidding for them, and that the latter will take new bonds in exchange for the certificates. The total amount of these certificates is now estimated to be slightly under one billion francs. It is not the expectation of these bankers that Frenchmen who have gold abroad will return it in any significant amount and take new bonds for it. To some extent there may be exchange of the gold held in France, but my contacts thought that perhaps two billion francs would be the limit of such exchange. These opinions expressed in the foregoing are only provisional, and are given before time has elapsed for observing the actual response which the loan appeal will have.

It was reported by one of these bankers that during recent weeks there was a real recovery in French business. His banks' clients, he said, and especially the American radiator and oil companies and French textile and automobile concerns were doing improved business and good profits resulted from the business. There are better French foreign trade figures for November. It was admitted by my banking contacts that there has been but slow rebuilding of their French franc deposits.

Chamber today debated budget and general financial policy.

END MESSAGE.

EA:LWW

BULLITT.

OFFICE CORRESPONDENCE

DATE: December 18, 1933.

TO: CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM: L. W. Knacke

BANK OF ENGLAND.

Mr. Bolton called at 10:42 to run over the ground, as he said, and report as to what had happened there since our last conversation. They had not experienced much difficulty in stemming the downward movement of sterling whilst the trouble with the ex King lasted. After the abdication the tone of sterling had again improved. The repatriation of funds to Holland had continued and was still going on, with the Dutch having a pretty bad time during the last few days trying to keep the rate at 9 to the pound. With the crisis over and the market fairly steady, it had been decided to cover part of the fiduciary issue with gold. One of the principal reasons for this, he thought, had been the realization that quite an amount of foreign capital now in their market was not as hot as they had thought before and the conclusion that a good deal of that foreign capital was more permanent than they had previously believed. The Swedes, for instance, it now looked, were not going to take their money back for some time. Repatriation to Switzerland had stopped. The only outflow at the moment was for Dutch account. Just how much that was, they did not know. At any rate, after three months of the new regime (did he mean the tripartite agreement?) they had decided that they could put up to £100,000,000 on one side. The Fund, of course, had been fairly well off for about a year now. In reply to my suggestion that it might conceivably be gold rich and sterling poor and therefore a need of sterling assets, Bolton laughingly said that, if necessary, they could always hide that sort of thing. The steadiness of the sterling market and the tightening of money rates, Bolton continued,

OFFICE CORRESPONDENCE

TO: CONFIDENTIAL FILES

DATE: December 18, 1936.

FROM: L. W. Knoks

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

- 2 -

were other reasons why the transfer of gold to the Bank had been decided upon. One thing, however, he wanted to tell me, was that there had been no cooperation in this respect with the Dutch and nobody had been more surprised than they in London when the statement of the Netherlands Bank showed a transfer of 100,000,000 guilders in gold to the Bank. It was hardly a matter, he thought, in which they should normally think of cooperating with others because it was purely an internal action and the reasons for doing it would necessarily be different for different nations. I told Bolton that nobody had expressed the thought to me that there could have been collusion between Amsterdam and London. I asked whether, in his opinion, the world was not justified in considering this action of theirs as reassuring and Bolton thought it indicated that the British felt "fairly certain for the time being."

With reference to his operations in the market, Bolton said that owing to the general offering of dollars in Europe, he had been in a position to cover most of their short position in dollars which resulted from the Argentine Government's transfer of sterling to New York and that he was now practically all squared up. The dollar market was much quieter although this morning's sudden rise had seemed unwarranted to him and he had therefore sold \$5,000,000. As regards the French franc, he thought it was still weak; the trouble was that something more than a half-hearted gesture was needed today to reverse the trend.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE: December 16, 1936.

TO: CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM: L. W. KNOKE

BANK OF ENGLAND.

- 3 -

I told Bolton that just when he called me I had intended to put a call in for him to ask him to get some of our gold in London ready for shipment to New York on the twenty-third of December and a similar amount a week later. The amount we had in mind was from 7 1/2 to 10 million dollars. The only reason for this move, I told him, was to head off criticism which it was feared might be leveled at the Treasury for keeping substantial amounts of gold abroad. Bolton replied that he quite understood the plan; that quite obviously our Treasury wanted to be in a position to say that they can ship their gold at any time if it becomes necessary.

I mentioned to Bolton my telephone conversation yesterday with de Jong of the Netherlands Bank and his request that we sell guilders for Dutch account at 54 3/4. Bolton thought this was information worth while having. With regard to foreign gold holdings in London, I inquired whether they were still noticing dehoarding by private interests. Bolton thought that this had practically stopped now; the amounts still left in London, he estimated at £150,000,000. As regards dehoarding by the Continent of Bank of England notes, he stated in reply to my question, that they were not now noticing any at all.

LWK:EMC

MED

GRAY

PARIS

Dated December 18, 1936

Received 3:55 p.m.

Secretary of State

Washington

1277, December 18, 5 p.m.

FROM COCHRAN.

Franc has weakened today against leading currencies and Bank of France is yielding fair amount of francs at 105.15. Florin still gaining. French rentes declining.

It thus appears that recovery in franc and rentes which came with announcement of French loan for conversion of gold certificates and Auriol bonds and resulted particularly from special instructions of Minister of Finance in regard to freedom of capital is not being most sustained.

