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See also Book 39

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Foreign

See also Book 39

International Affairs, General, United States, and Foreign

200-100

Foreign

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International Affairs, General, United States, and Foreign

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Book 39

October 12 - October 14, 1936

United States

See also Book 39

International Affairs, General, United States, and Foreign

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October 12, 1936

At a meeting in the Secretary's office this morning, he read to the group the attached draft of a proposed statement in connection with the Treasury announcement that it would sell gold. The Secretary had written this out himself and asked the men to go to their offices and study it and offer any suggestions or modifications and he would have another meeting in his office in the afternoon.

1. 3 corner plan ³
rests on a foundation
each corner ~~held up~~
by ~~one~~ of a stabilization
fund.

2. Each country operates
to ^{equalize} uphold its own currency.
By buying and
selling exchange
in terms of other
currencies. No country
wishes to accumulate
too much paper
currency of other
countries and
therefore we will
permit each country

to convert it ^(other fellows)
paper money into
gold. Thus terminating
~~the settling of~~
~~international~~
~~commercial trade~~
~~balances into gold.~~
The price being fixed
each day.

Thus ~~the~~ ^{the elected} officers
responsible, ~~to the electorate~~
~~of each gov.~~ are
taking out of the
hands of the Int-
national speculators
in foreign exchange

4
the regulation of
the mechanisms of exchange.
Thus instead of leaving
individuals responsible
to no one and
recognizing no flag
running the foreign
exchange markets
gradually the various
we are taking over
this function
with result that
the business man
who exports or
imports can gradually
eliminate one risk
in his business

namely the risk
of foreign exchange.
~~As the~~ ^{as the} medium
for doing business
between countries
is gradually smoothed
out and ^{foreign} exchange
competition is eliminated
trade barriers set
up between countries
to prevent dumping
of goods there
exchange advantages
~~these barriers~~ fall
automatically

1. The picture of which this arrangement for the interchange of gold is a technical part is that of foreign exchange as a three-cornered plane, the three corners resting on the purpose of the three governments to minimize fluctuation in exchange rates by the use of their respective stabilization funds and other appropriate and effective means.

2. Each country operates to equalize its own currency by buying and selling exchange in terms of other currencies. No country wishes to accumulate too much paper currency of other countries, and, therefore, we will permit each country to convert its (other fellow's) paper money into gold.

3. Thus public officers, responsible to their government and in turn to the people, are taking the regulation of the medium of exchange in foreign trade out of the hands of the relatively few individuals engaged as international speculators in foreign exchange. Thus, instead of having these persons who are responsible to no one and who recognize no flag in control of foreign exchange markets, gradually governments are taking over this function, with the result that business men who export and import will find one of their business risks gradually eliminated—namely, the risk of fluctuation in foreign exchange. As this medium for doing business among countries is gradually made more dependable by the elimination of such factors of uncertainty as unhealthy speculation in foreign exchange, international trade and commerce will prosper with the removal of other barriers to it, such as trade restrictions set up by various countries to prevent the dumping of goods made possible by exchange and other competitive advantages.

October 12, 1938

The Secretary was thought he would use this at his press conference but after thinking it over, he decided not to use it.

When ~~the~~ Pres. Roosevelt ^{1.8}
came into office to
use his own language
he found him self
shackled hand & foot
by the old gold standard.

It was not until
~~the fall of~~
~~Oct. 25, 1933~~ that he
found a way to throw
off these shackles
and certainly we
are not going to
permit this country
~~to fall back into~~
~~the old~~ to be
bound hand and foot
again.

WCNS143

Italian Quotas + Duties

ROME.--THE ITALIAN GOVERNMENT, DETERMINED TO KEEP PRICES NEAR THE LEVEL OF WHEN THE LIRE WAS REVALUED LAST WEEK, ANNOUNCED TODAY LOOSENING OF IMPORT QUOTAS AND A CORRESPONDING SHARP REDUCTION OF CUSTOMS DUTIES.

10/12--E431P

Monday
October 12, 1936
3:10 p. m.

HMjr: Hello

Operator: Mr. Knoke

HMjr: Hello

Knoke: Yes, Mr. Secretary

HMjr: I have Archie in here with me and I think today it'd be a mistake to let sterling go below four ninety unless there is a big drive on it, see? In other words, if you can keep sterling from going below four ninety easily I'd like you to do it.

K: Yes

HMjr: What?

K: Yes, I think it - I think it can be done.

HMjr: Yes - and now whether we convert into gold - we can decide on how much. If we only get fifty thousand I wouldn't convert, see?

K: Oh, I see.

HMjr: See what I mean?

K: Yes, I understand.

HMjr: BUT the first thing, I don't want it to go below four ninety.

K: Yes - All right, that can be done.

HMjr: Give out your orders and then let me know.

K: Good

HMjr: I mean -

K: In other words -

HMjr: If you get a big drive, let's see - hello?

K: What?

HMjr: If you get - I'll give you an order now to buy
a hundred thousand sterling at four ninety.

K: Yes - All right, I'll get busy.

HMjr: Thank you.

K: Thank you.

HMjr: Three-fifty - three-fifty.

October 12, 1934
3:10 P. M.

12

Mr. Oliphant, Mr. Lochhead, Mr. Upham and Mr. Gaston met in the Secretary's office.

Mr. Gaston said, "There is a rumor among the newspapermen that there will be a joint statement by France, Great Britain and ourselves at 4:00 o'clock. I first heard it from Ted Goldsmith and next from an A. P. man who is interested in bonds." The Secretary jokingly said, "My god, we will have to get things ready. That's what comes from going horseback riding on Columbus Day."

Mr. Oliphant said, "This is the form approved by the President on September 27." The Secretary then began to read:

"Supplementing the announcements made by him on January 31 and February 1, 1934, to the effect that the Treasury would buy gold, and on January 31, 1934, referring to the sale of gold for export, the Secretary of the Treasury states that, (hereafter, and until, on twenty-four hours notice, this statement of intention may be revoked or altered,) the United States will also sell gold for immediate export to, or earmark for the account of, the exchange equalization or stabilization funds of those countries whose funds likewise are offering to sell gold to the United States, provided such offerings of gold are at such rates and upon such terms and conditions as the Secretary may deem most advantageous to the public interest."

The Secretary said, "Now let me ask you --is that the system we operated on until France went off gold and Holland went off and Switzerland? Suppose they ask the question, Would Belgium qualify under that?" Mr. Oliphant replied, "Assuming that the latest advices are correct, to the effect that she is still on an automatic gold standard, that's true. I hope they don't ask it." Mr. Morgenthau said, "Suppose they ask." Mr. Lochhead said, "If anybody wants a test, all they need to do is to wait until their currency is above the gold point and apply for a license."

The Secretary said, "If the question is asked, wouldn't the best way to answer it be to say the question isn't up for consideration?" Gaston said, "They will say, Doesn't that give the speculators a chance to shoot the currency?" Mr. Oliphant agreed with the Secretary's opinion, saying, "I would say that the question is not up." Mr. Morgenthau then remarked, "I wanted that cleared. I will try to duck it. We may have to tonight. We are supposedly among friends."

Mr. Oliphant then said, "There is one other item that is not on here that you probably recall, but I want to be sure you do. It is a matter that came up in connection with Guatemala and Mexico." Mr. Morgenthau added, "And China."

Continuing, Mr. Oliphant said, "And we there acted specially on those countries, although they were non-gold countries." Mr. Morgenthau replied, "I got that, and the other thing is, now about other countries that want to come in -- we will take up each country as they come in?"

Mr. Gaston explained, "This statement we have doesn't name any countries, although it says a supplemental statement will name the countries. I haven't anything. Will we do that orally?" Oliphant said, "I might have it for you. It's only one line." He then dictated:

"The Secretary of the Treasury named certain countries as complying with certain conditions specified in press release of October 13."

The Secretary said, "I think we ought to have that and have it mimeographed." Mr. Lochnead asked, "That will be dated tomorrow?" And Mr. Oliphant said, "Then you don't want to give it out until tomorrow?" The Secretary said, "No, for tomorrow morning's papers." Mr. Gaston said, "Then I will have to change it." And Mr. Morgenthau said, "That's all right. We have 45 minutes."

Mr. Oliphant then dictated the following draft of press release: (Copy is attached)

"The Secretary of the Treasury today named Great Britain and France as complying with the conditions specified in his press release of October 13, 1936, for the purchase of gold from the United States for immediate export or earmark."

Mr. Oliphant then said, "A reference to price might indicate that we are going to change the price tomorrow or next day. I think the point is, we don't want the price to come up."

Mr. Lochnead expressed his opinion as follows: "You eliminate one risk -- namely, foreign exchange speculation. This, to my mind, would give the idea that what we are doing is returning to a fixed gold standard. In other words, the only way you can avoid the risk of foreign exchange is to settle gold points with no changes and it gives the impression that we are going back to the old gold standard. In my opinion, when you eliminate the risk of foreign exchange you eliminate the risk of sharp fluctuation in foreign exchange; in other words, iron out the sharp fluctuations."

The Secretary asked Mr. Upham what he had, and he read his draft. (Copy is attached)

October 13, 1936

The Secretary of the Treasury today named Great Britain and France as complying with the conditions specified in his press release of October 13, 1936, for the purchase of gold from the United States for immediate export or earmark.

Henry Magentha

The level of foreign exchange as between France, Great Britain and the United States may be thought of as a triangular plane, each corner of which rests on a stabilization fund.

(As other countries are added to the Gentleman's Agreement, the geometrical form of the plane may change, with a corner being added for each country.)

As the level of the other two corners rises or falls, the country at the third corner ~~xxxx~~ seeks to restore equilibrium by the purchase or sale of the currency of one or both of the cooperating countries. The present arrangement permits the conversion of ~~such~~ accumulations of paper currency into gold, at prices fixed each day.

This represents a divorcement of the control of the foreign exchange markets from the speculators in international currencies. The responsible Governments of the people will now cooperate to bring about a greater stability of the exchanges. Business men with merchandise to sell abroad or who are importing from other countries will be free to operate through their banks in regular and normal exchange operations. The international speculator, responsible to no one and recognizing no flag in the conduct of his business, will not in the future be able, by rapidly shifting his funds from market to market, to ~~xxxx~~ secure private ~~xxx~~ gain through stimulation of chaos in foreign exchange.

Changes in foreign exchange levels will now be permitted to follow the natural flow of foreign trade. The risk of fluctuations due to the operations of the international speculators will be largely removed. And yet the hands of Government will not be tied by fixed and inflexible gold relationships such as existed under the old style of gold standard.

The Secretary then said, "I think what I had better do is not to have a definite statement." Mr. Gaston agreed.

The Secretary continued: "One new thought I got is this. I thought I might say something like this -- that one of the things that worried President Roosevelt the most for the first six months he was President was that he found himself in a vice of the old gold standard. In fact, in discussing it with me, he remarked that his hands and feet were shackled and it wasn't until we found a way of freeing him and this country from that vice that we were able to move forward. Now, having seen the country suffer for three years in this vice, we are going to take mighty good care not to fall back on that old fallacy. Now I shall never forget. The President said to me, 'Henry, when we came over there we found this method of breaking this thing.' He said, 'My hands and feet have been shackled and I have begged the people in the Treasury to find some way. Nobody could until we, over in Farm Credit, found a way and we are not going to let ourselves fall back into the position that we are again in a vice. This Administration will free itself from that.' That will answer this thing of, are we going back to the old gold standard. All I can do is sit here for half an hour and absorb it and then pray for good luck to do this thing. But this thing that I have just said -- do you like it? It's true. And then let somebody come back and talk about convertibility of gold and bringing back the old gold standard. I just hope and pray that somebody will be dumb enough. But that's the way the President expressed it."

Mr. White remarked, "I think it would be excellent if they could get it in the press verbatim." The Secretary then said, "All I'm trying to do is to get over to them that we are not going back. Why? We know what that means. We are not going back and we are not going to find our hands and feet shackled by this old gold standard. America suffered long enough, and on thinking it over, I am not going to do anything in any way that anybody would think of as a slap to the State Department. I don't want in any way to detract from Mr. Hull. I have a half hour and I can build this picture up. I appreciate what each and every one of you has done very, very much."

"You all got your invitations for tonight, didn't you? What I thought I would do is this: I would do it like we did at Farm Credit Administration. I will appoint myself Chairman and as each question comes up, I will point to the person I think particularly suited to answer and let him answer. So we won't find our people, two or three of them, jumping up at once."

Mr. White then said, "We didn't know it was going to be used without an accompanying statement."

Mr. Morgenthau answered, "If they want more information, they can go back to Mr. Gaston's office and Mr. Gaston can call in the necessary people to go into as great detail as anybody wants. On this question of the Supreme Court decision of today, if there is anything they want, I will just say I haven't had time to study it. And if they want it, Oliphant and Gaston will put them in touch with the right people. I can't hit that today."

(Attached are copies of letters to the Federal Reserve Bank: 1, Transmitting the new regulations; and, 2, constituting a license under the new regulations. Also a copy of letter to the Superintendent of the United States Assay Office, authorizing him to deliver gold bars to the Federal Reserve Bank in view of the new regulations.)



THE SECRETARY OF THE TREASURY
WASHINGTON

October 12, 1936.

Dear Sirs:

This will confirm to you that the statement issued by the Secretary of the Treasury, approved by the President on September 27, 1936, relating to the sale of gold, constitutes a license within the meaning of your license No. NY-18-1, dated February 5, 1934, as amended, and that, therefore, the gold sold pursuant to such statement may be held by you for export to, or earmark for the account of, the exchange equalization or stabilization fund purchasing such gold.

I further confirm that my letter to you approved by the President on September 27, 1936, respecting the acquisition and use of gold as provided in the above mentioned statement, constitutes a license pursuant to Section 34 of the Provisional Regulations issued under the Gold Reserve Act of 1934, as amended.

Very truly yours,

(Signed) Henry Morgenthau, Jr.
Secretary of the Treasury.

Federal Reserve Bank of New York,

New York, New York.

Dear Sir:

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

You are hereby authorized and directed, upon receipt of the certification signed by the President, or a Vice President, of the Federal Reserve Bank of New York to deliver gold bars for any of the purposes set out in the statement issued today, copy of which is enclosed, provided that the certification of the Federal Reserve Bank states that the gold is acquired for any of such purposes and that a credit has been established on the books of the Federal Reserve Bank of New York in favor of the Treasurer of the United States for the gold so acquired at the rate of \$35 (plus one-quarter of one per cent) per fine ounce.

Very truly yours,

/s/ Henry Morgenthau, Jr.

Secretary of the Treasury.

Superintendent,
United States Assay Office,
New York, New York.

Enclosures.

October 12, 1936.

Dear Sirs:

This will confirm to you that the statement issued by the Secretary of the Treasury, approved by the President on September 27, 1936, relating to the sale of gold, constitutes a license within the meaning of your license No. NY-18-1, dated February 5, 1934, as amended, and that, therefore, the gold sold pursuant to such statement may be held by you for export to or earmark for the account of the exchange equalization or stabilization fund purchasing such gold.

I further confirm that my letter to you approved by the President on September 27, 1936, respecting the acquisition and use of gold as provided in the above mentioned statement, constitutes a license pursuant to Section 54 of the Provisional Regulations issued under the Gold Reserve Act of 1934, as amended.

Very truly yours,

(Signed) Henry Morgenthau, Jr.
Secretary of the Treasury.

Federal Reserve Bank of New York,

New York, New York.

JCH/ra
10/12/36

Dear Sir:

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

You are hereby authorized and directed, upon receipt of the certification signed by the President, or a Vice President, of the Federal Reserve Bank of New York to deliver gold bars for any of the purposes set out in the statement issued today, copy of which is enclosed, provided that the certification of the Federal Reserve Bank states that the gold is acquired for any of such purposes and that a credit has been established on the books of the Federal Reserve Bank of New York in favor of the Treasurer of the United States for the gold so acquired at the rate of \$35 (plus one-quarter of one per cent) per fine ounce.

Very truly yours,

/s/ Henry Morgenthau, Jr.

Secretary of the Treasury.

Superintendent,
United States Assay Office,
New York, New York.

Enclosures.

October 12, 1936
3:00 p.m.

23

H.M.Jr: Hello?

Operator: Gordon Rentschler calling.