After an all night session the Chamber early this morning passed the 1937 budget by 489 to 106 votes. It is now before the Senate Finance Committee. I quote hereafter in translation a press account of an incident in last night's debate in the Chamber which has done much to detract from the good effects of Auriol's statement above mentioned and is contributing

to

MED - 2 - #1277 December 18, 5 p.m. from Paris

to prevalent skepticism as to Government's real attitude toward capital.

"The Minister of Finance expressed the view that it would be impossible to cover the expenditures called for under the heading of national defense except by loan issues and that no Frenchman could refuse to subscribe. Monsieur Vincent Auriol then proceeded to make a somewhat imprudent statement. He said 'if tomorrow it is provided that there exists an incompatibility between the interests of holders of capital and the will of democracy then it is the whole problem of Republican legality which will arise'.

This unexpected declaration led to marked cheering by the Communists and Socialists but to violent protestations from the Center and the Right.

Monsieur Pietri rose and said 'I fear that the Minister of Finance has made a startling statement from the point of view of holders of capital. I had hoped that he would not have made such a statement;' to which Monsieur Auriol replied that he had 'envisaged an eventuality which he did not believe possible but which was spoken of by too many people daily'".

When Journal Official covering above debate is received copies will be forwarded with written summary

since

LMS 3-No. 1277, December 18, 5 p. m., from Paris.

since there are reported to have been a denial by Auriol of rumors of contingency of French borrowing in the United States an inquiry as to whether there had been "a diplomatic offensive" for reconsideration of war debts owed to the United States and discussions of other points of interest.

BULLITT

CSB

TRANSLATION

of copy of a letter

DATE December 15, 1936

FROM Banque Nationale de France
Paris
TO H. Berle Cochran
Embassy of the United States, Paris
REF. NO. 81/2/36.

Dear Sirs

In accordance with the statements of the Secretary of the Treasury, Mr. Kerguelan, dated October 12 and November 25, 1936, and upon proposals made by the Federal Reserve Bank of New York, we declared on December 7, that we stood ready to deliver to the Federal Reserve Bank of New York, as fiscal agent of the United States, gold for export or for consignment at the price of 4,975.82 francs per kilogram fine, at Berns, and to buy gold at the price of 4,860.80 francs per kilogram fine, delivered at Berns.

On the basis of this agreement, we addressed the following cablegram to the Federal Reserve Bank of New York under date of December 10:

We have the intention to deposit gold with you to the amount of approximately 500 millions Swiss francs in successive consignments the first of which would be started in the next days. Are there special formalities to be observed? Please cable if you are ready to receive this deposit from us.
"Would it eventually suit you to place to our disposal with you against payment to you of a premium (the rate of which we are ready to discuss) the whole or part of this gold against deposit by us for your account of an equal amount of gold with another bank of issue of the countries complying with the agreement? Kerguelan
"If ready to agree with last suggestion please indicate which bank of issue you would forego. 165"

In its reply, the Federal Reserve Bank of New York informed us that no special formalities were required in so far as concerned the shipment of gold to the United States, except that shipping documents would

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TRANSLATION

FROM

DATE

TO

REF. NO.

have to bear the name of a central bank as consignor and the name of the Federal Reserve Bank of New York as consignee.

In replying to the second paragraph of our cablegram, on the other hand, it informed us that it would not be able to do as we proposed, but that it stood ready, if requested, to place dollars at our disposal as soon as the corresponding gold bars were placed on board a steamship sailing for New York. We thereupon informed the Federal Reserve Bank of New York, by cablegram dated December 12, that we would revert to this offer.

It is clear from this exchange of cablegrams that the Federal Reserve Bank of New York, as fiscal agent of the United States, is not disposed to buy gold from us in order to create a deposit of earmarked gold with us, with another European central bank, or with the Bank for International Settlements, but requires that gold sold shall actually be shipped.

Since the devaluation of our currency, we have, as you are aware, leaned mainly upon the American dollar as the basis for the management of the rate of the Swiss franc. This was the fundamental reason for our adherence to the monetary agreement concluded between the United States, England, and France. At the same time, we would draw your attention to the fact that the major part of our gold reserves is now located in various European markets, ^a circumstances which we deem requisite from the point of view of the availability and the convenience

TRANSLATION

FROM

DATE

TO

REF. NO.

of movement of the gold. Meanwhile, we take note of the fact that, according to paragraph 5 (a) of the declaration addressed by Holland to the United States at the end of November 1938, the Netherlands Bank is already able to hold under earmark, at Amsterdam, subject to subsequent shipment upon request, the gold which it sold to the Federal Reserve Bank of New York. In view of this fact, we take the liberty of asking you if such an arrangement, on a reciprocal basis, could not also be made in connection with the relations between the United States and Switzerland.

We are particularly grateful to you for the kindness with which you agreed to submit this question to the Secretary of the Treasury, Mr. Morgenthau, and we desire to express our thanks therefor.

Please believe us, yours etc.

BANQUE NATIONALE SUISSE

B. G. T.

SCHWEIZERISCHE NATIONALBANK - BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA

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ZÜRICH-BERN

AARGAU, BASEL, GENÈVE, LAUSANNE, LUGANO, LUZERN, NEUCHÂTEAU, ST. GALLEN
BASEL, LA CHAUX-DE-FONDS, WINTERTHUR

ALTDORF, BELLINZONA, CHEVRE, FRIEBURG, GENEVE, LEBENS, LIEBENAU, LINDEN, SCHAFFHAUSEN, SCHWYZ, SITTEN, SOLOTHURN, TRIVELTO, YVERDON

Zurich, le 18 décembre 1936.

DIREKTORIUM

I. DEPARTEMENT

St/D/Sr. —

TELEGRAMME: DIRECTIONAL

TELEPHON No. 84.740

CHEQUE-KONTO No. VIII 986

Monsieur Horace Merle Cochran,
Premier Secrétaire de l'Embassade
des Etats-Unis d'Amérique,

P a r i s .

2, Avenue Gabriel

Monsieur,

Nous fondant sur les "Statements" du Secrétaire du Trésor, M. Morgenthau, en date des 12 octobre et 23 novembre 1936 et sur les propositions de la Federal Reserve Bank of New York, nous nous sommes, le 7 décembre, déclarés prêts, envers la Federal Reserve Bank of New York en tant qu'agent fiscal des Etats-Unis, à céder de l'or aux fins d'exportation ou de consignation au prix de Fr. 4 973.92 pour 1 Kg de fin, pris à Berne et à acheter de l'or au prix de Fr. 4 869.80 le Kg de fin, livré à Berne.

Sur la base de cet accord, nous avons adressé, le 10 décembre, la dépêche suivante à la Federal Reserve Bank of New York:

" 9 We have the intention to deposit gold with you to the amount of approximately 300 millions Swiss francs in successive consignments the first of which would be started in the next days. Are there special formalities to be observed ? Please cable if you are ready to receive this deposit from us.

Would it eventually suit you to place to our disposal with you against payment to you of a premium (the rate of which we are ready to discuss) the whole or part of this gold against deposit by us for your account of an equal amount of gold with another bank of issue of the countries complying with the agreement Morgenthau.

If ready to agree with last suggestion please indicate which bank of issue you would foresee. 165 "

Dans sa réponse, la Federal Reserve Bank of New York nous a communiqué qu'en ce qui concerne l'envoi de l'or aux Etats-Unis aucune formalité spéciale n'est exigée, si ce n'est que les documents de transport doivent porter les noms d'une banque centrale comme expéditrice et de la Federal Reserve Bank of New York comme destinataire.

En réponse au 2ème alinéa de notre dépêche, elle nous fit, par contre, savoir qu'elle ne pouvait pas donner suite à notre proposition, mais qu'elle serait prête, au besoin, à mettre des dollars à notre disposition, dès que les barres d'or correspondantes seraient consignées à bord du navire pour New-York. Nous avons alors informé la Federal Reserve Bank of New York, par câble du 12 décembre, que nous reviendrons sur cette offre.

Il ressort ainsi de cet échange de télégrammes que la Federal Reserve Bank of New York, comme agent fiscal des Etats-Unis, n'est pas disposée à nous acheter de l'or pour en constituer un dépôt "earmarked" auprès de nous, d'une autre banque centrale d'Europe ou de la Banque des Règlements Internationaux, mais exige que l'or vendu soit effectivement expédié.

Ainsi que vous le savez, nous nous appuyons en premier lieu sur le dollar américain pour régulariser le cours du franc suisse, depuis la dévaluation de notre monnaie; c'est la raison essentielle de notre adhésion à l'accord monétaire conclu entre les Etats-Unis, l'Angleterre et la France. Cependant, nous vous rendons attentifs au fait que la plus grande partie de nos réserves d'or se trouve maintenant sur diverses places européennes, ce que nous estimons indiqué notamment au point de vue de la disponibilité et des facilités de déplacement de l'or. Du reste, ainsi que nous le constatons d'après le chiffre 5, litt. c de la déclaration faite par la Hollande à fin novembre 1936 à l'intention des Etats-Unis, la Banque Néerlandaise a déjà la possibilité de conserver en dépôt "earmarked" à Amsterdam l'or

qu'elle a vendu à la Federal Reserve Bank of New York pour l'expédier ensuite sur demande. En cette occurrence, nous nous permettons de vous demander si une telle disposition avec réciprocité ne pourrait pas être adoptée également dans les relations des Etats-Unis avec la Suisse.

Nous vous sommes particulièrement reconnaissants de l'obligeance avec laquelle vous avez bien voulu accepter de soumettre cette question au Secrétaire du Trésor, M. Morgenthau et vous en remercions vivement.

Veillez agréer, Monsieur, nos salutations les plus distinguées.

BANQUE NATIONALE SUISSE

J. Barmann
H. C. Krumm

December 18, 1936.
12:18 p.m.

H.M.Jr: Hello

B: Hello sir.

H.M.Jr: Shoot.

B: Well we haven't bought anything.

H.M.Jr: Yes.

B: And the thing has maintained itself reasonably well.

H.M.Jr: Yes.

B: It looked a little floppy for the past - just a few minutes. It was a little bit weaker but hardly quotably weaker - a 32d or two off.

H.M.Jr: Yes.

B: The notes are not - not very husky but they're off only a 32d or two.

H.M.Jr: Well you think our withdrawing those orders made a difference?

B: I think it made a little difference, yes, but not very much.

H.M.Jr: You don't.

B: No, because there were other bids in. If there had not been other bids in and we pulled the bids it would have made a real difference.

H.M.Jr: Well - ah - I just realized - I hadn't watched it closely enough that there is this difference between the 2-1/2 and the other.

B: Yes.

H.M.Jr: So let's say we go back and be as we were. Put the orders in again.