H.M.Jr: Thank you. Hello?

R: Hello?

H.M.Jr: Hello?

R: Hello, Mr. Secretary.

H.M.Jr: Yes, how are you?

R: We've just checked around the Street and here's about what we find.

H.M.Jr: Good.

R: Hello?

H.M.Jr: Yes.

R: As far as the bankers are concerned -

H.M.Jr: Yes.

R: - there is no confusion.

H.M.Jr: Yes.

R: As far as the customers are concerned there is a good deal of confusion -

H.M.Jr: Yes.

R: - because there has been so much newspaper comment about the statement that you put out.

H.M.Jr: Yes.

R: If you'll turn to Page 6 of the Times, you'll find that there's been a statement issued by the British Treasury -

H.M.Jr: Yes.

R: - that when taken into consideration with your statement -

H.M.Jr: Yes.

R: - clears the thing perfectly.

H.M.Jr: In the New York Times?

R: New York Times on Page 6 - the British Treasury statement plus your statement which was marked for release for the morning newspapers on Tuesday, October 13.

H.M.Jr: Yes.

R: Take those two things into consideration, and the bankers see the situation very clearly.

H.M.Jr: I see.

R: But the newspapers have fussed so much that apparently the customer doesn't get the picture.

H.M.Jr: Well, isn't what is doing - what we hear from the Federal Reserve that they're calling up - the customers are calling up the banks.

R: Yes, that's right.

H.M.Jr: And the banks are explaining it.

R: We're explaining it to all of them, and after we give the explanation, they're entirely satisfied.

H.M.Jr: I think I ought to make an extra service charge to the banks for that.

R: Well, that's all right.

H.M.Jr: (Laughs).

R: But I think that if they can stick right to those two statements -

H.M.Jr: Yes.

R: - they'll get entirely wise.

H.M.Jr: But they're calling the banks and the banks are explaining it, aren't they?

R: That's right. The banks are explaining it all along the line.

H.M.Jr: Well, that's what I hear.

R: And I think that with your statement as you gave it out, and if you'll see the British statement, the two taken together makes it clear.

H.M.Jr: Yes. Well then I'll just sit tight and leave it alone.

R: If the newspaper boys wouldn't try to explain so much, it really would be better, but you can't control that.

H.M.Jr: No, I can't. Well as long as - after all, as long as the banks understand it and they are explaining it, then I have nothing to worry about.

R: That's all right. The banks are explaining it and the operations are going on very smoothly.

H.M.Jr: Thank you very much.

R: All right - fine, and if there is anything further you let us know.

H.M.Jr: Thank you.

R: All right.

H.M.Jr: Goodbye.

Monday
October 12, 1936
3:10 p.m.

HMJr: Hello.

Operator: Mr. Knoke.

HMJr: Hello.

L. W.

Knoke: Yes, Mr. Secretary.

HMJr: I have Archie in here with me and I think today it'd be a mistake to let sterling go below four ninety unless there is a big drive on it, see? In other words, if you can keep sterling from going below four ninety easily I'd like you to do it.

K: Yes.

HMJr: What?

K: Yes, I think it - I think it can be done.

HMJr: Yes - and now whether we convert into gold - we can decide on how much. If we only get fifty thousand I wouldn't convert, see?

K: Oh, I see.

HMJr: See what I mean?

K: Yes, I understand.

HMJr: But the first thing, I don't want it to go below four ninety.

K: Yes - All right, that can be done.

HMJr: Give out your orders and then let me know.

K: Good.

HMJr: I mean -

K: In other words -

HMJr: If you get a big drive, let's see - hello?

K: What?

- 2 -

HMJr: If you get - I'll give you an order now to buy
a hundred thousand sterling at four ninety.

K: Yes - All right, I'll get busy.

HMJr: Thank you.

K: Thank you.

HMJr: Three-fifty - three-fifty.

REPORT ON SECRETARY MORGENTHAU'S
PRESS CONFERENCE, OCTOBER 12, 1936;

H.M.Jr.: I think I'll read this out loud. This is for tomorrow morning newspapers and it's a statement being given out, I believe, at this moment in both London and Paris along the same lines, by the Treasury in London and the Treasury in Paris. Our statement reads as follows: "Supplementing the announcement....." And also for tomorrow morning's release: "The Secretary of the Treasury today named Great Britain....." I don't know whether you'd like me to explain first or ask questions first.

Q. Would you explain first, please?

A. The way I see this picture is something like this: The level of foreign exchange, as between the United States, Great Britain and France, may be thought of as a triangular plane. Each corner rests on the foundation of a stabilization fund. Each country operates its own stabilization fund to equalize its own currency by buying and selling exchange in terms of other currencies. By that I mean, in this market we buy sterling or francs; in London they would be buying dollars or francs. No country wishes, through these operations, to accumulate too much paper currency of the other countries, and, therefore, we propose to permit each country to convert the other countries' paper money into gold, the price being fixed each day. This represents a divorcement of the control of the foreign exchange market from the few individual international speculators. The responsible governments of the people will now cooperate to assure a minimum exchange fluctuation. Business men with merchandise to sell abroad, or business men who are importing merchandise, will be free to operate through their respective banks in regular and normal exchange operations. The international speculator, responsible to no one, and recognizing no flag in the conduct of his business, will in the future not be able by rapidly shifting his funds from market to market, to reap private advantage through stimulating chaos in foreign exchanges. Now I'm at your service.

Q. You say that the rate will be fixed; why is it being fixed each day?

A. The price of gold will be fixed.

Q. The price of gold? Is that the same as the exchange? Who's going to fix the ratio between the pound and the dollar and the franc? How will that be arrived at?

-2-

- A. It will be arrived at through the flow of goods and services and other stocks, etc., which flow back and forth between countries and those various mediums--the transactions that go into--the money transactions that go into business as between countries--the various activities--they will fix the rate of exchange. In other words, the demand--whether there's a strong demand for dollars or a strong demand for sterling or francs as business flows back and forth--those demands will necessarily fix the rate of the dollar and the franc and the pound.
- Q. In other words, you will allow legitimate transactions to fix the rate?
- A. The thing that we have accomplished here in the last two weeks is this: That France has realigned her currency--I think she used that word rather than devalued--we call it devaluation, she called it realignment. As I said before it was November '31 or the Fall of '31 when Great Britain devalued.
- Q. September.
- A. September, thank you. And you see the chaos which existed in our markets. Now here an important country like France devalues and a great many other countries--I don't know how many, I can't keep track of the thing it happens so fast; it's ten, I believe, countries that devalued and the business man that has merchandise in transit--count them please.
- Mrs. Klotz: Eight.
- H.M.Jr.: Including France?
- Mrs. Klotz: Including France.
- H.M.Jr.: Eight. What have we been able to accomplish? Instead of American business being completely upset through eight countries devaluing, why we have been able, through this agreement, to have an absolutely minimum of disturbance, so that the man who is either buying goods or selling goods can continue his business in a perfectly normal way. In other words, we have practically taken the risk of foreign exchange out of his calculations, and if we hadn't had this agreement, it would have resulted--no one could have told what the results would have been, if France had devalued and seven other countries had devalued, if we hadn't had an understanding to keep the dollar from fluctuating too widely. It's had a minimum of fluctuation and the importer and exporter has been able to go right ahead with his business and he hardly knows that these countries have

devalued, if he interprets it by the amount of fluctuation. Now, after we have gone along for two weeks, the first step, I think it's safe to say, has met with complete success. Now, in order to take the second step the three countries feel and we feel that it's to our advantage that we permit, on a reciprocal basis, from day to day, the giving up of gold so that we or Great Britain or France do not accumulate too much of the paper currencies of each of the countries. Now does that give you a fairly good explanation?

Q. Mr. Secretary, what would be the objection to the accumulation of too much paper?

A. I think that's self-evident; I don't think any country, without reflection on anybody, wants to pile up a large amount of paper currency of the other country without knowing it can convert into gold if it wishes to. It's just another assurance that if they wish to, they have deposits here with us--the central bank--or we have it over there. If we wish to, we can convert it into gold; it just eliminates another risk, because, after all, what Great Britain or France do with their money is beyond our control, and instead of having pound sterling paper or franc paper we can, if we wish, convert into gold; it eliminates that risk. And the same thing holds true of ourselves. I made the statement that France was supplying francs here in this market. Well, when they supplied francs to our merchants they had to buy dollars--they accumulated a dollar deposit. They may feel everything is going very nicely here and feel perfectly willing to have "X" millions of dollars here. But, on the other hand, they might feel, as an extra insurance policy, they may want to convert part of that dollar balance into gold and it's another logical step as between governments in working out this question of a medium for doing business, and heretofore there have been a few people who were willing to go short on any country and sell any country short. They had no legitimate business other than speculating in foreign exchange, and every government has suffered from it. If they thought a government was going to weaken they were perfectly willing to sell that government short and that has been the curse of doing business in the foreign exchange market. And the business man who sells cotton abroad, he does his business through his bank perfectly legitimately but his government is there to protect him and to see that the dollar that he buys or sells his merchandise with has a minimum of fluctuation. Now for the past two years no one has raised the question, "What's the dollar going to be worth?" That was the front-page story a couple of years ago. We don't read it any more. We have eliminated that through our stabilization fund and general confidence in the dollar, but with these devaluations of France and seven other countries, if we hadn't been able to take care of ourselves, you might have seen very sharp fluctuations of the dollar.

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- Q. This is the lifting of the French embargo in that it permits interchange of currencies?
- A. This is an entirely new method of doing business. The old method of the old gold standard that worked automatically as between gold points--when the currency reached a certain point,--when the franc reached a certain point, gold would flow out, and when it reached another point it would flow in. Those things were absolutely fixed. This is an entirely new conception of doing business in the world markets. It's entirely different from the old gold standard, and we reserve the right, as do the other countries, to stay on a 24-hour basis, so that our first thought is our own national prosperity, and if this arrangement in any way is injurious to our national prosperity, we reserve the right to change it, as do the other countries. As these things go on there will be other steps which will seem logical to take. We have taken one. In two weeks it worked, and this is the next one, and we think it will work here. This whole new method of doing business between nations is moving so fast, so well, it's hard to keep track of it, but up to now it seems to us that it has been a success.
- Q. Mr. Secretary, gold can only be bought in dollars though, can't it? Is that right? England can't use francs to get our gold under this.
- A. It's all figured--the base is \$35.00 and if England wishes to buy gold she will pay us with dollars.
- Q. She can't pay us with francs?
- A. Why should she use francs?
- Q. I don't know--that's why I'm asking you. England would be supposed to go to France to get gold for her francs under the agreement?
- A. That's right.
- Q. Back of my question was whether we are going to load up on somebody else's paper; that's why I asked you.
- A. If we take francs, if we have a large number of francs, we simply notify the Bank of France that day we'd like to convert them into gold. If we have sterling, we notify the Bank of England we want to convert into gold; if the Bank of England has dollars they notify us they want to convert into gold and if they have francs they notify the Bank of France. It's a three-cornered plane, each country trying to keep its particular corner level. You can use that picture again of the plane. The danger was the whole plane might have dropped, but that didn't happen and the thing stayed on this level.

- Q. As the agreement now stands, the agreement involves three countries?
- A. The three countries.
- Q. In the statement you say that if other countries offer their support in connection with the stabilization agreement and set up their own stabilization funds--suppose Germany, for instance did that.
- A. Any country that wants to come in and join us, the door is open.
- Q. They could set up their fund?
- A. If they will come in we will be more than pleased to talk to any country in the world.
- Q. It will be kind of open door policy?
- A. Yes, but I hope more effective.
- Q. Does this free gold movement mean there's a fixed ratio between the currencies?
- A. Must I go through that again?
- Q. I want 'yes' or 'no'.
- A. I can't give you a yes or no answer.
- Q. Have you agreed with Great Britain that \$4.80 is the proper level for the pound?
- A. I'll go all through this again.
- Q. I understand, but -- .
- A. I told you before that everything we agreed to was face-up--there were no other agreements.
- Q. I'm talking about this one right here.
- A. I said there were no side-agreements, and everything we agreed to was face-up and I have told you everything there was and I'm telling you everything there is now.
- Q. In other words, there isn't an agreement as to the pound-dollar ratio?
- A. I am not going to answer that. I'm going to answer you this way--that I've told you I'm not going to be in a position of denying that story. I've told you gentlemen everything there is and how there are no other agreements than what I've told you, and I'm sorry, if you don't mind, Bob, I'll have to answer it that way.

- Q. My first question was directed to that.
- A. And I answered you the same way--I told you that it would have to find its own level.
- Q. Will the day-to-day price on which these gold settlements are made be on the basis of arm's-length bargaining? How will you determine the price?
- A. Our price is \$35.00 and that's the anchor; it's all figures \$35.00 into the currency interpretation. If you men want to get into a more technical explanation and want to go into the history of what we've done on gold, Herbert will be glad to have anyone who desires go into his office and go through it, if you want to get a more technical explanation of this operation. The anchor is \$35.00. We figure that, in terms of francs and pounds, and dollars,--you've got insurance rates, etc., the price in London plus these expenses always going back to \$35.00.
- Q. We'd like to know how you figure how many pounds you are going to buy with \$35.00.
- A. It all goes back to the price of sterling for the day and the price of gold.
- Q. Our price remains \$35.00?
- A. Our price remains \$35.00 and you've got to work backwards, taking into account freight, insurance, the price of sterling that day, the price of gold in London; it's a very complicated thing, but it all works back to the \$35.00 price.
- Q. Our price tomorrow is \$35.00?
- A. Our price tomorrow is \$35.00.
- Q. Why would there be a daily announcement then?
- A. The only daily announcement is that we are doing business tomorrow with Great Britain and France and they make a similar statement that they are doing business with us for one day. In other words, either one of us could cancel--I'll put it another way--this is good until canceled.
- Q. The \$35.00 price doesn't change except as to the cost of carriage?
- A. The \$35.00 price won't change tomorrow.
- Q. But it might change on Tuesday.

- A. There's no saying. This thing is still on a 24-hour basis and our arrangement with Great Britain and France is 24-hour and their arrangement with us is 24-hour. In other words, until further notice, we hereby announce that we will do business with Great Britain and France and we will give up gold on a reciprocal basis at \$35.00 an ounce. They make the same statement--Great Britain makes the same statement and France makes the same statement, but it's a day-to-day arrangement. It has to be; otherwise we will find ourselves slipping back into the old gold standard.
- Q. Is this done to avoid slipping back into the old standard?
- A. No; this is a new method.
- Q. We may accurately term it a new type of gold standard?
- A. It's a new type of gold standard, and our first thought is our internal national prosperity and that's the thing we look at morning, afternoon and evening, and we keep on looking each day and all through the day, and how does this affect our internal national prosperity? And if it works tomorrow, fine! If it works Wednesday, we will do it Thursday, and every day, every hour we watch our internal national prospects. And Great Britain and France do the same thing as we do. And as I said before, time will tell. I am very hopeful. It's worked for two weeks and I have every reason to believe it's going to work. But it will take time. It takes confidence in each other.
- Q. You mean you've done this for two weeks? Mr. Secretary, I may be awfully dumb about this thing...
- A. No.
- Q. But that price--\$35.00--is that subject to change?
- A. Yes, it's subject to change.
- Q. Well, that affects the value of the dollar--the 59.06.
- A. I mean, we have the right--to answer your question--you know we have the right to devalue further.
- Q. As long as our currency is at present 59.06, we could change the value of gold without devaluing.
- A. We can change it but we can also devalue.
- Q. Unless you are going to devalue further, you must keep the \$35.00 price.