BE: I think that's right. They seem to be ready to do it the moment there 's any weakness

B: All right. Yes - yes. We're justified on the basis of this. I think the thing to do is to do about what we did yesterday but keep the 2-1/2's about the same as the others.

H.M.Jr: Yes.

B: Not to put larger bids on that than the others. Just to have bids in and keep it orderly.

H.M.Jr; Thank you very much.

B: All right.

H.M.Jr: Thank you.

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12:18 p.m.

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- 2 -

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H.M.Jr: Thank you.

December 18, 1936
12:30 P.M.

JE

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

H.M.Jr: All right, Bell.

Bell: Well, we first discussed the problem of domestic gold and it was generally agreed - unanimously agreed that we shouldn't split up the gold into newly mined and what we call secondary, it all should go through the same channel.

Then it was discussed whether it should go through the Stabilization Fund or go directly into the Treasury as it does now. The vote was four to two in favor of - of those present - in favor of allowing it to operate just as it operates now, through the General Fund. There were two - three not present, and if you consider those the vote would be five to four. We haven't decided yet as to why the Legal Section and the Statistical Section should have two votes to everybody else's one, but that's all right. It equalized in the case of the Legal, but in the Statistical we got two votes in favor of it going to the Stabilization.

H.M.Jr: Did Taylor have his vote?

Bell: Yes, we counted Taylor. He was in favor of the Stabilization.

H.M.Jr: How many votes did you give him?

Bell: One.

H.M.Jr: And how much did - would that make it, his vote?

Bell: Five to four. I counted Herman in favor of - in favor of its operating through the General.

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Gaston: You mean me?

Bell: I mean Herbert.

Gaston: That's right.

Bell: I'm not going to undertake to tell you the reasons for the various views.

H.M.Jr: But I don't know yet what you're voting on.

Bell: As to whether the domestic gold would go directly to the General Fund or flow through the Stabilization Fund, and we voted it should operate as it does now, directly to the General Fund.

H.M.Jr: That's the way it does now.

Bell: Yes

H.M.Jr: And four people think that it should go to the Stabilization Fund?

Bell: That's right; that's Mr. Oliphant, Mr. White, Mr. Haas, and Mr. Taylor.

H.M.Jr: Say it should go all -

Bell: - to the Stabilization Fund.

H.M.Jr: Well, you don't think so?

Bell: No, but my reason is more or less minor, I'll have to admit; it is one of operation.

H.M.Jr: Well, let's take it as though - talk to the negative first. Who thinks that all the gold should go through the Stabilization Fund?

Lochhead: Shouldn't.

H.M.Jr: Should not.

Lochhead: I voted that I thought domestic gold should go through the Treasury as an operating proposition - purely from an operating proposition. I think it

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would probably be an awful mess transferring that all - all that through the Stabilization Fund - the small amount there is.

H.M.Jr: You are suggesting from an operating viewpoint?

Lochhead: From an operating viewpoint.

H.M.Jr: Who else is opposed?

Upham: I am.

H.M.Jr: Why?

Upham: One fairly simple reason. It seems to me if you can do a thing directly, there's not much use in adding a step. If the Treasury can buy it direct, it seems to me you're going out of your way to route it around through the Stabilization Fund.

And the other one, I suppose, involves monetary theory and central banking theory. If we put domestic gold through the Stabilization Fund, it seems to me to draw a distinction between Treasury operation and central bank operation and puts the purchase of domestic gold in the central bank operation field; because the Stabilization Fund is more closely allied to central banking, probably, than the Treasury, and if some day there were a change of feeling in the country and we wanted to separate central banking from the Treasury, it seems to me everything that is in the Stabilization Fund would go to the central bank rather than to the Treasury. And for that reason I'd like to keep as much of it as possible in the Treasury proper rather than in the Stabilization Fund.

H.M.Jr: You say yours is purely operation? (to Bell)

Bell: I have sympathy with that viewpoint (Upham's) too, but my vote is largely one of operation.

H.M.Jr: But the questions you raised can be surmounted?

Bell: Oh yes.

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H.M.Jr: What?

Bell: Oh yes.

H.M.Jr: All right. All right, White.

White: I think it was agreed that matters of operation were of secondary importance and it should be decided exclusively on the larger matter of policy.

H.W.Jr: Yes, well go ahead.

White: As a matter of policy, I feel that a separation of the domestic gold from the foreign gold seems to emphasize a distinction between foreign operations and domestic operations in gold which is fictitious, because the two both represent an acquisition or departure of gold; and, since the whole step is originally taken with some view of the altering of excess reserves or sterilizing not gold imports, but acquisitions of gold, that no distinction between the two ought to be made. And for the very reason that Upham feels the distinction should be kept I feel it should not be kept. In other words, I think that we emphasize the distinction between central banking and Treasury operations if we treat domestic gold separately from incoming gold. In other words, I think that there oughtn't to be that distinction between central banking and Treasury operations over a question of acquisitions of gold. Whether those acquisitions come from domestic mines or foreign mines is a matter of secondary importance.

And there is another point, which is really Oliphant's point that he raised, which I find myself sympathetic to, and that is that gold is to be regarded chiefly as a means of international payment, no longer as a domestic unit of currency, and as such it seems to fit more into the concept of the Stabilization Fund, something which the Stabilization Fund is vitally concerned with; it doesn't differ from incoming gold in that respect.