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- A. No, it isn't right, but I'd much rather you didn't ask me that--it isn't right. I would much rather you didn't write it; it gets everybody all upset; we can change the price of gold without devaluing; we have that right. That's right, Herbert, isn't it?
- Q. You can't change the gold ratio.
- Mr. Gaston: You can increase your handling charge or decrease it.
- H.M.Jr.: We have the right, but I'd much rather you didn't use it.
- Q. Will you describe for us the simple mechanics of how you can get gold for your American dollar held by France? Will you describe the simple mechanics of it?
- A. The simple mechanics, to get gold for francs? If we buy francs tomorrow, in other words, if we sell dollars in France and buy francs we accumulate "X" millions of francs. We would do this through the Federal Reserve of New York, as our fiscal agent, who would be acting with the Bank of France. At the end of the day they would find they had accumulated "X" million francs. They would notify the Bank of France to please convert that into francs to pay us "X" million in gold and we would earmark that gold in the Bank of France and bring it out in 48 hours or leave it there.
- Q. Mr. Secretary, do you think that this will result in a flow of gold in or out of the United States or into England?
- A. I can't tell, and, frankly, I'm not worried; I explained that very carefully in my letter to Senator Vandenberg. Whichever way the trend is, if gold goes out of this country it's certainly nothing to worry about.
- Q. Mr. Secretary, on account of business conditions and other matters which might affect the rate of exchange, you should decide in 3 days or a week to change this rate either a little bit up or down, to \$35.50 or \$34.50--does that mean the other country will correspondingly make a ratio change or would that affect our rate?
- A. As I say, the chances of our changing the price of gold are not very great. It's a power that the President has to use, just as he has the power to devalue further. We would have to find ourselves at a disadvantage, and I would certainly feel that, in an agreement like this, if we found ourselves at a disadvantage I'd want to talk it over with the other two countries. After all, that's my understanding of a gentlemen's agreement, and we would certainly want to talk it over with them before we sprang something on them.

- Q. That's what I meant; in case we made a change one way or the other, you would talk to them in case they want to change too.
- A. And I say this is one of the most difficult and intricate things a person has ever found himself in and you have to watch it every second.
- Q. Is there any arrangement whereby this country would have francs and France would have dollars--could you just return the francs for the gold or would you keep the francs and the gold too?
- A. If we have francs in France and want to convert, we can convert; if they have dollars here they can convert.
- Q. There's no way there could be any increase or decrease in the flow, unless one country agreed to permit the outflow because as soon as the transactions are completed, you wind up where you started.
- A. The chances are there wouldn't be an even amount, but what we might do, if we have to answer your question, if we had ten million dollars worth of gold in France and they had ten million dollars worth of gold here, we could just exchange that.
- Q. In other words, on the basis of balances.
- A. Yes. But if we each had gold instead of transporting it back and forth we could swap it and call it a day.
- Q. This is a substitute for the old gold standard?
- A. Yes. Entirely new method and it leaves us free--our hands are still untied and so are Great Britain's and so are France's.
- Q. The chief characteristic, to explain it to a non-technical reader, is that it takes power to trade in foreign exchange out of the hands of speculators and puts it in the hands of the governments?
- A. Correct.
- Q. How about last Friday you could at least control theoretically the flow of gold and now it is automatic. I don't see where the difference in the gold standard is there.
- A. Last Friday neither France nor England could get gold from this country.
- Q. But if you gave your permission they could.
- A. But we didn't.
- Q. But you can give export licenses.

- A. But we didn't.
- Q. You never have in the last two years?
- A. Not in the last two weeks.
- Q. That's what I'm trying to get at; what's the difference if you give them a license?
- A. All the difference in the world; prior to September 25, gold moved between the United States, France, Holland and Switzerland on a question of gold points. Then France devalued-- she went off gold during those two weeks' period and so did Holland and so did Switzerland, and during that two weeks' period we didn't give anybody an export license; does that answer your question?
- Q. Essentially. This permits the movement of gold to Great Britain.
- A. And France and any other country that wants to come in and see us and talk business.
- Q. Mr. Secretary, if you accumulated sterling here and then wanted to sell it to the British fund for gold, how would you make a price on that?
- A. That's a thing.... it takes a technician to explain the thing, but there are three factors that go into it. You start with a \$35.00 basis here and you work it backwards or forwards, any way you want, but you've got to take into consideration the price of gold bullion and the cost of shipping it here and in that way you will arrive at a price for that day.
- Q. Will you say that again?
- A. The cost of gold bullion in London, the price of sterling, the cost of shipping it from here--don't forget the $\frac{1}{2}$ % handling.
- Q. The price in the free London market would have a bearing on that?
- A. Yes.
- Q. That's the same as your gold transfers on the old gold basis-- as to whether it's profitable to ship it or not.
- A. We never had that, between England and ourselves.
- Q. When gold starts to move, the gold point is passed. These figures would make it profitable.

- A. But it would only be between governmental banks and heretofore anybody could do it.
- Q. From now on it will only be between governmental banks--no more private transactions--no more export licenses, in other words.
- A. That's the way it is tonight.
- Q. No more export licenses for individuals?
- A. We start with a clean slate and right now we have issued a reciprocal statement as between the Government of Great Britain, the Government of France, and the Government of the United States, and nobody else, as of tomorrow morning, can have that privilege.
- Q. Would you care to describe a little of the color of the negotiations--now you carried them on in the last few weeks through the State Department in its regular diplomatic channels or whether you did it similarly to the other?
- A. If I tell you I did it the same as the other, is that all right?
- Q. As long as we are sure about the loud-speaker.
- A. Where's my friend?
- Mr. Gaston: He's here; he's disguised.
- Q. Mr. Secretary, who developed the scheme?
- A. It's awfully hard to describe it; I mean it's a thing that's just gradually developed; it seemed to be the logical step. I discussed it with the President in Hyde Park and he liked the idea. It's one of those things which developed and it's awfully hard to say where it started and where it finished. Of course, anything I do here with any foreign country the State Department is kept in touch all the time.
- Q. Mr. Secretary, is there any movement between the United States and any countries that are not a party to this agreement? For instance, Argentina?
- A. Right now and for the past two weeks no gold has left this country and beginning with tomorrow, until further notice, I'll say again we have this reciprocal agreement between France and Great Britain and ourselves. As to the next step--what country is going to come and knock at the door, I can't tell.

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- Q. Until they knock there's no way they can get gold out of this country?
- A. Unless they ask for it, we are not going to go out and drum up business.
- Q. Unless they agree to this agreement.
- A. For the time being, this is the pattern. What we will do three months from now, or three days from now...
- Q. What effect does this have on the man in the street?
- A. None. What we are talking about is the external dollar; the internal dollar is what we pay for our supper; it will have no effect; when it does have an effect, if it does, that's why we are staying on a 24-hour basis--so that the fellow in the street who buys his dinner and pays his dollar will not be hurt by this, and if he is hurt by it, we reserve the right to change from day to day as do the other two countries, because it has been proven that no man is smart enough to say what the answer is. But we think we are on the right track and after all we've got behind us--since the Fall of 1933 when we started to buy gold, this administration has met with entire success. And the old headline "What is the future price of the dollar," it's so long since you men have written it you probably have forgotten it. But I didn't forget it. The man on the street--all those powers which affect the internal dollar are largely vested with the Federal Reserve Board--credit controls the internal dollar. We here, through the stabilization fund, are largely charged with the powers that have to do with the external dollar, but the Federal Reserve Board and ourselves work very closely together, so that we are going in the same direction. We must work close together so that the external dollar and internal dollar move in the same direction, and, to go back, so the fellow on the street gets the benefit.
- Q. Mr. Secretary, this is a pretty big story that you've given us; what happens to the blocked exchanges, etc.? This hits those countries very hard.
- A. This question of block exchanges has never been in the Treasury. That's private. We only deal with governmental funds. The question of blocked exchanges are credits due private individuals.
- Q. Well, I mean where they won't permit the export of gold.
- A. That's something which is not in the Treasury; I'm right, am I not? This whole question--we talked about blocked funds.

- Q. I didn't mean that, I meant, they have to agree to let us have gold if they want it.
- A. As the pattern is written tonight, but I don't see this is the final pattern; somebody asked about Argentina--I don't believe you can get gold out of the country. They've got to decide what they want to do. Here are three countries that have decided that as far as we can see this is a good move, but, as I said before, time only will tell if we are right, but I repeat, since 1933, the policy we have followed with gold and the monetary policy has met with success.
- Q. May I ask you another question? May the Chase Bank tomorrow export gold or any bank that's a member of the Federal Reserve system?
- A. No, not as I understand it.
- Q. And can the Salomon Brothers or any of the big banking houses exchange tomorrow?
- A. The only exchange of the gold as it is written for tomorrow is between governments.
- Q. The New York Federal Reserve Bank as your agent?
- A. The New York Federal Reserve Bank acts as our agent.
- Q. Has gold flowed since the gold order. Primarily it was through private banks before, such as the Chase Bank and representatives of private individuals?
- A. I may be wrong, but, as far as I know, I may have to check up on myself, but I don't know that it has flowed.
- Mr. Gaston: He means such as the flow of gold from France to the United States. Almost all private dealers, I think.
- H.M.Jr.: I may be wrong on that (Herbert, you'd better check up some more), but as I understand it, if I'm wrong correct me quickly, the accumulation prior to the time France went off gold... .
- Mr. Gaston: Bob was speaking about the period before that--the big shipments of gold beginning January 1, 1934.
- H.M.Jr.: That all went on between banks.
- Q. Connected with governments?
- A. Not connected with governments.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, October 13, 1936.
10-12-36.

Press Service
No. 8-66

Supplementing the announcements made by him on January 31 and February 1, 1934, to the effect that the Treasury would buy gold, and on January 31, 1934, referring to the sale of gold for export, the Secretary of the Treasury states that (hereafter, and until, on twenty-four hours notice, this statement of intention may be revoked or altered) the United States will also sell gold for immediate export to, or earmark for the account of, the exchange equalization or stabilization funds of those countries whose funds likewise are offering to sell gold to the United States, provided such offerings of gold are at such rates and upon such terms and conditions as the Secretary may deem most advantageous to the public interest. The Secretary announces herewith, and will hereafter announce daily, the names of the foreign countries complying with the foregoing conditions. All such sales of gold will be made through the Federal Reserve Bank of New York, as fiscal agent of the United States, upon the following terms and conditions which the Secretary of the Treasury deems most advantageous to the public interest:

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

ccOen

TREASURY DEPARTMENT

Washington

FOR RELEASE MORNING NEWSPAPERS
Tuesday, October 13, 1936.
10/12/36

Press Service
No. 8-67

The Secretary of the Treasury today named Great Britain and France as complying with the conditions specified in his press release of October 13, 1936, for the purchase of gold from the United States for immediate export or earmark.

--oOo--

October 12, 1936.

Dear Sirs:

This will confirm to you that the statement issued by the Secretary of the Treasury, approved by the President on September 27, 1936, relating to the sale of gold, constitutes a license within the meaning of your license No. NY-18-1, dated February 5, 1934, as amended, and that, therefore, the gold sold pursuant to such statement may be held by you for export to, or earmark for the account of, the exchange equalization or stabilization fund purchasing such gold.

I further confirm that my letter to you approved by the President on September 27, 1936, respecting the acquisition and use of gold as provided in the above mentioned statement, constitutes a license pursuant to Section 54 of the Provisional Regulations issued under the Gold Reserve Act of 1934, as amended.

Very truly yours,
(Signed) Henry Morgenthau, Jr.
Secretary of the Treasury.

Federal Reserve Bank of New York,

JGH/fa New York, New York.
10/12/36

JGH

October 12, 1936.

Dear Sir:

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

You are hereby authorized and directed, upon receipt of the certification signed by the President, or a Vice President, of the Federal Reserve Bank of New York to deliver gold bars for any of the purposes set out in the statement issued today, copy of which is enclosed, provided that the certification of the Federal Reserve Bank states that the gold is acquired for any of such purposes and that a credit has been established on the books of the Federal Reserve Bank of New York in favor of the Treasurer of the United States for the gold so acquired at the rate of \$35 (plus one-quarter of one per cent) per fine ounce.

Very truly yours,

(Signed) Henry Morgenthau, Jr.

Secretary of the Treasury.

Superintendent,
United States Assay Office,
New York, New York.

Enclosures.

BS/fa
10/9/36

JEH [Signature]

October 12, 1936

The Secretary is inviting the leading economists of the various Government departments and agencies to come to his home tonight so he can explain recent monetary arrangements and what he is doing on the gold license for England and France, so they will be well informed and will cooperate with us rather than buck us.

The list of those invited is attached.

Federal Reserve Board

OK M. S. Eccles
 Ronald Ransom - out of town
 OK Chester Davis
 OK E. A. Goldenweiser, Director, Division of Research & Statistics
 OK Lauchlin Currie, Assistant Director, Div. of Research & Statistics
 OK Walter R. Gardner, Senior Research Assistant

State Department

OK Herbert Feis, Economic Adviser
 OK Frederick Livesey, Assistant Economic Adviser
 OK Leo Pasvolsky, Chief Economic Analyst, Foreign Trade Division

Commerce Department

OK Ernest G. Draper, Asst. Secretary
 OK Alexander V. Dye, Director, Foreign and Domestic Commerce
 OK Grosvenor M. Jones, Chief, Finance and Investment Division
 OK Amos E. Taylor, Assistant Chief, Finance Division

Agriculture Department

Henry Wallace - out of town
 Rexford G. Tugwell, Assistant Secretary of Agriculture - out of town
 Howard R. Tolley, Administrator, Agricultural Adjustment Administration - sick
 OK Albert G. Black, Bureau of Agricultural Economics
 Mordecai Ezekiel, Economic Adviser - unable to come - lectures at Agricultural Department

Labor Department

OK Isador Lubin, Commissioner of Labor Statistics, Bureau of Labor Statistics

Securities and Exchange Commission

OK James M. Landis
 OK William O. Douglas
 OK Paul P. Goussich, Director, Research Division
 OK Raymond W. Goldschmidt, Financial economist
 Kemper Simpson, Economic Adviser to Commission - out of town

United States Tariff Commission

OK Robert L. O'Brien
 OK Oscar B. Ryder
 OK A. W. Fox, Director of Research

Farm Credit Administration

William I. Myers, Governor - out of town

Democratic National Committee

OK Leon Henderson, Economic Adviser

Central Statistical Board

Stuart A. Rice, Chairman - out of town
 OK Morris A. Copeland, Executive Secretary (alternative)

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Federal Trade Commission

OK Francis Walker, Chief economist

Library of CongressVictor Selden Clark, Consultant in Economics - leaving town
October 12, 1936Treasury Department

Wayne C. Taylor

George Haas - sick

OK Harry D. White

OK Herman Oliphant

OK Herbert Gaston

OK C. B. Upham

OK Archie Lochhead

OK Daniel W. Bell

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October 12, 1936.

The Secretary of the Treasury called a meeting of Treasury and other Government officials, which meeting assembled at his home, 2201 R Street, at 8:30 P.M., October 12, 1936.

Those present, together with their connections, are listed as follows:

Federal Reserve Board

M. S. Eccles
Chester Davis
E. A. Goldenweiser, Director, Division of Research
& Statistics
Lauchlin Currie, Assistant Director, Division of
Research & Statistics
Walter R. Gardner, Senior Research Assistant

State Department

Herbert Feis, Economic Adviser
Frederick Livesey, Assistant Economic Adviser
Leo Pasvolksy, Chief Economic Analyst, Foreign Trade
Division

Commerce Department

Ernest G. Draper, Asst. Secretary
Alexander V. Dye, Director, Foreign and Domestic Commerce
Grosvenor M. Jones, Chief, Finance and Investment Division
Amos E. Taylor, Assistant Chief, Finance Division

Agriculture Department

Albert G. Black, Bureau of Agricultural Economics

Labor Department

Isador Lubin, Commissioner of Labor Statistics, Bureau of
Labor Statistics

Securities and Exchange Commission

James M. Landis
William O. Douglas
Paul P. Gourrich, Director, Research Division
Raymond W. Goldschmidt, Financial economist

United States Tariff Commission

Robert L. O'Brien
Oscar B. Ryder
A. M. Fox, Director of Research

Democratic National Committee

Leon Henderson, Economic Adviser

Central Statistical Board

Morris A. Copeland, Executive Secretary

Federal Trade Commission

Francis Walker, Chief economist

Treasury Department

Henry Morgenthau, Jr., Secretary
Harry D. White
Herman Oliphant
Herbert Gaston
C. B. Upham
Archie Lochhead
Daniel W. Bell

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H.M., Jr.: I asked you gentlemen to come in here because I thought you might like to share some of our problems with us; and for the last couple weeks we have felt we have had more than our share of the burden.

Tonight we have made another move in the international monetary field and I wanted to explain it and answer questions. For those that I can't answer, I will call on some of my associates, and I hope they can.

I think the easiest thing to do is to read the thing we gave out here at 4 o'clock, given out at 9 o'clock in London

and 9 o'clock in Paris. It is a new move in gold. This is very brief:

"Supplementing the announcements made by him on January 31 and February 1, 1934, to the effect that the Treasury would buy gold, and on January 31, 1934, referring to the sale of gold for export, the Secretary of the Treasury states that, hereafter, and until, on 24 hours' notice, this statement of intention may be revoked or altered, the United States will also sell gold for immediate export to, or earmark for the account of, the exchange equalization or stabilization funds of those countries whose funds likewise are offering to sell gold to the United States, provided such offerings of gold are at such rates and upon such terms and conditions as the Secretary may deem most advantageous to the public interest. The Secretary announces herewith, and will hereafter announce daily, the names of the foreign countries complying with the foregoing conditions. All such sales of gold will be made through the Federal Reserve Bank of New York, as fiscal agent of the United States, upon the following terms and conditions, which the Secretary of the Treasury deems most advantageous to the public interest:

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

Then the other announcements, naming those complying

with the conditions: "The Secretary of the Treasury today gave Great Britain and France as complying with the conditions specified in his press release for the purpose of the purchase of gold of the United States as earmarked."

I'll try to explain it as well as I can. You know, on September 25, France devalued, having first very carefully sounded Great Britain and ourselves as to whether she could have the assurance that if she did devalue, neither of us would devalue further; and we both gave France the assurance that if she did devalue (always with the reservation that things continued more or less as they were internationally), we would go along with her, and we will refer to - we referred to that, after many hours, as "your national prosperity," which I think was a happy term, not being mine. We have, then, been going along for the last couple weeks.

I think it's been about the most nerve-racking two weeks I have had since the Supreme Court was out trying the gold case. I think that was the last time, as a matter of fact - we were in the sterling market at that time and haven't been since then.

We found ourselves, and each of the other countries found themselves, in the position that France, for instance, made available francs in this market, for which she took dollars; we found ourselves buying sterling for our dollars and we found ourselves with paper sterling, and France found itself with paper dollars, and nobody was able to convert into gold.

And, furthermore, while sterling was dropping, and being unable to - not being unable, finding it very difficult - to buy gold in London during this period on a falling market, we found ourselves at a considerable disadvantage. No more than that.

I am going to talk very confidentially so I think you are going to get the picture. France had been pressing us right straight along to come to an understanding to give up gold. And as far back as April, May, June, and July, England approached us as to whether we would be willing to give up gold. And our position has been that we would hold back as long as possible, telling both of these countries that our hope was that we would get a tripartite agreement on stabilization. It was a pretty stiff "poker game," because we always took the risk that they might get together and leave us out in the cold. But it didn't work that way.

But we did give our word that if they did get together we would be willing to give up gold on a reciprocal basis. So, after this agreement we entered into, we felt it was up to us to make good and we made the gesture.

Now, in the three years I have been in the Treasury - since the London Conference, I mean - the whole position that England has always taken is she wouldn't agree to anything; and our relationship with England over a couple of years, which we really started at zero, has gradually gotten better and better. And I want to say here that this talk which has been in the papers that there is a fight on between the United States and

Great Britain over the price of the dollar and the pound sterling, is just the "bunk." There is no fight. As a matter of fact, England has spent far more money in the past two weeks keeping the price of sterling up than we have spent - three-to-one of what we have spent. She has absolutely kept good faith, and no one could ask for a better partner than we have had during the last couple weeks.

Now, you people know that prior to September 25th we only gave up gold to those countries which were on gold, and then we worked between the so-called gold points, and we gave up gold - would give up gold - to France, Switzerland, and Holland, and formerly Belgium. Belgium's status just now - I hope nobody asks me now, because I don't know. She is sort of a hermaphrodite, in between.

So during the past two weeks nobody could get gold from the United States; and we quite obviously didn't want to go back to the old gold standard, because I think this country - I believe so - has suffered long enough under that rigid system.

And, also, we want to take steps (and this isn't a suggested stump speech) to keep this handful of individuals who are sharpshooters on the international exchange from selling any country short which they felt was weak.

Now, what we have done tonight is that we have agreed on a 24-hour basis that we will give up gold either to England

or France, and they will do the same to us and to each other. And, as I say, there is a simultaneous announcement in each of the three countries and we hope the thing will work.

It looks to us, after going at the thing very carefully and spending many hours, days, and nights, that this seems like the next logical step. The way I described it to the press at 4 o'clock was this: that we look at it something as though this thing were a triangle, with the pound, the franc, and the dollar in each corner, in each of these three corners; now, for the first time, a stabilization fund is holding up each corner. Now, what we are trying to do is to even out the exchanges. What we are trying to do is to keep this plane on an even keel. And the great danger in this thing, if you will look back to 1931 when England devalued, is that the whole plane might drop suddenly.

Now, of course, two weeks isn't very much experience, but it has worked awfully well. I haven't got any particular name for this new kind of gold standard; I don't know what I call it. It is certainly not an international gold bullion standard. It is not the old gold standard. It is something entirely new, and you men undoubtedly will want to ask technical questions as to just how and when we give up this gold, or dollars, etc., and how we work. Now, our boys are here and they will answer these questions.

But the thing I want to impress on you is that, for the

first time, the only people that can get gold from us will be central banks. No private bank, no individual, can get it. And the individual foreign exchange operator - I think his day is over. And I think the business man who wants to sell goods or import goods - that his risk that he had to take in foreign exchange is pretty well limited, and I should think for the business man it would be a particularly useful thing.

Now, we have hopes; we don't know. As I explained at the most difficult conference, press conference, I have ever had (it lasted 50 minutes), we have behind us, since the fall of '33, a successful record on this monetary program. Three weeks before election everything, as I say, is magnified a thousand times. Heaven only knows what it's going to look like in the morning papers; I am praying it will look all right. But the President didn't want to pull back because election was coming. He wanted to move forth just as fast as I could. We have done it; we have tried to be cautious.

I feel that those of you who are here - that it affects each one of your departments in some way, and I am very anxious that you understand it. I hope we will have your sympathetic support. The boys are here because you will want to ask questions. I want you to be perfectly frank. I've got a fairly thick skin.

The thing that we need to help us is this: Now, this thing that we are talking about is the external dollar. Marriner

Eccles, of the Federal Reserve Board, has got most of the responsibility for the internal dollar. Marriner and I see more of each other than I see of some of you others. But there are so many things that all focus on the thing. Just our buying and selling gold - we can't handle this thing alone. Every one of you people in the room - we need your help, and we just can't do this thing alone.

I mean how this is going to affect the cost of living; how it is going to affect the manufacturer, the importer, the exporter; how it is going to affect commodity prices. The whole American economic strata is affected, and what I want is you people to feel that if, in this new step that we are taking - if, in any way, it affects the particular responsibility that you have, I want you to let us know, because it is impossible for us to keep track of it all. But, as we go along - as I say, this is the second step - we very much want your help and your criticism.

Just for example, I asked Mr. Landis' organization, in the afternoon I think it was, whether I could have next morning the prices on my desk - how many dollars each country had sold abroad on stocks. Dr. Goldschmidt got on a plane, went up to New York; next morning I had it. Every morning at 8:30 I have on my desk the exact number of dollars sold by countries in stocks, and it is a tremendous help to us, because when the pound was falling, and you could see the number of millions of dollars were coming

this way, it was perfectly obvious that one of the biggest reasons was that Great Britain was selling sterling, buying dollars and buying our stocks, and everybody trying to keep sterling up knowing that was just throwing his money out of the window.

And it is that kind of assistance that we need. As I say, our attitude is that we want all the help we can get, because I think it is - well, if I may use the word - a rather courageous step to take; we hope it is a wise one.

Now, I imagine there are a number of you people who want to ask the technical workings of this thing, and we've got, I think, the people here that can answer it. So please just ask anything that you have in your mind and we will try to make an effort. I might say to some of you in here the last time I had a meeting like this was when I explained silver, and Leon Henderson certainly did a pretty good job on silver. Anybody want to ask anything?

Henderson: What do you think it will do to the internal price level? I gather from what you said you didn't think it would affect the internal price level. Now, why do you think it's not going to affect our internal price level?

H.M., Jr.: You'll have to answer that, White.

White: It will have some repercussions on our domestic price level. Some of the repercussions will be in an upward direction; others will be in a downward direction. Take, for example, rubber. We would expect rubber to be slightly cheaper by virtue of the

fact that the florin is a little bit lower in the Dutch Indies. But if you watch the rubber prices you will see that, instead of their having declined in terms of dollars, they actually have risen very slightly. And the reason is an important one. I think that one of the important factors in the trend of prices is the real demand for the commodities - you will agree - and anything which tends to restore confidence in the expectation of an upturn has a bullish effect in general on prices. And so we see even in those commodities - I used rubber merely as an illustration because it might be a typical one; you might take tin - in which you would expect the first repercussions in a downward direction, that it doesn't necessarily work that way. Now, tin is controlled, isn't it? You will find that also true of other commodities. You have controls, you have partial controls, you have inelastic supplies; but if you take the general run, the fact is you will find that, even in those commodities where you expected a decline, you will get no decline, and in some cases you will get a slight upturn.

So I would say on the whole that you expect a slight tendency toward upward prices here. That would not be true if you had a competitive regime of depreciation which tended to operate in the opposite direction; namely, in a destruction of confidence. But you have had such an orderly devaluation and you have had cooperation of these three governments which have

gone a long way toward restoring world confidence, so that I think we are seeing the first fruits of the good things that we hoped and expected; namely, that those commodities which we might expect to decline with devaluation of numerous currencies have not done so, whereas all other indications - stocks and borrowings and various other factors - have tended to increase prices, so that, though I shouldn't look for any marked increase as a consequence of that, I should look, on the whole, for a slight improvement in our own prices.

H.M., Jr.: Maybe Dr. Goldenweiser doesn't agree with that.

Goldenweiser: Yes, I do. I shouldn't expect any decline in prices.

I haven't watched them as closely as Mr. White and I didn't notice about rubber. But I was thinking, as he was speaking, that even if rubber had declined slightly in price, it wouldn't have been a calamity to this country, because it is one of the commodities we import. I can't think of any export commodity that would be likely to suffer from this, and I should agree with Mr. White's general estimate that the price level is likely to be affected slightly if at all, and that a moderate rise in prices is very likely to occur.

Draper: What do you anticipate will be the first reaction? I mean the reaction in the next ten days or so.

H.M., Jr.: Personally, I think - I hate to say this, but I think it is very bullish. I think that nobody thought we would have

the nerve to do this, and it is the one thing that everybody said should be done. And, personally, I'd be tremendously surprised if it wasn't very favorably received, with a very bullish effect generally. I mean I'd be most disappointed, because everybody who does international business felt that this was the one thing that was necessary; and I may be wrong, but that's my guess, anyway.

Jones: Now, the reading of this "British Economist" would lead one to believe that the British would be ready now to do what they apparently before were not doing. You've got the impression that they would be very loath to follow through on this thing so early. They seem to be talking of reserving freedom of action until some time into the future. So I think a great many people will be surprised that England has considered this arrangement. So I think that will be construed bullishly, generally.

H.M., Jr.: Of course, it puts both England and France in a new position with the rest of Europe. They've got something to trade for. I mean we are doing this thing purely for the good of the world, and, as I say, leaving it to the American business man to get his share of the increased business which we think will come, but it does give both England and France something that is quite useful just at this time.

Lubin: That bears upon this question; probably you can answer it now: What is going to determine how free you are going to permit the international gold market to be? What is going to determine what other countries will be in it?

H.M., Jr.: Well, Dr. Lubin, I realize perfectly that this can't

fit every country, because, particularly in South America, a lot of these countries haven't got any gold - a lot of them. We've got a plan which will fit some countries. It will fit England and France and ourselves. I wouldn't say tonight that if Brazil walked in tomorrow and the State Department said, "Here's Brazil; she wants to get in on this thing," and just because she didn't have any gold (I don't think she has any gold, has she?) she can't get in. We'd have to sit down and try to work something out.

But the attitude that we have in the Treasury is that we feel, from an economic monetary standpoint, there is nothing we can do that will help world recovery as much as this will, and we are trying to fit the plan to the situation.

Gardner: I wonder. I can see how this works if each country looks after its own currency. The United States has made its decision rather definitely, that we would keep the dollar at the equivalent of \$35 an ounce; that is a fixed rate. The British fund and the French fund, and the other funds are also managed currencies, but which have no fixed rates; but they can so manage them as to preserve a fixed relation to the dollar. I can see how the British fund, by selling or buying gold, can maintain that fixed relation with the other funds.

Now, I think that the plan or mechanism that I would like to get clear is: on what basis the American fund will undertake to preserve a certain rate per sterling. I can see how the

English, knowing what rate they wish to preserve, can undertake appropriate gold operations in this market to achieve that end, and the same would apply to the French and the others. But in the afternoon, when the foreign exchanges are closed and the foreign funds presumably will not be operating, the American fund has to step in and do the managing of sterling and francs and other foreign currencies which don't have their own responsible source to support them. In view of the fact that there is no fixed rate for sterling or the franc, what governs the American operations?

H.M., Jr.: Well, we will have to give up little secrets, but I didn't want to explain it. But I will explain it to this group in confidence. The understanding is this: If, for instance, in the morning the British fix gold, say, at 142 shillings, that is, the Bank of England - we take over the market, say at 12 o'clock. What we have been doing is, they take it up at 12 and then we take it up, which is 5 o'clock there. Any time during that day, on a falling sterling market, we can buy sterling knowing that during that day we can convert it into gold at 142 shillings.

Gardner: That answer my questions and that explains it.

H.M., Jr.: And that is what we haven't wanted to explain, but I want to explain it in this room. That gives us perfect protection.

Gardner: The British have their own fixed price, but it changes day by day.

H.M., Jr.: Yes, and they might even change it hourly. But, in our case, whatever the price is in the morning - that price stands for the rest of the day. So, as we buy on a falling market, we can convert our paper sterling into gold any time during that day or for that day, and the same works in France.

Gardner: That clears that up. That makes a complete arrangement, yes.

H.M., Jr.: A very nice arrangement.

I'd like to hear some more of these economists talk about our internal price level

Henderson: What effect is this going to have on the future of the reciprocal trade agreements; and, also, is it going to make a situation that any of those will have to be revised? The process of revision is a pretty delicate one anyway, and particularly if we add another item: that we are not going to be importing as much commodities which have a world price, I hope, in the next couple years.

H.M., Jr.: You've got two questions there. I just know it affects the reciprocal trade agreements.

Feis: I shouldn't think this arrangement for gold purchase and sale would affect the reciprocal agreement program. The changes in the values of currency that are taking place might.

In our agreements with the members of the gold bloc - with Belgium, which isn't a member of the gold bloc, with France,

and with Switzerland, we have provisions right in the agreements whereunder, in the event there is any substantial change in the relative value of currencies and, subsequent to that, competition arises of an unexpected and serious nature, the other parties shall be free immediately to seek a discussion with a view to finding a remedy, and in the event no remedy can be found the agreement can be abrogated at very short notice - I forget which, 30 days' or 60 days' notice.

Now, the only experience so far that we have had in the Belgian devaluation is that no such situations have arisen. But, if they should, why, I anticipate that we would enter a discussion, not of the whole agreement, but of the particular items in which the unanticipated competition arose.

One reason we were willing to go so far was the fact that when we took the dollar down there were almost no direct tariff retaliations against our doing that, rather unexpectedly. Various countries claimed that it upset their whole tariff system, or disturbed it - the drop in sterling, the drop in the dollar, but there were no discriminatory tariffs levied against the dollar when we took it down.

Henderson: I was thinking of Gardner's question. If the English are floating and we are stable, it is likely to change prices on a number of world commodities.

Feis: Well, unless I am wrong, what would be important

wouldn't be that they are floating and we are stable, providing they float within a very narrow range.

Henderson: But the pound is going to have more difficulty than we are, and more than the franc.

Gardner: The pound for a couple of years has floated within a range of about 2 percent. It looks big in that five dollar pound, but it is a very small percentage range.

Feis: We have no trade agreement with Great Britain. We have a trade agreement with Switzerland. But the devaluation has just brought it back to the relationship before 1934. And the rates for most of the important products were so high that, even with the variation price I can't foresee any such marked variation as to require a carrying into effect this provision that we have any trade agreement, for instance, on watches and Swiss cheese and things of that kind. It will help some of these countries, help to bring them back into the more normal relationship that existed before our devaluation.