And then possibly in answer to his objection that some day it might be taken away from us and therefore

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he'd rather have less taken away than the whole thing, I would say that if the power and the authority or the function of controlling imports and exports of gold are taken away, the other doesn't matter. The question of the acquisition of domestic gold is important only in its psychological and logical effect on the importance of the Stabilization Fund.

A.M.Jr: I can't look at you, but I'll listen to you (to Oliphant).

Oliphant: Well, I - the thing that strikes me is that we have here something very, very important, but very intangible, and that is that we are here at a period where we are trying to develop a new mechanism for the control of the whole international exchange picture, and the process of developing that mechanism is a process of pulling it away from bankers and banker psychology; and our success in developing that mechanism, because of the inflexibility of human institutions, is pretty doubtful at best. And I want to do everything every time I get a chance - I want us to accentuate the importance of the Stabilization Fund having in mind that some of these days, after it's been extended a time or two, we'll sit down and draft a permanent statute for a permanent Stabilization Fund as a permanent mechanism in the Treasury for the control of this situation.

And for that reason I think the gold thing is particularly important, because as we no longer allow gold to circulate in this country, since it is related to our domestic currency only in so far as it backs up gold certificates which don't circulate, and as such banking is relatively unimportant because of our duty to maintain parity, gold has ceased to be significant domestically and it is significant only in the international picture; and for that reason it is peculiarly important that we get to thinking of gold in terms of international operations and get the people to thinking of it in terms of the international picture and in relation to the Stabilization Fund, which I think is the germ out of which the permanent organization is going to develop.

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H.M.Jr: Clarence, you want to add anything?

Opper: Well, I happen to be on the other side.

H.M.Jr: Other side from Mr. Oliphant?

Opper: Yes

H.M.Jr: How interesting.

Bell: Their votes are neutralized.

H.M.Jr: I congratulate Mr. Oliphant.

Opper: Well, I feel the way Cy does and I thought there were two other points which run along the same line. One was that it seemed to be easier if later on - that is, if you only went to the imported gold and later on wanted to include domestic gold it would be easier to take that second step than it would be to reverse. That is, if Congress set up the Stabilization Fund as the central funnel, it seemed to me - although I realize there is an argument the other way around - that it would be easier to do imported now and newly mind and domestic one month, two months from now if the picture indicated it, than it would be to take it all in now and try to reverse the process.

And certainly there is a certain aspect in which this quarter of one percent comes into that; that is, I believe we all agreed that the most feasible thing would be to have the quarter of one percent follow the gold. That is, however much gold the Stabilization Fund handled, that quarter of one percent on that would be kept by the Stabilization Fund; however much gold the General Fund handled, the quarter of one percent would be kept by the General Fund; that if the domestic gold went to the General Fund, it would at least have a quarter of a percent on that in order, theoretically perhaps, to stack up against the interest charge. Now, that, of course, is not inevitable; it's probably possible to work it out so that even if it goes through the Stabilization Fund the General Fund could get a quarter of one percent. But there are difficulties,

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and I think we all agree that if possible it should follow the gold.

H.M.Jr: I am listening to you people. I think this - I think it would be a mistake to put the gold in two places. Oh I'm sorry, I should have asked you first (to Gaston). Do you want to talk a minute? I'm sorry.

Gaston: I just wanted to say that I am agreed with the general line of thinking of Mr. Upham on this thing. It seems to me that what we are suggesting here is - essentially is making of the Stabilization Fund something that it is not now. We are envisaging the idea of a Stabilization Fund as a department of the Treasury which is the monetary authority, carrying all the monetary functions, and I don't think it is that now. And I think it is very questionable whether there is any point to trying to make it that. As a matter of - as a practical matter, the decisions are in the same place in any event. The Stabilization Fund is a pocketbook, a bank account through which the Secretary of the Treasury operates to achieve certain objects. It is an instrument for certain dealings, and in any case the decisions are his now. And as a practical matter, passing this through the Stabilization Fund merely means a little extra bookkeeping through which we set up a fiction; we set up a fiction under which the Stabilization Fund is enabled to take a profit on these gold transactions. Actually it is the Treasury - actually it is the Treasury and the General Fund that buys the gold and carries on the business. Now, I don't - I don't see any reason for setting that thing up. If there is any question of making public what is done, it appears to the eyes of the outsider merely as a device for "hocus-pocus" by which we get certain additional profits in the Stabilization Fund.

Otherwise, it has no practical effect whatever, and I can't exactly see the importance of setting up the Stabilization Fund as a monetary authority. If it is going to be, if we want to do that, then we ought to have in mind continually enlarging the Stabilization Fund power over the currency,

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and all of that, and making it a distinct function from other Treasury functions.

H.M.Jr: Finished?

Gaston: Yes

H.M.Jr: Well, what I started to say is this. In my own mind, I think it would be a great mistake to acquire gold in two places. In the first place, I think it is difficult to understand and difficult to explain.

Now, here is the thing. I want you to get this, Herman, particularly. If we get the gold - part of it, the foreign gold, in the Stabilization Fund, and part of it in the - the domestic gold in the General Fund, might we not find ourselves in the position we are with silver? We're going to have two prices for gold - aren't we setting a precedent of a domestic price for gold -

Upham: (Nods negatively)

H.M.Jr: - Now wait a minute - a domestic and a world price for gold. Very apt to be. That thing may perfectly come. Now, don't just disregard that, because when you hear these people say if they could find a way to control our domestic prices in the present expansion which Mr. Eccles is so worried about - you hear him talking about we've got to have control of the margin of profit on all commodities, exchanges, in order to obtain a stable situation. Mightn't it suddenly occur to them - "Let's lower the price of gold inside the United States and keep up the world price, and vice versa."