Fox: In our trade agreements we have had to resort to some very fancy reclassifications - like in Switzerland, for instance, on that pedaline braid - in order to avoid the Japanese competition. Now, this devaluation will help to effect the thing that we are trying to do through the reclassification. It will help to bring some more trade to Switzerland in a product that we don't produce here anyhow. And the fear we had in reducing our

duty was that Japan would get the major benefit of it, and there are a number of other products where that is true. Then, on cotton cloth, for instance, the devaluation of the sterling threw to Great Britain trade that was normally Switzerland's, and the recent devaluation of the Swiss franc will help to perhaps throw some of that trade back.

Henderson: What will it do to Japan's cotton?

Fox: It's too high grade for Japan to be affected. We didn't even have to resort to reclassification there. It is a different classification entirely.

H.M., Jr.: I'd like to clear up one point which I never disclosed before. You may have known it, some of you people. But this question of the pound floating. At my press conference today I disclosed the fact, which I don't think was generally known, that we have the power to change the price of gold without changing the number of grains of gold in the dollar; and we disclosed that for the first time. I can pay tomorrow a hundred dollars for an ounce of gold if I want to; and that has never been known before. But we have known it in the Treasury right straight along. I was glad to disclose it, because I thought it was less, you might say, upsetting to some people to know that than to think the only way we could meet this falling pound and a falling internal price level would be to devalue further. Well, we could do it by increasing the price of gold without

changing the gold content of the dollar. We disclosed that for the first time, and I think that is a very important point. I don't know whether that is generally known or not.

Henderson: One of the strongest features of the program up to date has been the fact that you haven't had to do that.

H.M., Jr.: No, but I don't believe it's been known before that we can raise or lower the price of gold without the changing of the number of grains of gold in the dollar.

Gardner: But our practice, of course, has been to maintain the fixed price.

H.M., Jr.: Oh, yes, but.....

Gardner: Then the British practice is to allow the pound to give before the varying currents in the exchange market. They contend against it, but they give ground gradually, one way or the other, and the pound moves up and the pound moves down in orderly fashion. What do they gain by not keeping it at a similar fixed rate until they see some good reason for a change.

H.M., Jr.: I think they have the same reason that we have, until the various countries are further along on their economic recovery. England didn't want to lose the advantage which she has had since 1931. I think she's been darn smart about it, and I think that we have been smart in this country since the fall of '33 in that we have kept saying right straight along that we are on a 24-hour basis, which means that we are not frozen, and I think that it

has been a source of strength rather than a source of weakness; and we still maintain that position. We are still on a 24-hour basis, and we say so right in this proclamation.

But the thing which we have disclosed for the first time is that we can change the price of gold without changing the gold content of the dollar. And if there should be any desire or tendency for some person (to use the vernacular) to "monkey" with the dollar, there isn't any tool which is more useful than to either lower or raise the price of gold.

Goldenweiser: Mr. Secretary, may I ask a little further explanation of what that means, what you mean when you say that you can raise the price of gold without changing the gold content of the dollar. If you pay for the gold in dollars, that means that there will be fewer grains of gold, or more grains, or fewer grains of gold in the dollar automatically, as far as the market price is concerned. Do you mean it wouldn't be technically less gold coined into gold? It isn't perfectly clear.

H.M., Jr.: Well, what I think I mean is that we don't change the number of grains of gold in the dollar, but we change the price.

Goldenweiser: But since your price is stated in dollars and refers to quantity of gold, doesn't it change the price automatically of gold?

H.M., Jr.: I'm going to be a little bit unfair. I'm going to give you a legal explanation. Mr. Oliphant, give them a legal explanation.

Then, if he doesn't understand it, we'll get an economist.

Oliphant: You are dealing with a legal concept and an economic concept. What we mean by the gold content of the dollar is that more or less formal thing determined by Presidential proclamation at the time we devalued to 60 percent. And the effect of that proclamation, of course, is manifold. There are all sorts of legal consequences that flow from that. For instance, questions of maintaining parity, the duty that is on the Secretary, etc.

Now, in addition to the power the Secretary has pointed out which the President has by virtue of the Agricultural Adjustment Act further to devalue, there is in the Gold Reserve Act a reenactment of two old statutes going back, one of them, to 1867. One of them gives the Secretary of the Treasury, with the approval of the President, the power to buy gold upon any terms at any rates he may deem most advantageous to the public interest, and this authority to buy gold is unaffected by any law as to the maintenance of parity. And the other statute...

H.M., Jr.: Will you be a little louder, Herman?

Oliphant: And, as I say, this power in this old statute, reenacted in the Gold Reserve Act, presently provides that that power to buy gold is unaffected by any law relating to the maintenance of parity as among different coined currencies of the United States.

And the other statute, next section of the Gold Reserve Act, gives him the like power to sell gold upon any terms at home

or abroad, upon any terms he may deem most advantageous to the public interest.

So that, while the fixation of the gold content of the dollar, for all sorts of legal purposes, both public and private, is a relatively inflexible thing and you would think of that as being done periodically and allowed to stand for a while, at least, under these two powers in the Treasury gold can be bought and sold from minute to minute at a fluctuating price.

O'Brien: But if there is that power that the Secretary has had to pay a hundred dollars for an ounce of gold and you should exercise it, why wouldn't we then have a twenty cent dollar, or a dollar worth one-fifth of what it was worth before, when we paid twenty dollars an ounce?

Oliphant: Purely from that definition of that, as I pointed out.

Gardner: The market value would tend to move before the exchange market value. About the only practical difference would be that you probably would not revalue the gold stock unless you altered the gold content.

Oliphant: Enormous practical difference. The whole question of what you are entitled to on contracts, and the whole duties.

One thing I pointed out - the duty to maintain parity.

Goldenweiser: Economically it means that the power to change is not limited to between 50 and 60, but that there is no limit.

Oliphant: That power is upheld by that 1867 statute and has been

continuous on the books since.

H.M., Jr.: Is that a satisfactory explanation to your question?

Goldenweiser: Yes. I am very much interested to see the legal phase of it, but I am more interested in the economic part of it, which means that your power in the matter is not limited at all.

H.M., Jr.: True. But the only reason I gave it out was they pressed me so on the devaluation. I have known this thing right from the beginning, and I felt it was less frightening to have them know that we could lower or raise the price of gold without changing the gold content of the dollar than to have them think that the only weapon that we had, if we needed a weapon, was the power of devaluation.

Now, of course, you people know we have had a lot of things. We've got three billion dollars worth of commerce currency that we can spend any time we want. We've got two billion dollars of the stabilization fund we can spend. We've got five hundred million dollars worth of extra silver. So we've got a lot of things which Mr. Roosevelt could have used any time he wanted to, but didn't because he didn't choose the "printing press" route for recovery. I mean he's had all these tools at his fingertips and he's had to use one single inflationary method, in the sense of the common use of the word. He's had all of these things, including the fact he could change the price of gold up and down, and he's been quite cognizant of all these but he hasn't used any of them. And it is one of these things which, in all

these charges of inflation and all of that, I think has been lost sight of - that we have had all of these tools which we could have used at any time.

Goldenweiser: Mr. Secretary, as a practical matter, is the difference simply that, in the power to change the price of gold, pay as much for gold as you "deem in the public interest" - does that mean that the distinction between that and changing the value of the dollar is primarily that one is a temporary market thing and the other is a permanent legal thing? Is that the practical distinction?

H.M., Jr.: I don't know. Did you hear that, Herman?

Oliphant: That is true, if you read enough content into it. The other is a legal thing. It is an institution. This whole matter of the legal definition of the unit of value has a great many ramifications. It is not an idea in the heads of lawyers merely. But I think reading that sufficient content into it - I think that is the difficulty.

Goldenweiser: The practical difficulty is that one day it may be desirable to pay forty-five dollars for gold and the next day it may be desirable to pay thirty, and you don't have to adjust your whole system of currency and a lot of legal contracts and all that to that. And you may tend back to the original basis. You may meet an individual situation and without as many consequences as if you actually changed the legal content of the dollar. It is an interesting idea to me, Mr. Secretary, because I had never

thought of it that way.

H.M., Jr.: Well, we haven't talked about it, but they pressed me so hard today, trying to get me to say that the only way we could meet fluctuation was by our power of devaluation that I felt it was time we disclosed that we had this additional power and that we didn't have only the power to devalue; because that's been played up so and it's a sort of "bogeyman" which they have played up, and I think the changing price of gold might not frighten the people so much.

Henderson: The realistic thing is that you won't have to use a fluctuating market price, or you wouldn't even enter into this agreement for exchange.

H.M., Jr.: True, and it is a most difficult thing for people to believe who have been dealing with England the last four or five years. But the fact remains that up until tonight -- I mean no one could ask for a better partner, and they have showed every sign of cooperation. As I say, they have spent almost two or three dollars for every dollar we have spent; and their attitude, I mean, couldn't have been better. I don't suppose anybody has been more suspicious than I have, having had to take it on both cheeks, standing and sitting, from them for about two years. But we finally have come to this understanding and I have every reason to believe that they are going to play the game. Now, I went into it with my fingers crossed, and so forth and so on, but certainly

up to date both they and France have done everything possible.

To give you an example of the kind of cooperation, one of the banks in New York had a commercial customer and they needed five million francs. There weren't any francs in the market. They called up, said, "We can't get any francs." The bank called up the Federal Reserve and they called me up. I got Paris on the wire and in 35 minutes from that time (he was to phone me back) they had five million francs at a reasonable price. I mean things like that just couldn't be done before, and it just shows what we can do in a perfectly legitimate way for the American business man under these circumstances. And, heretofore, somebody would have squeezed them and they would have paid "through the nose."

I'd like to ask Chester Davis how he thinks this is going to be received by the various schools of farmers that we have, groups, etc. How do you think the farm people are going to like this?

Davis: I haven't been able to see that there would be any great excitement about it.

H.M., Jr.: You wouldn't?

Davis: No. Generally I think they have been pleased at the steps that have been taken in the last two weeks, two weeks and a half, Henry.

Landis: Don't you think that there ought to be some excitement from the farmers?

Davis: Which way?

Landis: Favorable. Distinctly so.

Davis: Well, there are too many things harrowing the farmer from one side of the field to another right now for him to get much excited. But the reactions, slight ones that I have heard of, seem to be favorable, and it looks like ironing out towards better trade. But it isn't anything that could be described as pure excitement.

H.M., Jr.: I mean would they have any criticism, do you think?

Davis: No valid one. Of course, there's one group, Henry, that criticize everything that is done and will find some basis for doing that, but I don't think that speaks for any considerable percentage of the farmers.

H.M., Jr.: Which group are you referring to?

Davis: Coughlin and the rest of them.

H.M., Jr.: We are getting kind of used to that.

Davis: Yes. But, aside from that, I don't believe there is anything except favorable reaction.

Henderson: Any private profit out of this? Probably wouldn't be able to do much from it.

Davis: Doesn't make any difference whether they do.

H.M., Jr.: Marriner, don't you want to say how this thing impresses you?

Eccles: Of course, as the Secretary said a little while ago, we are primarily interested in the immediate responsibility for

control of the domestic credit situation. That, however, is inseparably connected with the problem that he has responsibility for. The importation of gold has been responsible very largely for the excess reserves that we now have. Any move that is taken that would tend to further increase our gold reserves, of course, will further accentuate our problem of excess reserves. A move that would tend to stop a huge inflow of gold such as we have been receiving the last year or two as a result of the situation with the gold bloc, of course, will act favorably. This should tend to cause an outflow of capital as a result of new increased world confidence. Foreign capital may have come here because it was felt that there was a better opportunity for it here than in other countries. But it would tend in time to possibly cause us to lose some gold, which would be a very desirable and a favorable thing, and from our standpoint in the Reserve System, of course, it would lessen our problem of dealing with the excess reserves.

I look upon the action taken as being a very favorable one and one which we have looked for as soon as France, the gold bloc, was forced to face the inevitable issue. I think that it has worked out possibly better than any of us - well, certainly as well as any of us - could have hoped for. There was certainly an opportunity for France to be forced off the gold without the United States and Great Britain and France getting together as

they did, which, of course, would have had an adverse influence throughout the world. I feel very happy about the results up to date, and the prospects as a result of this second step which has been taken ought to certainly work in the right direction.

It is difficult at this time, it seems to me, to say just where the franc can definitely settle or where the pound possibly can. This is an interim period when these three stabilization funds will, of course, tend to meet the unusual situations and call-for situations that may develop as a result of operations of speculators or any other cause.

The long range development, of course, can only be determined - the long range value of our respective currencies in relation to each other can only be determined, in the final analysis, by the extent of recovery in the respective countries and by the international movement of goods. Whether the pound will go down further or whether the franc will be able to stabilize at 34 or 30 or some other figure, in the final long range view, as I say, I don't think we can determine.

Everything has been done, it seems to me, by this country that we could do, that we could expect.

Draper:

So far as business men are concerned, I should think that this would be very, very bullish. Maybe they won't understand it, but they have been hammering so much, even in their own mind, about the idea of trying a stabilization, and emotionally it certainly

seems as though it would be received optimistically.

H.M., Jr.: I should think it will be pleasing to the Chamber of Commerce.

Draper: I don't know whether they'll admit it or not.

H.M., Jr.: The last statement they got out, ten days ago, was a very fair statement. You couldn't criticize it.

Goldschmidt: Is it intended that this agreement will work in the spot market and the forward exchange market between the three currencies?

Lochhead: The question of forward exchange between the funds is something that hasn't been developed very much. It is a question of working out the problems as they come up. I don't think there would be any objection to operating in the forward exchange market if we think it would be better to work there; but it depends on the circumstances at the time the situation arises.

Lubin: Would we feel that either France or England was violating their agreement with us if we found them operating on the forward exchange market?

Lochhead: Let me tell you this: In the first place, we'll have to feel that this is a cooperative arrangement rather than competition. If we didn't feel the time was ripe for us to be working on that basis, I don't think we would have entered into this arrangement. We have had, more or less, assurances that there will be no competitive devaluation. It is a "gentlemen's agreement" and we all

feel that we are gentlemen, and it is a working arrangement rather than a hard-bound contract. We all have the right to stop it at a moment's notice. But the point would naturally be that we look into things and discuss them - I think we must - and try to arrange it by mutual agreement.

Lubin: What I am trying to get at is: Has the question of forward market been discussed at all? Would it be a violation if any one of the countries attempted it?

Lochhead: It would not be a violation of faith as long as we knew what they were doing. The idea is that we're not going to keep secrets from each other or try to operate in a forward market concealed.

Gourrich: The forward market would be governed by the differences in money rates. Up to the time of the disstabilization of forward exchanges, that market didn't amount to anything. It was a purely banker's market, governed by arbitraries in money rates. So, if you are successful in stabilization there wouldn't be a problem of the forward exchange.

Lochhead: The forward exchange market would probably be the one that the speculators would try to operate in if they thought there was going to be change in that market. I'll agree with you that if people feel that the fluctuations are going to be ironed out to some extent, or controlled, there will not be the same advantage in going into a forward market.

H.M., Jr.: The thing that surprised me (we've been watching this thing so closely now) is how small the forward exchange market is when you get just down to legitimate needs of business. It isn't very big. It is surprisingly small. Don't you think so, Archie, when you eliminate the speculation - how small it really is?

Lochhead: Yes.

H.M., Jr.: From 12 o'clock on we take it from the whole world and we get it from every country and every bank, and we just take it on from the whole world; and they run five and ten thousand pounds - about the average size of the transactions. And it is surprising how small they are through the day. I mean it is really - it's been an eye-opener to me; and when we see how small they are, it isn't very difficult to iron out the fluctuations.

Three months prior, in London, it wasn't so easy. I mean when the Court was sitting there for three weeks, five weeks' time, making up its mind.

Fox: Is the speculation apt to go in the direction of the flow of goods? - which means that the flow of goods will have to be watched pretty carefully in the next couple of weeks - not only the flow of goods, but the contracts which are being made, because the contracts which are now being made will be reflected in any statistics which we can get weeks from now. In other words, situations may arise that are rather serious by the time the figures

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become apparent.

H.M., Jr.: How does that work? I'm out of my field. I don't understand that.

White: We are getting figures; we will be soon getting them. We have arranged to.

H.M., Jr.: Tell them how you've done it, White.

White: How we have arranged to get the figures?

H.M., Jr.: Yes, because Mr. Fox might want to have them.

Fox: The point I am making is: Is it not only necessary to find out the trends of the last few days, but also to find out what is going to be reflected in the figures the next couple weeks?

H.M., Jr.: You've opened up an entirely new field. White, would you explain how we are getting the figures, and if we get the figures what we are going to do with them.

White: We have telegraphed all our Customs Agents in the ports that are important; that is, over 95 percent coverage at least, maybe 98, and they give us the totals which they compute on the sheets as they come in. They will telegraph those reports or send them by air mail, depending on where the port is located, so they will be on the Secretary's desk. Let us say on Wednesday there will be a compilation of our exports and imports of the preceding week. When you compare that with the fact that figures have never been available, except in isolated instances where

there has been a special problem, for, let us say, six weeks after the month has been over, you see we are jumping ahead something like ten or eleven weeks.

H.M., Jr.: Don't let that out. The public would say the Department of Commerce are holding their figures.

Draper: And we are working overtime to get the darn things out. That's a cruel blow.

Fox: Not only that, but we have had people in our place having access to the original figures.

H.M., Jr.: I don't get the point. How could a man take advantage of this in the goods? Can you explain it? I don't quite get it.

Fox: It comes through the devaluation of the currencies. You see currents of switching the trade, and in certain fields the operator finds he will have an advantage by getting merchandise, getting contracts in large volume from one or either of these countries, like France or Switzerland or England.

H.M., Jr.: Is there anything that the United States Government could or should do about a thing like that?

Fox: Well, it will be a headache if it develops.

Lochhead: As I understand it, an operator, by reason of the low franc rate, could lay down woolen goods here very cheaply, and people in this market would start placing very large orders for woolen goods which they are not going to pay for for three months ahead; and you are afraid that three months from now we are going

to find ourselves at a disadvantage. I don't think, anyway, that you can absolutely find out exactly how much is going on, except that in trade circles, etc., you hear about that. And then, secondly, I think that most of the people that do business on a large scale will still be trying to hedge their forward exchange. They won't abandon the hedges right away, and you will find that it is reflecting in the forward market even if it is not reflecting in the spot market.

Dye:

I have been trying to visualize what would be the effect on world trade. I am wondering if I am correct. Let's take an exporter in Argentina hides who is selling in the markets of the world. It seems to me that if he is selling to France or England or to the United States that he would want to get a quotation from other countries that are outside this triangular arrangement, which would be based more or less on the stabilization and the medium of exchange within these three countries. In other words, if he is selling, if he gets a quotation for hides from Germany, he would feel that there was more hazard in the medium of exchange for that country than he would with regard to these three countries where the medium of exchange was more or less stabilized, and that his natural impulse therefore would be to demand that the price which was quoted to him for his hides be guaranteed or based on the rate of these three stabilized media; in other words, that the natural tendency of the world

traders would be to stabilize all their prices in terms of these three countries, in terms of the comparison. Am I right in that?

H.M., Jr.: Some other gentleman may want to answer that.

White: Well, the business of the world will naturally tend toward that currency which provides the least risk of exchange.

Dye: That is my idea.

White: And, to follow that, the dollar and the sterling, and particularly the dollar in recent years, has been the one in which there has been a tendency to quote, except within the sterling block. So I think your statement is quite right, that there will be a larger share of the total world business which will tend to be quoted in those currencies by virtue of the fact that the risk of exchange will be minimized in the future.

Dye: That's the way I sized it up at first sight, but I just wanted to be assured. I think that was what was happening.

Draper: Also, there will be tremendous impetus on the part of the other countries to pull their currencies in line with the currencies of these three stabilized ones.

Dye: It would rather automatically, it seems to me, fall that way.

White: We find that that is so. We have some charts which we possibly may not have an opportunity to show here, but which have been computed at very considerable labor, and they indicate just that very thing: that there has been a tendency toward employing

those exchanges which have given promise of the least risk.

H.M., Jr.: White, do you want to take a minute and just outline to these gentlemen the work that we have been doing in preparation for this? We have taken a year to prepare ourselves for just this thing that has happened. And when I came back from France, I had been just a couple of days and there was this whole talk of, Was the dollar overvalued or undervalued? We sort of prepared ourselves for twelve months before for a monetary conference, and I'd like for Dr. White to tell you briefly what we have over in the Treasury. And if any time you want to take two or three days off and go into this thing. . . . Just tell them how we've prepared ourselves for this.

White: Well, as the Secretary stated, the problem which confronted the Treasury, because of its responsibility to maintain the dollar at its reasonable equilibrium with the other currencies, has been to determine just what is a reasonable position: Is the dollar overvalued? Is it undervalued? Or is one of the particular currencies over- or undervalued?

Well, it seems like a simple question, but that is only until you get into it, by virtue of the fact that there are a lot of factors that enter into a question as to whether or not a currency is under or over value or at equilibrium, which is the implication when you say it is neither overvalued or undervalued. Not only do you have questions of the finances in the particular

government, but questions of the spread between cost prices and selling prices, questions of quotas and tariffs and the trend of trade, and - oh, a whole host of economic phenomena that have to be taken into consideration. You also have the troublesome fact that you cannot take any two countries and compare their economic situation and make and draw a conclusion. For example, you cannot take the pound and the dollar and say that either the pound or the dollar is undervalued by examining merely those two countries, because, obviously, the pound deals with the rest of the world and the dollar deals with the rest of the world. Not only do they have pounds and dollars, but there are francs and milreis and yen and all manner of currencies and countries which play a role in the country's position.

So it becomes necessary to examine the situation in one country and compare that situation with the situation in all other countries which are important to the particular country we are considering. Some of those things can be reduced more easily to some sort of quantitative figures, some sort of quantitative measure, than can others, but they all have to be considered. And we have been busy for about a year and a half in the Treasury trying to answer that very question with reference to ourselves and also with reference to all other currencies, so the Secretary would be in a position to know what the situation is when the occasion is required to either alter it or take a position, or to enable him to watch -

watch it almost from day to day.

One of the aspects which I can touch on, because possibly it is not as familiar as some of the others, and the whole subject is so comprehensive that it will take much too long to discuss here, - but this particular one that we have done is that we have taken the relationship of various price structures of the United States, for example, with not any one country; we have done that too, but we have taken the United States and all other countries that are important to us, just as we have taken the same price structures of England and all countries that are important to England, they not being the same countries in each case.

Well, we have taken the exchange rates of one country and these countries and we have weighted them in many different ways to indicate different aspects of the situation; to ascertain how our exporters, for example, are faring compared with the producers in the countries to which they are exporting, or how their domestic manufacturers are operating at a greater or smaller disadvantage, or how our exporters are getting along with exporters of other countries in third markets. We have used many different systems of weighting, and they are rather comprehensive statistical compilations.

But what we end up with so far as that aspect of it is concerned, so far as the price and exchange aspect, which is an important part of the answer but by no means the whole answer -

what we end up with is a rather interesting comprehensive measurement of the way in which the situation moves from time to time. And I think the Secretary will agree that some of the results are quite contrary to what is frequently held in the press or in the ordinary articles by those who haven't pushed the subject very far.

The Secretary is enabled to tell pretty well what the effect will be of these devaluations, for example. We have anticipated these devaluations; we have attempted to measure how they would affect our situation; and, though we didn't foresee exactly the spacing of the devaluation, we have made calculations which would embody all of them so we would know every time a country goes off how that changes our situation. They are long calculations, made ahead of time, and we are constantly keeping them up.

H.M., Jr.: The concrete use that we have been able to put these to when a question came up; I mean about French devaluation - the question of, How much can we stand? - was that we didn't have to sort of paw the air. The work had all been done, and we knew, as well as anybody could know, just how much we could stand, and we had this thing all worked out.

And the rather interesting thing is that I have pretty good reasons to believe that England did not have the figures, from the inquiries that she made; and, as far as I can tell, we are the only country in the world that have got the figures. And this talk about, Is the dollar overvalued or undervalued? - I think

that we know, and I've got pretty good reason to believe that the other countries don't know.

Ryder: What sort of criterion do we use to determine that?

White: As I said, there's a variety.

H.M., Jr.: I'm perfectly serious, and if any economist would care to take off the time (and he can't do it under three days) we'd be more than pleased to have him go into it. But I just wanted to let you know that we have this thing and that when we went into this move we weren't just taking a jump in the dark. But I personally wouldn't attempt to explain it. I don't think that White can explain it without a man going into it with him for a couple of days.

Ryder: I knew you couldn't go into every detail of it.

White: I think I've indicated what the nature is. There are a great number of factors. There isn't any single criterion. It is a question of evaluating the many criteria. And eventually you don't arrive at a single point, but you arrive at a reasonable range which gives you ground to work on.

Henderson: Would that be much overthrown by any management of prices in France, for example?

White: That is taken into consideration; that is, insofar as those already show themselves, that is given proper weight. So far as attempting to forecast the effects of the devaluations, we took into consideration what the effects on prices would be,

and so far we haven't been far wrong, from such evidence as we have been able to get up to now; and, as the situation changes, it is included in the calculations.

Henderson: This may be a little "off base," but do you think the French Government really seriously believed they could attempt a wide management of prices?

White: Well, when you ask me, "Did they seriously believe it?" I'm sorry, I don't know. I don't know what they seriously believed.

Henderson: I was just wondering whether that was done for public consumption, to attempt a reconciliation with their Popular Front, or not.

White: We do know we did expect a rise in prices and we did get it. How much more they will rise is a question of opinion.

Currie: With reference to the proper level of exchange, which is concerned with the relative degree of recovery and the movement in the different countries, I think that hasn't been sufficiently stressed - that we have much further to go in the recovery movement than the sterling bloc has, for instance. I should hazard the guess that, in order for us to get full employment, we'd probably have to have an expansion of 20 to 30 billion in the national income, and that would tend to increase our imports, our purchases abroad, our tourist expenditures, and at the same time it will probably be accompanied by some rise in prices as we approach full employment. Both those factors will tend to increase

our imports without increasing our exports. So I think it is very likely that, as we approach full recovery, we will have a relative increase in our imports, and that, I think, is one of the beauties of the present arrangement - that it gives us temporary stability but it doesn't tie our hands to the future.

White: Exactly; and that was one of the many factors that we took into consideration in determining that.

H.M., Jr.: I wonder if Dr. Feis would care to talk, now that we've got this thing - if he would care to take a look into the future on trade and talk about what is going to happen there.

Feis: It is extremely difficult to say. There is no doubt that there is a real impulse, in both technical opinion and official opinion, in many countries to adjust policies so as to make a contribution toward the rebuilding of trade. But each country still is afraid of giving - of taking some step that will create an embarrassing disadvantage for her, and also wishful that it can receive a reward for doing it in the way of concessions from others.

So, in the face of those attitudes, deeply engraved and often connected with vested interests - not only vested commercial interests, but vested bureaucratic interests in the way of trade control organizations, central banking powers (they don't want to yield up) - I personally anticipate the development will be rather slow.

The one thing that could give it more rapid impetus than I anticipate would be some modification in British policy. That remains very stubborn. I think it is about this: that they will renounce any intention of carrying further either their protective program or possibly even their search for special advantage; but I see no signs that they are preparing to relax, to lessen the barriers that they have got. Now, I believe my anticipation on that is somewhat less optimistic than the Secretary's - than Secretary Hull's. I think he has a sense that, just the way the monetary situation suddenly changed, so the trade situation will or might change. And certainly the continuous profession of intention that pours into the shop could not be exceeded; I mean that is perfectly continuous.

But, Secretary, I wonder if I could shift from that to raise a semi-theoretical question that hasn't been raised tonight that I think will be - I know - of some interest for several people here. If we compare this with what was the ordinarily operating gold standard and the means of maintaining stability under the ordinarily operating gold standard, we would have gold movement playing an essential part in it - just what part was up to the very end a subject of bitter quarrel among the economists. Some thought in terms of the gold movement affecting reserves and affecting interest rates. Others interpreted it in terms of changes of purchasing power. There were divergent schools of

interpretation. But there was a mechanism of adjustment, there was adequate experience to demonstrate.

Now, under this new tentative and experimental relation - and that is why I raised the question, to get light on what will the mechanism of adjustment be that will maintain stability under the new and experimental arrangement?

H.M., Jr.: I'll get Walter Gardner on that; he has some thoughts.

Gardner: I think that if foreign capital continues to seek our stock market, if the British and the French continue to invest over here, the adjustment will work out through a gold flow, and you would have just the same effects that you would have under the previously operating gold standard.

Feis: Even if that gold just goes into the stabilization fund?

Gardner: If the gold goes into the stabilization fund, it will produce the same effect on our domestic money that you formerly had when the gold was handled through the regular channels. In other words, we have something very, very close, it seems to me, to a gold standard in full operation, except that, instead of the fluctuation being held to a fluctuation of 1 percent, the fluctuations will be held by means of a "gentlemen's agreement" within a range of possibly 2 percent, unless a major development occurs which requires a more radical shift in the exchange relationships. But you haven't quite the assurance that the system of exchange relationships we now have will be defended to the last ditch no matter how much gold moves. It is true that the system operates

subject to change if the forces are large enough. But, unless those major developments occur, you have something that seems to me very similar to the gold standard that we formerly had.

Jones: I wonder what Mr. Gardner thinks of the suggestion made in the "London Economist" in the issue of September 26th, that there be two stocks of gold in England - one held by the Bank of England which would affect prices in a normal way, and the other stock to be held by the stabilization fund, sort of immunized against any effect on prices; and any abnormal movements of gold would come out of the stabilization fund stock without it at all affecting the monetary reserve.

Gardner: That is the peculiarity of the British fund.

Jones: They are arguing it for the future.

Gardner: Well, the French fund and the Swiss fund operate on a different principle. The British and Dutch funds operate on a different principle of their own. It is true that when gold operations occur in England through the British fund there is no effect upon the market.

And that, I think, was the thing which fooled Mr. Crick in his "Midland Review" when he commented on the great difference in England between the situation they had just at the outbreak of the World War, when they were on the gold standard and suffered by reason of certain international developments which then occurred, and what happened when the Italo-Ethiopia war broke

out a year ago and similar international developments did not have the same repercussions in England. Briefly, what he said then was that, on the eve of the World War, because of the alarms that were developed, capital was withdrawn from London and because England was on the gold standard they lost gold and the money market tightened; although there wasn't the slightest domestic reason for the tightening, credit in England was made to suffer because it was tied to this world international gold standard system. Now, in the Italian War developments were coming to a head and there was a similar drain of capital out of England - people who felt that England was going to become embroiled with Italy transferred capital from London, why, in large amounts of hundreds of millions of dollars. Now, at that time the situation was met without any reflection, practically, in the London market. And, except for Mr. Crick, that shows the difference between the gold standard and this flexible managed monetary system. It was because of this flexible system that England now had, which gave her a loosening with the international situation, that she was enabled to meet this crisis without changing her domestic position. She held sterling stable, didn't let it fluctuate, and gave up gold in whatever quantities necessary to keep sterling stable, lost gold. But, because of the way in which the exchange funds operate there, it had no effect on the domestic situation.

The reason was simply this: that whenever the British

fund sells gold it buys securities. In other words, automatically there is a certain central bank operation, an open market operation, tied up with every gold transaction in England. As she sells gold, there are open market operations which absorb the effect. As the fund buys gold, there are open market operations which offset the gold that has been received. So that you do have, side by side with the Bank of England, which might or might not choose to offset a gold movement - you do have this operating, this British fund which automatically offsets the gold movement.

Jones: What psychological effect does that have?

Gardner: I will say this: that if they had indulged in open market operations to compensate for gold movement at the outbreak of the War, they would have had a more stable situation there.

Oliphant: Why not at the outbreak of the War?

Gardner: They didn't have the resources. What has changed is the art of central banking, and also the concept of what the purpose is of central banking.