Now wait a minute - I've got something. Now, if that is possible, then the reverse is true, and isn't this a device - it may be in a short time, by putting all of the gold in the Stabilization Fund, then the next thing is to put all the silver there, and because we have one price for gold we have one price for silver. See? And isn't that maybe an out on silver?

They say to us, "We have domestic and external,

- 9 -

all the gold comes in, and" - I mean the whole time I was thinking about it - "and you pay inside and outside for gold, and why don't you take all your silver and handle silver in the Stabilization Fund and handle it just as you handle gold?" Which is what they've been arguing. And therefore it gives us a real excuse for handling silver.

Oliphant: That is very interesting.

H.M.Jr: We've all been clubbing our brains to find a way. Isn't that an interesting thought? I mean the both. You put gold in the same place and then - I mean the other by golly you'll have a two price system; you'll have a - one price for gold inside and one price for gold outside.

As to the position that we are fearful that thing is going to be a monetary authority, the way to keep them from having another monetary authority is to use the instrument that we have got and go ahead and use it to the fullest extent that is within the law.

Now, Mr. Eccles, who is worrying about our encroaching on the central banking functions, is very insistent that we handle domestic gold. Oh yes.

And I don't want to settle this thing now, but I say this: I think it would be a major blunder to handle gold in two places.

Another thing, suppose that when gold goes out, which fund are you going to draw it out of? Are you going to take it out of your General Fund gold or are you going to take it out of your Stabilization Fund Gold?

White: It goes out of the Stabilization Fund, but through the General Fund.

Gaston: Indirectly.

Upham: It's all going to be one fund.

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- H.M.Jr: But it's going to be in two places?
- Bell: Only temporarily.
- H.M.Jr: But who is finally going to handle it?
- Bell: It's going to -
- Oliphant: Think of how much gold can be in the Stabilization Fund, though.
- Bell: If you decide like the majority decided, the newly mined gold that comes from the mines into the assay offices will come one way, and the other will come in from the outside another way, but they all focus at the same point, the General Fund.
- H.M.Jr: Where will the final trustee of that gold be?
- Bell: In the General Fund.
- H.M.Jr: And the foreign?
- Bell: Logically in the General Fund, in either way.
- H.M.Jr: Why?
- Bell: Except that for trading purposes your Stabilization Fund may hold a portion of it out, may have a small reservoir for trading purposes. You will still have the one billion 8 in there, but as to the two hundred million dollars - well, it may be all gold, but in order for you to get funds in which to operate you'd have to turn the foreign gold that you have in the 200 million dollar operating fund into the General Fund in order to -
- Oliphant: But it is still true that the Stabilization Fund can be a big reservoir of gold.
- Bell: Be two billion, that's all.
- H.M.Jr: Well, Eccles says it can be three billion. Supposing another billion dollars come in under this new plan.
- Bell: The General Fund will hold 800 million and the

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Stabilization Fund could hold another 200 million, assuming it is in liquid form.

H.M.Jr: Well, if it's going to be that way, what's the argument about? This - either I don't have it clear in my mind or somebody's misstating the proposition.

Oliphant: I think we have to bear in mind that, from the standpoint of gold going out, there is a tremendous reservoir of gold. The Stabilization constitutes a tremendous reservoir, namely, of two billion of gold.

H.M.Jr: I haven't got this thing straight. There is something - either somebody stated it wrong or I am thinking wrong.

Let's just take a hundred million gold. Let's say it is going to go through the Stabilization Fund and be sterilized. As I understand, this hundred million comes in, arrives at the assay office, they pay for it by check. We reimburse somebody for that gold, so we go out and borrow a hundred million dollars from the market for one year and reimburse the Federal Reserve Bank. I suppose the check is drawn on them. Is that whom the check is drawn on?

Bell: It comes through the Stabilization Fund, yes.

H.M.Jr: What?

Bell: It comes into the Stabilization Fund. The Federal Reserve Bank of New York will pay for it and charge your account.

H.M.Jr: The Stabilization Fund.

Bell: Yes, sir.

H.M.Jr: We've got to raise a hundred million dollars and we get that from the market.

Bell: That's right.

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- Gaston: The Treasury takes the gold and borrows the money.
- Bell: You hold a hundred million dollars worth of gold in the Stabilization Fund. Then when you do that - now you want to turn that gold over to the Treasury and reimburse the Stabilization Fund, see?
- H.M.Jr: So they can buy another hundred.
- Bell: Now we take a hundred million dollars in gold into the General Fund. In order to pay you, the Stabilization Fund, for the gold which we take, we borrow a hundred million dollars in the market.
- H.M.Jr: But what is the sense - if the gold is going to finally get into the General Fund, what is the sense of channelizing it through the Stabilization Fund?
- Upham: That's the whole position we've taken.
- H.M.Jr: What's the sense of channelizing it through there?
- Oliphant: Let's take foreign gold.
- H.M.Jr: I'd rather start with domestic.
- Gaston: It's the Treasury's buying and selling agent.
- H.M.Jr: Go ahead, Bell. What's the sense in channelizing this?
- Bell: From a practical operation, there isn't any. But in the conference last week Dr. Viner and Taylor and everybody in the other room - they thought it would be better to centralize, certainly, imported gold in the Stabilization Fund. That was the main reason for it.
- H.M.Jr: I mean what - what - if the gold - the thing that I had in mind was that here we have two piles of gold. Leave out the billion 8; let's leave that out. Let's say 200 million dollars worth of gold; one is domestic, the other is foreign; and they would actually reside in two different places. You say that isn't so?