A.E.Taylor: It seems to me, in connection with this mechanism of adjustment, that unless you can give some definite assurance that there will be no further change in the gold content of the dollar, there would be a risk involved in having the Treasury at any time buy gold at more than the \$35 an ounce - say, for instance \$40. Wouldn't that, under the circumstances, become, or might it not become, an invitation for American banks to transfer

funds abroad, let's say to London, covered by a sale for sterling, as they did in '33, and thus aggravate the very situation which you are attempting to correct, presumably, by the original change in the price paid for gold. It takes us back to a question, I think, that was in some other form raised earlier in the evening. It may be that the reasoning underlying that is incorrect, but it seems to me there would be a real risk involved there unless you could give definite assurance that the actual gold content of the dollar would not be changed, a thing quite in contrast to what the President has indicated might be done in case of emergency.

H.M., Jr.: The only reason I gave that out this evening to the press was that they just couldn't get it through their heads, and I don't blame them, what instruments we had other than devaluation to keep the London gold market from really running this whole show. And I don't think anybody had any idea of using this any more than we had the other monetary weapons that we have. I mean there are so many things that we can do. I think the very fact that we have all of these things is what has kept our dollar so stable. I mean people have been afraid to interfere with it.

Draper: I don't think Dr. Taylor was here when you explained that point about buying gold.

H.M., Jr.: I feel about all these various methods we have that it is like a good strong Navy; I mean it is the best kind of assurance against having somebody pick on us.

A.E.Taylor: I think I was here at the time the Secretary referred to that, but I was just wondering whether it might not be construed on the outside by the press, for example, as an indication that it might very likely be used on the first slight lack of equilibrium.

H.M., Jr.: Well, Doc Taylor, the thing gets down to this. Let's say that wheat goes below a dollar and corn goes to 60 or 70 cents and cotton goes back to 8 cents. What are we going to do? We're not going to sit here. We'd have to do something, at least try to do something. I mean I know I'd want to try to do something.

Gourrich: I understood, Mr. Morgenthau, that you have really two stabilization funds. This is really a stabilization account similar to what we have in the exchanges, a stabilizing trading account, the right to buy when gold is low and sell when the price of gold is high. And then you have a stabilization fund. So that strengthens the powers of stabilization; instead of taking it as a fear of further inflation, I should think it would work in the other direction. As a matter of fact, when you described that fund it seemed to me that this is the usual prototype of the stabilization fund, that there you have the kind of stabilization account which you could have used in order to stabilize the price of gold.

H.M., Jr.: I don't think it is anything to be alarmed about. As I say, I used it to quiet their fears, so they wouldn't think that the only method that we had was further devaluation, and that is the reason I wanted the public to know that we had other methods.

Henderson: May we ask Mr. Feis also about Japan's position in this? Is it likely that England is going to have to defend against Japan to any extent in matters of trade movements, etc.? That is, is England pretty well reconciled now to loss of some of those markets in the Far East?

Feis: She has taken very restrictive measures against Japanese goods where she could. Every indication we have so far - I was just asking our Far Eastern division today about it - is to the effect that the Japanese would continue to base the yen on sterling and keep that relationship; and, as far as I have read the press comment in Japan, there is no impulse in Japan for further comparative devaluation of the yen. There is not believed to be any advantage in that, considering the risk that they go into of further trade restrictions.

Henderson: That is, retaliatory trade restrictions perhaps by Australia and New Zealand.

Feis: By all other countries in the world. And the almost universal expression of attitude from Japan is that this doesn't call for any change in policy.

Henderson: Their industrial control mechanisms are up for renewal this year, aren't they? I expect that that continued attitude means that the prospects of renewal of those trade controls, of the major industrial control acts, is pretty good.

Feis: My answer would have to be conjectural as far as anything I've seen.

Henderson: As far as the Japanese press is concerned, there is a continuity implied there which would mean they are going to renew those industrial control acts.

Feis: Yes. More likely to strengthen than to weaken.

Henderson: Particularly in the export controls.

Pasvolsky: Mr. Secretary, may I go back to a discussion that took place a little while back on the forward exchange operations of our fund. Are the British and French funds going into a forward exchange market?

Lochhead: There's been no discussion on that. It is understood there will be free exchange of information as to operations.

Pasvolsky: Of course, there has been a great deal of discussion in London as to whether or not central banks ought to go into a forward exchange market.

Lochhead: And I think that the central banks, up to now, have felt that they never should go into the forward market, but I think you will notice in the discussions in London that they have now decided it is something they should like to go into a great deal more than they have. Of course, the strength of a country is what determines how far they can go into a forward market.

Pasvolsky: The question does have a very important bearing, doesn't it, on the maintenance of whatever rates come to be regarded as more or less normal? My understanding is that the British

would like to maintain a rate for a certain period of time preparatory to fixing the price of gold. Now, it is obvious to me that, with the exchange funds operating, especially if they operate on a forward exchange market, it will be very easy to maintain any rate we want. It would be awfully difficult for speculators to force rates. And, therefore, we can pretty nearly decide in advance where the final rates will light, but only on condition that there will be a powerful control over it, over the forward exchange market.

White: That is one of the great possibilities that is inherent in this stabilization; that is, the development of a forward exchange market which would eliminate the risk for the commercial trader, though settled slightly somewhere else. But it is one of the factors on which we have to await further development, further experience; but it is definitely something that everybody has in mind and hoping eventually to bring about.

Lubin: Do you feel, White, that the difference between this and the forward exchange market will be greater than that average of 2 percent that has taken place in sterling in the last two or three years?

White: It is a little difficult to say at the particular moment. I envisage a reduction in the spread between the immediate and the forward rate if we are speaking of, let us say, 30 day rates, as more experience is acquired and as the trend is more evident. And I don't think that they will go in the other direction, at

any rate. And if and when they proceed in the direction ordinarily, then I think that the possibilities of joint action, coming into a still further narrower spread, will be apparent, with the ultimate result that the spread will be negligible.

Lubin: You wouldn't have to hedge, in other words.

White: Well, part of the forward operation constitutes a hedge, except that who does the hedging is different. Hedging is an essential part of the transaction except that it is a question as to who does the hedging.

Lochhead: Up to 1920, there were very few commercial firms that ever thought of it. The development of the forward exchange market is very interesting. People never knew what a forward exchange market was.

Pasvolsky: To get back, the gold standard and the operation of the forward market. . . .

White: If you are implying the question if we get back to the gold standard, I would say no, that is not involved at all. What is involved is the type of short time stability which eliminates the prospects of any sharp or unexpected change in the near future. That does envisage a shackling, a tying up of the situation indefinitely, or, rather, until such time as the forces become so great that a shift takes place. In other words, forward exchanges have to deal with, and stability of exchanges has to deal with, short time phenomena, and that short time may stretch out

into months, it may stretch out into years. But it does necessarily imply that you've got a fixed situation in which none of the interested parties can alter the situation except under the stress of great disorganization. I think that is the difference between the policy which the Secretary has indicated and the policy which was formerly followed under the gold standard. But though, as the Secretary says, it is a flexible arrangement, the policy, what he implies and what he definitely has in mind is that we stand ready to adjust ourselves to a new situation, but that the normal expectancy is that things will quiet down, that exchanges will become stabilized to the degree that you can develop a short time forward exchange market. Beyond that it is difficult to see.

H.M., Jr.: I'd like to ask Dr. Lubin what the tendency is on the cost of living, what this may do. How can you watch it and how can others know? You watch that, don't you, pretty closely? What has been the trend in the last three months?

Lubin: The change in the cost of living in the last three months has been attributable entirely to changes in food prices. As a matter of fact, rents have continued the upward trend, but it has been a very slow, gradual increase and over a three months' period has been relatively small; that is, in the neighborhood of 1 or a fraction of 1 percent. On the other hand, in the past year food prices have gone up more than 10 percent. Now, a large

part of that increase has taken place in the last quarter, which has been entirely a situation over which nobody has had any control. It wasn't monetary phenomena at all; it was the drouth, for the most part.

Henderson: It wasn't something you could have managed by your monetary changes, either.

Lubin: On the other hand, clothing prices have tended downward. Furniture prices have remained relatively stable, with a tendency upward, but not enough to make much difference in the index. Now, if the going off the gold standard, by France and Switzerland particularly, will have any effect upon. . . .

H.M., Jr.: Eight countries altogether.

Lubin: Yes. I was thinking of those two, and Switzerland particularly, because we think of Switzerland in terms of Swiss cheese, as a matter of fact, and dairy products; and dairy products have shown the effect of the drouth very markedly, I believe, almost more than any other commodity entering into our consumption. If they will result in checking that increase in prices of dairy products, the probability is that the next quarter will not show an increase in food prices as high as it would have been had this not taken place, very definitely.

H.M., Jr.: You think it is helpful on that point. Well, that is encouraging, isn't it?

O'Brien: But the farmer wants a high cost of living.

H.M., Jr.: I'll let Lubin answer that.

Lubin: Our answer is that we will give the farmer everything that we can if, at the same time, the real earnings of labor go up or at least don't go down.

Davis: I just hope the doctor keeps statistics fairly.

Draper: He's got the Department of Commerce to check him.

Davis: Dr. Black is over here and not saying a thing; he's just listening.

Black: What everybody is saying is all right.

H.M., Jr.: I'd like to hear what you have to say, Dr. Black.

Black: I don't think this thing is going to have any appreciable effect on agricultural prices.

Henderson: What about manufacture prices. Is it likely to have a present effect there?

Black: I wouldn't think so.

Lubin: You have this important thing, Leon. If you look at the trend of manufacture prices, which has been slightly upward in the past four months for the first time in 18 months, you will find that the largest increases have taken place in those items where raw materials have been international raw materials. In other words, it has been the increasing price of these raw materials in international trade that has affected the prices of manufactured quantity mostly.

Henderson: But the industrial price has been pretty much frozen,

except as it can be affected by tremendous large swings in these international commodities. And I think that is one of the most amazing phenomena of the recovery.

Lubin: Of course, there is another factor that we've got to consider, entirely an internal thing. There are many of our industries reaching the point of increased production; they've got to go into a stage of increasing cost. To give you a concrete illustration, in Gary two weeks ago the superintendent of the sheet mills there told me if it hadn't been for the drouth there would have been a shortage of sheet tin for cans this year. In other words, in order to increase their output they would have had to invest new capital and increase their costs; and, as the index of production continues to go up, more and more industries will reach the stage where this period of decreasing costs that accompanies increased output, getting out of the depression, where your overhead per unit continues downward as you produce more and more - if that thing continues, we may find ourselves within a year or two in a situation where we will go into a stage of increasing costs and prices will go up as a result.

Henderson: That will only be a temporary thing. The same thing is true in textiles. In order to get any modification in the cost of textiles, there would have to be a considerable amount of initial investment in equipment. But, by the time that gets into

its stride, it ought to reflect itself in the lowered price level for industrial commodities.

Lubin: That is a question of time. You don't know how long that period of increasing costs will be.

Henderson: It is distinctly affected by whatever the industrial control mechanism is to be in the future.

Gourrich: That has nothing to do with stabilization. That would have come about anyway.

Lubin: It is internal phenomena.

Henderson: They are likely to attribute - that is the point - attribute it to the stabilization. It needs to be watched in those terms.

Lubin: As to the question of what our capacity is, you talk about the steel industry operating on a 73 percent basis; the fact is that large portions of the industry are operating on almost a hundred percent basis.

Henderson: Well, your automobile industry, to take a typical example, is only tooled up, you will remember, to about the 1936-1937 level. I'm talking about the season which is starting now, due to Dr. Lubin's report moving up the announcement date. And there is only one of the major companies (you can guess which one) that really made provision by tooling up for an expanded production. The rest of them had balance sheets to watch, which they watched pretty closely, and they are not up to the technological

level that they've got to have. You can't expect much of a decline by increased production in the automobile industry until they have put a tremendous amount in your capital goods industry.

H.M., Jr.: Dr. Black, do you have any ideas on whether this will be helpful or harmful to agriculture? How is it going to be received?

Black: I rather think it will be received pretty well, unless farmers in the West feel that it is a step on to a very definite gold standard, in which case they would probably react adversely to it. If they felt that it was leading to a definite, fixed gold standard. . .

H.M., Jr.: If the reporters are right in what they say. . . .

Black: If they felt that was a step in that direction, they might react adversely. As to the actual effects on farm prices, offhand I can't see any.

I was wondering, as you were discussing this, what events might occur outside of this triangular arrangement which could react adversely to the United States, possibly by bringing pressure on one of the other parties. I expect your people have considered some of those matters; I was just wondering what that might be.

H.M., Jr.: Bringing pressure on the United States?

Black: Indirectly on us through pressure, say, on France or England.

H.M., Jr.: I wouldn't know how to answer that, the thing's been moving so fast. All I can say is that up to date it hasn't happened. Now, what tomorrow or next week or next month will bring, I don't know; I don't think anybody does. Or what a war in Europe or a war in the Far East would do.

Black: What would a war in Europe do?

Henderson: There isn't anyone big enough, really, to make an adverse move against the tripartite agreement, with the exception, perhaps, of Japan. Haven't got enough gold to do anything, really.

Feis: Any such episode as a war in Europe, or even continued expenditures on arms, is bound to break any attempt at any exchange stabilization. War would break it at once, and continually augmented expenditure would just break it after a while. Those are things that are beyond the scope of any monetary arrangements.

Lubin: That is a rather interesting question. If Great Britain continues to increase its expenses on armament, will the effect on internal price be such as to make it impossible for Great Britain to maintain this relation?

Feis: My guess is yes.

H.M., Jr.: Excuse me. Just repeat that. Draper didn't get the last.

Lubin: If Great Britain continues to increase its expenditures, will the effect on the internal price level be such as to make it impossible to continue its agreement?

Fels: Then how much and how long and so on and so forth.
But then, I'd say that the question you were really asking wouldn't apply to Great Britain alone. Of course, if Great Britain was constantly stepping up her armament, then all the other countries would probably be stepping up their armaments.

Lubin: Let's look at it from our point of view. If the internal industrial situation should result, irrespective of our monetary policy, in an increased price level here, how far would it interfere with our ability to continue the arrangement?

Fels: Certainly I don't see any prospect of an internal price movement in sight that ought to endanger this arrangement.

Lubin: In other words, it would have to be rather marked.

Fels: Yes, and you can take out the "rather." It would have to be marked.

H.M., Jr.: We feel in the Treasury that we are starting at such a very high level; the fact that the commodity index didn't drop in the last two weeks, I think, was surprising, because the thing is up so high now due to drouth that it seems to me the tendency ought to be down. We'll be getting a mixed crop harvest. Is that right, Chester?

Davis: Definitely so, to me.

H.M., Jr.: Just hold it for another three weeks and we're all right, aren't we, Chester?

Davis: I don't know what you're thinking about.

H.M., Jr.: Believe me, if this thing had broke through, this monetary thing, would I have been in the soup! Somebody would have been the goat. I had my neck so far out - oh boy! Just to be first. "God damn, couldn't he wait three weeks?"

Davis: Good job of rope-walking.

Gourrich: Mr. Morgenthau, what would happen to this arrangement if Germany would decide to cut the mark into half?

H.M., Jr.: Well, I'll tell you something. I don't know whether it is that or not. I'm going to answer in a little roundabout way. The interesting thing is that England worries more about that than anybody else. Isn't that right? (To Feis) You're in the State Department; you can't answer that.

Gardner: Try Pasvolsky over here; he's just come back from over there.

H.M., Jr.: White, do you want to?

Pasvolsky: Go ahead.

White: Well, . . .

H.M., Jr.: Let him go ahead.

Pasvolsky: Well, I came back from Europe rather hopeful about the development there in Germany. You are perfectly right, Mr. Secretary, that the British are more worried about the German situation than anybody else. But they are faced with pretty much the same dilemma that they were faced with back in 1925, with the Reparations question; that is, the question of whether

they would rather have Germany as a good market and a good competitor, or have Germany as a poor competitor and a poor market. And my impression is that they have pretty well made up their minds that the answer is the same as it was on the Reparation issue: that they would rather see the German situation straightened out in spite of the possible increase in competition, than they would to have it continue as it is. It is tied up with political factors a good deal.

Now, I think the hopeful part of the situation is this: The way the question was envisaged in Geneva, there would have to be two steps in the straightening out of the German situation. The general situation being tied up with trade barriers, that we can't expect a real recovery until trade, international trade, catches up with domestic production and goes step in step with domestic production. Now, the thought is that what is holding international trade back is quantitative regulation in, roughly, one-third of the work. That means quotas in the former gold countries and exchange controls in the countries which have not devalued their currency and yet have not remained on the gold standard.