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Bell: No. Eventually they will both be in the General Fund.

H.M.Jr: Well then, to take domestic gold and channelize it through the Stabilization Fund is an abnormal thing to do.

Bell: That's the way I feel; it is an abnormal thing to put it through the Stabilization Fund.

H.M.Jr: Well, what do you think? You know, I'd pay a lot and so would you to solve this silver thing. What would you think? I mean if we did this thing - Let's just stop a minute - and if we normalize silver by being abnormal with gold, if it has a precedent - Now here we are handling gold in one way, both domestic and foreign; why should we handle silver differently then? Therefore from now on all silver purchases will go through the Stabilization Fund. We'll only have one price, the world price and the domestic. Any more than we should have two prices for gold. Why should we have two prices?

And you people who are friends of silver say that the silver is money and it is a part of the monetary stock and "what we want you to do is to have bimetalism and treat gold and silver the same."

"O.K., we're going to treat it the same - one price for silver."

Oliphant: Well, I thought your first point was even stronger.

H.M.Jr: I know, but I say they are both - I mean I argued backwards on purpose; I knew what I was doing.

First they might say, "Let's have two prices for gold." One group may say - like last year Thomas said the purchasing dollar is only 120 and it should be 140. I don't know what he meant; neither did he.

"And we've got to raise - all right, we won't upset the tripartite agreement, but we've got to bring gold up. So, Morgenthau, you raise gold; we won't

- 14 -

upset your tripartite agreement. You leave that at 35; you're handling it separately anyway."

Now listen, there have been crazier things than that pulled off in this town.

"Now you're handling it separately and we've got to bring things up to the 1916 level, and you're doing silver that way now. Just follow what you're doing with silver."

That's one argument. I reversed myself and then I say, "We'll have one price for gold, we'll have one price for silver."

White: Those are both two new ideas and I think they are strong points in favor of our stand, but I wish there isn't lost sight of the fact that there are other arguments independent of that.

H.M.Jr: Well listen, I'm going to ask Mr. Oliphant's section to draw it both ways. I'm not going to settle this now, because I've thrown two new ideas to you, haven't I? I'd like it drawn up both ways.

Opper: I would like to ask, Mr. Secretary, whether there isn't possibly a three-way situation. If there isn't, so much the better, but I want to be sure that we cover all you want to have covered. One possibility is to have both domestic and newly mined go through the General Fund - I mean both domestic and imported go through the General Fund, and the other is both domestic and imported to go through the Stabilization Fund, and the third one is to have domestic go through the General Fund and the imported go through the Stabilization Fund. Now, that -

H.M.Jr: That's true.

Opper: - that would make three different ways.

H.M.Jr: Yes, draw it up three. Yes, that's right, but I'm - you see, there are two things. I don't agree with

Upham that by putting this all through the Stabilization Fund we run the risk of losing the Stabilization Fund. I take the other attitude. I think if we are aggressive and make the most use of it, run it well, successfully, that no one wants to take it away from us. There's nobody around town saying, "Morgenthau shouldn't have the Stabilization Fund." An awful lot of people around town - every day more and more of them are saying Eccles shouldn't have anything to do with it, but you don't run into anybody who says that Morgenthau shouldn't have that, that "no human being should have that power." You don't hear that. Huh?

Upham: That's right.

H.M.Jr: In other words, they're satisfied. Now, on the other hand every day you pick up somebody - Eccles is working up this big lobby against himself purely through his own actions.

Now, I've cudgelled my brain for some way out of this silver thing, and this may be a ray of sunshine. This may be - I don't want to say a silver lining to a cloud - but it may be. And on the other hand, there are two things; there is both the silver and there is the possibility of the two prices on gold if you treat domestic and foreign gold separately, and I don't think you can just say there's nothing to that.

Gaston: You may want to have two prices on gold.

H.M.Jr: Yes, there is that possibility - but at our choice - but not being driven into it with a pistol at our heads. I mean I don't want to be driven into this thing.

Gaston: No, but it may be more convenient to have two prices through the method of separating the domestic and the foreign.

H.M.Jr: But I don't want to have it obvious. If they just leave me alone, that's all I'm asking for - just leave us alone and let us have a period of digestion and sit back and see what's been accomplished. The

- 16 -

thing that ruined Woodrow Wilson was too much legislation without a period of digestion. Now we ought to have a period of digestion for a year, and I'm for it.

Gaston: Following that argument, this change in the method of handling domestic gold would raise a lot of disturbance and upset and might prevent us from going on in the regular way.

H.M.Jr: Well listen, I'll see you gentlemen at 9:30 Monday and see if you can't give me something else besides a Supreme Court decision. Please.

Bell: Well, we had to count absentees in order to get that decision.

H.M.Jr: I'll put that down here - committee on gold, 9:30.

Upham: Pretty hard today.

H.M.Jr: Who?

Upham: You.

H.M.Jr: I'm hard? My God, you fellows argue for two and a half hours and you come in with a 4-to-5 decision.

White: Mr. Haas has a public statement which Mr. Warren -

H.M.Jr: Which Warren?

White: Professor Warren - public statement that he said might be issued. It bears on this point. I don't know, he sent it in possibly with the intent that you read it. (Hands paper to Secretary)

H.M.Jr: I don't think that I'm hard at all.

Upham: That was just a jest.

H.M.Jr: No, I just - I think that this is very, very important, and I'm not satisfied with my advisors.

White: You mean with half of them.

Upham: Four of them.

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- H.M.Jr: No, no, I don't. If you will all think about it again, we can meet 9:30 Monday. In the meantime, have it drawn up three ways. If I had to decide now, I wouldn't know how to decide. But I will say this: if it would solve silver, I could make up my mind like that.
- Oliphant: I don't want you to go - this conference to break up with the feeling that your discovery that it lands in one place is an answer as to the merits. There are a lot of other objections that -
- H.M.Jr: Well, we can hit it at - I'll even make it 9 o'clock - I mean Monday, an hour, we ought to be able to settle that thing. And - I mean if you think it's going to take more time to argue it - I've got a meeting at 10:30 - well, we can do this thing.
- Oliphant: When's Wayne going to be back?
- Lochhead: Tomorrow.
- H.M.Jr: He'll be back tomorrow.
- Well, thank you for your assistance.

UNITED STATES SENATE
Committee on Appropriations

December 18th, 1936.

CONFIDENTIAL

Dear Mr. Secretary:

I venture to express the very definite judgement that your Advisory Committee on banking legislation should go on record promptly and courageously against the design of Eccles to absorb the functions of various other agencies. I am reliably told that the fellow wants to control taxation, budgetary estimates, bank examination and, indeed, the activities of many branches of the Government with which the Federal Reserve Board should have nothing whatsoever to do.

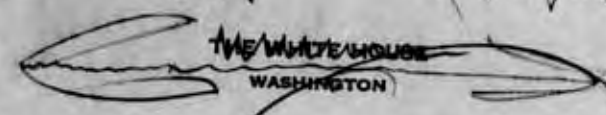
There should be no general banking legislation at the ensuing session of Congress and if your Committee agrees with this, I think it should definitely say so to the President.

Sincerely yours,

/s/ Carter Glass.

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

305. ~~57~~



Cuba

Dec 18, 1936

Gold

Jakes Bell + Postbox #9
Wash - Building

THE WHITE HOUSE
WASHINGTON

306

Pres. said absolutely
nothing doing
on Foreign debts.

He said policy for last 3 yrs
is for us to sit tight
and let our debtors
come ~~and~~ to us and
make us a proposal.

W. P. in favor of anti-lynching
bill.

Pres. said he will send Joel Spingarn
to see atty. General about anti-
lynching bill.

THE WHITE HOUSE

WASHINGTON

President says:—

~~Require a law making~~
~~it necessary~~

Have a new law
requiring federal in corpor-
ation. ~~to~~ I'm next
type smash the control
of business in U.S.
by a handful of a
few people.

Sell 1 million bales of cotton
from 3 million bales
now owned by Com Credit Corp.

FS

GRAY

Paris

Dated December 19, 1936

Rec'd 11:21 a. m.

Secretary of State,
Washington.

1230, December 19, 2 p. m.

FROM COCHRAN.

Feature of this morning's unofficial trading has been the rather heavy offering of dollars against sterling. Market observers still uncertain as to whether this may result from possible foreign sales of American securities upon press reports of Washington conferences in regard to measures for checking influx of speculative capital. In this connection AGENCE ECONOMIQUE today reports Washington considering efforts to supplement tripartite monetary agreement with view to cutting down above mentioned type of international capital movements.

Press reports that on December 21 one and one half million pounds of 3 $\frac{1}{8}$ % of sterling registered bonds of the Mortgage Bank of the Kingdom of Denmark will be offered for subscription in London. The bonds which will be redeemed within 25 years will be offered at the price of 95%. This issue is exempt from the British embargo on foreign (*) presumably for the reason that the proceeds will

FS 2-No. 1280, December 19, from Paris

will be used to increase Denmark's sterling resources.

"Reuter" reports from Shanghai that a French syndicate is to lend thirty-four and a half million dollars in materials and cash to a Chinese company for the construction of 523 kilometres of railway track in Szechuan Province. The loan is redeemable in fifteen years and is guaranteed unconditionally by the Ministry of Railways.

KLP

BULLITT

(*) Apparent omission



December 19, 1936

Secretary Morgenthau

Jacob Viner

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

1. Purchases of foreign gold and sales of gold to abroad, whether or not these operations are sterilized.
2. Purchases of domestic gold, if these purchases are sterilized, i.e. if no gold certificates are issued to pay for them.

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

It seems to me that by carrying some of the domestic gold transactions through the Stabilization accounts the prestige of the Stabilization Fund is increased and also the logic of its operations made clear. It seems to me, moreover, by excluding from the Stabilization account

- 2 -

non-sterilized domestic gold transactions a contact is kept between the Stabilization Fund operations and the general Treasury operations so intimate that any proposal to take the Stabilization Fund out of the Treasury would at once appear to raise all sorts of administrative difficulties.

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

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