Now, the thought there was that the first step is to straighten out the gold standard countries and make it possible for them to begin the demobilization of their commercial barriers. Particularly in the case of France, that if France could straighten

out her monetary situation, could accomplish the demobilization of quotas, that France would then become stronger in dealing with the second part of the problem, which is exchange controls, and the key to which is held by Germany.

Now, one of the most significant things, to me, in what has happened recently has been the tone taken by the French, Dutch, and Swiss representatives at the League Assembly. They have talked a great deal about their desire, now that they have aligned the currencies, to proceed with a demobilization of their trade barriers. But they immediately qualified that by saying that they would do so only with respect to countries which paid; that means countries which have not exchange control. Now, through that declaration we have a new set of pressures being put in Germany to straighten out her situation.

Now, it is taken for granted that the German situation, and the exchange control situation in Germany, will not be straightened out until there is an open and adequate, from their point of view, devaluation of their currency. But, just as in the case of the quota countries, the devaluation of their currencies must be accompanied by the dropping of exchange controls if it is to have the effect that is desired.

Now, that, in the case of Germany, involves probably two things; and the two things are interconnected: a political settlement which involves a colonial settlement, in part, and

other things, and a financial arrangement which in itself is impossible without a political settlement. So, as I see that situation, the German problem is a problem of arranging a price that is exacted by Germany to be paid for the sake of agreeing to make Germany into a general world economic structure. But I personally think that that is coming. I think that that is a matter of months.

It is a very difficult problem. It may be upset by a war, which would grow, in my opinion, only out of the Spanish situation. I don't think a war in Europe can humanly possibly grow out of any other situation, and I doubt that the Spanish situation is such that it will lead to war.

Therefore, what I look for in the immediate future is an attempt to straighten out the exchange control situations, and that, I think, is the most important problem in international matters that is confronting us today. And certainly a groundwork for the solution of that problem has been laid by the stabilization agreement, because that has always been their claim, that they are willing to align their currency, but they've got to know what they are going to align against. If my analysis is correct and if the exchange control situations - there are several of them, five or six, but only two of any importance, the German and the Italian - if the exchange control situations are about to be attacked vigorously and with a possibility of success, then I

can see a pretty good outlook for international trade improvement. And I don't think that either the French or the British would be affected in the least by a German devaluation. That is, both France and England are today in the same position in which England was with respect to the franc.

It is very interesting to me that just about two weeks ago in London a man who some months ago told me that "there's no use talking about any sort of a commitment on the part of Great Britain," when we got to the question of a possibility said, "What is before us now is a gamble and you can define a gamble in the following terms: We must accept the proposition that the franc and the pound have to be devalued. We must do substantially nothing about it after it takes place." I think the feeling in France and England is to be exactly that with respect to Germany.

Draper:

Mr. Secretary, I think we ought to give you a chance to get to bed.

* * * * *

Meeting ended at 10:50 P.M.

Recent currency changes
(Rates in cents)

Countries making currency changes	Price on September 1	Date of currency action	Price on October 9	Percent decline from September 1	Remarks
France	6.5832	September 25	4.6694	- 29.1	The French Government obtained power to lower the gold content of the franc within the limits of 25.19 to 34.35 percent. No definite gold parity has yet been fixed.
Switzerland	32.5921	September 26	23.0321	- 29.3	The Swiss Government obtained power to lower the gold content of the franc within the limits of 25.34 to 34.56 percent. Pursuant to this legislation the Swiss National Bank effected a de facto reduction in the gold value of the franc of 30.00 percent.
Greece	.9387	September 26	.8975	- 4.4	The drachma which had been pegged to the Swiss franc changed to sterling after the franc depreciation. Buying rate for sterling set between 540 and 550 drachmas to the pound which is equivalent to a depreciation of 17 to 34 percent.
Latvia	32.9951	September 26	19.5467 ^{1/}	- 40.8	Lat which had been pegged to the French franc changed to sterling after the franc devaluation. New rate 25.22 lats to the pound against a former rate of 15.50 lats to the pound equivalent to a depreciation of 37 percent.
Turkey	79.4905	September 26	79.0951 ^{1/}	- 0.5	Turkey abandoned its peg to the French franc and is now pegged to sterling within the limits of L76.35 to L76.38 against the former rate of L75.34 equivalent to a depreciation of less than 1 percent.
Netherlands	67.8971	September 28	53.1407	- 21.7	Allowed guilder to depreciate but set no definite limits.
Italy	7.8654	October 5	5.2604	- 33.1	On October 5 the gold value of the lira was reduced by 40.93 percent (it had already depreciated about 8 percent), the Government reserving the right to adjust the new parity by an additional 10 percent.
Czechoslovakia	4.1300	October 10	3.6528	- 11.6	On October 8 the crown was devalued within a range of 13.337 to 22.9727 percent.

October 12, 1936.

Treasury Department, Division of Research and Statistics.

^{1/} October 1.

The following countries have recently established stabilization funds:

Country	Name of Fund	Amount
France	Stabilization Fund	10,000,000,000 francs (\$467,020,000)
Switzerland	Exchange Stabilization Fund	(?)
Netherlands	Exchange Equalization Fund	300,000,000 florins (\$157,550,000)

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Chairman Eccles and Governor Ransom of the Board of Governors of the Federal Reserve System and Mr. Taylor and Mr. Upham of the Treasury had lunch with the Secretary at 1 P.M. It is contemplated that there will be a weekly lunch for mutual exchange of views with respect to matters of interest to the Treasury and the Federal Reserve.

Mr. Eccles and Mr. Ransom brought forward for discussion their interest in closer cooperation and a freer exchange of information between the Federal Reserve Board and its staff and the Secretary of the Treasury and his staff. They are of the opinion that in view of the responsibilities that are placed on them to regulate the credit activities of the country in the interest of the national economy, they should work in the greatest intimacy with the Treasury. They feel also that the Treasury and many of its operations can benefit from the information which is available to the Reserve Board and through an exchange of views.

Mr. Eccles referred to the fact that the Federal Reserve Bank of New York has long been conducted as if it were the central bank of the country, overshadowing the Federal Reserve Board in Washington, maintaining contacts with central bankers abroad and in general exercising the central banking relationship of the country. He explained that the Banking Act of 1933, under the interested guidance of Senator Glass had attempted to change that and to make the Federal Reserve Board in Washington the real control in the regional banking system of the country. He regards it as unfortunate if, acting in their capacity as fiscal agent of the Treasury, the officers and staff of the Federal Reserve Bank of New York have information which is not available to their superiors in Washington. The

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Federal Reserve Board, in his opinion, is unable to act with utmost intelligence in matters of open market operations, rediscount rate changes, reserve requirements, etc., unless they are familiar with the operations of the Stabilization Fund and foreign exchange transactions of the Treasury generally.

Mr. Morgenthau inquired just why it was that they had to know these things or what was done with information of that kind if it were made available, and Mr. Eccles replied that since foreign exchange transactions operated to increase or decrease the excess reserves of member banks, and, since the Board was following very closely the matter of excess reserves, a knowledge of the sources of, or reasons for, up and down changes was important.

Governor Ransom pointed out that, while the Board could follow the course of changes in reserve requirements, they would not be able to interpret their significance unless they knew what causes them.

Mr. Morgenthau was disposed to the view that a great deal of statistical information resulting from operations in the Stabilization Fund could be made available on a weekly schedule to the Federal Reserve. He saw no necessity for them interesting themselves in the day to day purchases and sales made by the Fund.

With this Mr. Eccles and Mr. Ransom were inclined to agree.

Mr. Morgenthau expressed the view that Governor Black probably made a mistake in deciding to remove the offices of the Reserve Board from the Treasury Building and move eventually into a building of its own. He related that he had offered to give the Board the same suites of offices on the first floor that it formerly occupied on the second floor of the Treasury but that this was unacceptable

to the Board. Mr. Eccles and Mr. Ransom both deplored the fact that an expensive building is being erected for the use of the Board. ~~27~~

Mr. Morgenthau asked Mr. Eccles how he stood on the proposition of an extension in January of the Stabilization Fund on the present basis, without amendments.

Mr. Eccles said that he could not speak for the Board as they had not been thinking about that, but that for himself personally he could say that he would be for it. Both he and Mr. Ransom agreed that it would be dangerous and lead to delay to ask for anything other than a simple extension of the life of the fund. Prior to making a direct statement of this kind, however, Mr. Eccles continued his discussion of the desirability from the standpoint of the Federal Reserve Board, of a greater cooperation between the Treasury and the Board. It appeared that he was qualifying his approval of an extension of the Fund by some sort of suggestion that there be included in the law provision for such cooperation. When that point was raised specifically, however, he assured Mr. Morgenthau that he had no such purpose -- that he was confident that the needed cooperation could, and would be worked out before that time and that there would be no objection on his part to an extension for a period of a year or two.

Mr. Eccles indicated that in another month or two he thought conversations might be begun leading to an amendment to the articles of the Bank for International Settlements so that he or someone else from, or designated by, the Federal Reserve Board in Washington could become a director of that bank. At present the statutes of the bank are such that the head of the Federal Reserve Bank of New

York is eligible for that position, but has been unable to fill it because of the absence of approval by the Federal Reserve Board of such appointment. It was the consensus that the meetings of the central bank at sessions of the B.I.S. are worthwhile and that the matter of American representation should be explored prior to the next annual meeting of the Bank in May.

In connection with the discussion of the B.I.S., Mr. Morgenthau stated that there was a request in from that bank for a determination of their status in the matter of ability to buy and sell gold in the United States.

Mr. Eccles said that the Board was not informed on this particular application and it developed that it was presented through the Federal Reserve Bank of New York rather than through the Federal Reserve Board. It developed later that the B.I.S. has been advised that they are, under present regulations, ^{not} eligible to buy and sell gold in the United States.

Mr. Morgenthau said that he hoped the Federal Reserve would, before very long, and, perhaps shortly after the middle of December, either buy or sell fifty million of government securities. He regards it as important that at some time when it doesn't make any difference, there be a change in the total of the Federal Reserve Bank portfolio of government bonds which has been at a constant figure now since the Fall of 1933. Some day it may be necessary for the Board to engage in open market operations and the public should be accustomed to such operations at a time when they do not need to be made.

It was suggested by Mr. Eccles that they might let some of their maturities run off.

Mr. Eccles and Mr. Ransom, Mr. Taylor and Mr. Upham adjourned to Mr. Taylor's office for a continuation of the discussion.

Mr. Eccles was eager that an arrangement should be made whereby Dr. Goldenweiser and Mr. Gardner of the Reserve Board staff could get together regularly with Mr. Haas, Mr. White, and, perhaps Mr. Lochhead, or any other persons whom we might designate, for exchange of views and statistical information.

Mr. Taylor suggested that some of the Treasury staff thought very highly of Mr. Currie. No response to that suggestion was made during the conference but later Mr. Eccles, in talking on the telephone to Mr. Upham, referred to the suggestion and indicated that if the Treasury wishes Mr. Curry to be included in the group, and invited him, he would have no objection.

Mr. Upham told him that, in his opinion, the Treasury would not wish to name the Federal Reserve individuals who were to meet with Treasury people but would accept anyone whom the Federal Reserve wished to designate.

Mr. Eccles explained that, of course, Dr. Goldenweiser was the Chief of the Division and that Mr. Gardner had for many years followed international matters but that he, personally, had a high regard for Mr. Currie's ability and imagination and would be glad to see him included as one of the group.

Mr. Taylor and Mr. White were both of the opinion that there was no objection to Mr. Currie being included but felt as I did -- that it was up to the Federal Reserve Board to designate persons to meet with us rather than for us to suggest them.

Mr. Ransom referred to a call he had had from George Harrison a day or so before the announcement of the three-power agreement

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in which Mr. Harrison had stated that press discussion indicated the possibility of France going off gold or devaluing the Franc.

Mr. Harrison asked whether the Board thought the reserve banks ought to do something about protecting their holdings of Francs by selling Francs short, perhaps.

Mr. Ransom asked if a formal Board opinion was wanted and indicated to Mr. Harrison that he thought the Board was probably not in as good position to have a view on that as the bank itself was. He told him that personally he thought it would be bad at such a juncture for the Federal Reserve Bank to be selling Francs short. It was a matter, Mr. Ransom said, that in his opinion, ought to be disclosed to the Treasury by the Board when discovered, and talked over. He would not want to have the Board make a decision on such a thing as that without consulting the Treasury. He deplored the fact that the Board is not intimately in touch with the bond market and the foreign exchange market. He thinks they should have men who are as close followers of the markets as Mr. Lochhead and Mr. Harris, and that they should have tickers at the Board so they can and do keep current on such things. The Federal Reserve Board should have the best technical men in the country, even though they do not buy and sell, all for the information and advice and guidance of the Board.

Mr. Ransom said that when Mr. Harrison discovered that Mr. Ransom was not disposed to talk freely or that he did not know what was contemplated in France, he used an expression used a day or two later by Secretary Morgenthau -- that what he was seeking was the "moral support" of the Board, and then, that Mr. Harrison added a statement to the effect that he was really trying to find

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out how much Mr. Ransom knew about what was going on and that he had concluded Mr. Ransom was not in the know.

Mr. Eccles was of the opinion that everything was satisfactorily arranged and that from now on the Board would be consulted. He talked of the responsibilities of the Board, the fact that he was a Morgenthau man, that the new Board was all of this Administration, that there can be no discord, and that under the new arrangement, he would be able to say to the Congress in January that there is the closest and the fullest cooperation and that the Board is informed of Treasury activities. He stated that it would be unfortunate if in January it were disclosed in Congress that the New York bank people knew things that the Board did not.

I suggested that, having once worked for the Board and now being with the Treasury, and having observed both for many years, and being particularly interested in the relationships of central banks and treasuries here and elsewhere, I thought I could appreciate both sides. I told Mr. Eccles that I could understand how he, as head of the central banking system, would feel disturbed about important currency matters going on upon which he was not informed, but that I had just as deep an appreciation of the way in which the Secretary looked at it, and how, in view of the circumstances, use had been made of the fiscal agent of the Treasury as such rather than as the Federal Reserve Bank of New York as a unit in the system. I suggested the possibility of the impropriety of using as fiscal agent a bank which had private persons on its Board of Directors.

Mr. Morgenthau had previously referred at lunch to the fact

that he had testified before the Senate Banking Committee that he believed the Government should own the stock of the Federal Reserve Banks.

I told him that in my opinion a legal distinction could be drawn between the bank as fiscal agent and the bank as a bank. There are two legal entities. He was inclined to take an opposite view of that and read a long statement from a speech by Senator Glass to the effect that the New York bank should not deal with foreigners unless supervised by the Board at Washington. But in this case, I pointed out, they were supervised by Washington, by the Treasury as their principal, and there could be no objection by Senator Glass or anyone else of the Treasury dealing with foreign bankers and foreign governments.

I expressed the view that the structure of the system is one of the chief difficulties, and that if we had a real central banking institution and not the hybrid system we have, the same difficulties would not be encountered.

Mr. Ransom was of the opinion that the Board and its staff ought to be composed of persons who are so outstanding that the Treasury will want to consult them, and that if that isn't the case, something ought to be done about it. He was inclined all along to think of the matter in terms of Board deficiency rather than Treasury neglect. He impressed me as having an appreciation of the problems involved in the relationships of the various agencies, but, while not knowing the solution, being sure that it was not so simple as merely telling the Board what we are thinking and what future action is contemplated.

So that there would not be any misunderstanding, I told Mr. Eccles that, while I agreed with him and Mr. Taylor, that it might be possible to arrange for an interchange of statistical information through the meetings of the two staffs, that I was not sure that the Secretary was willing to go as far as Mr. Eccles seemed to think -- and include the Reserve Board members in preliminary negotiations that might later be under way between the Treasury and foreign governments. It seemed to me that such negotiations must necessarily be pretty closely confined and that as a matter of fact, when the Congress made the operations of the Stabilization Fund the secrets of the President and the Secretary, they did not make an exception in favor of the Federal Reserve Board. I suggested that if a new six power pact is now under discussion, I doubted that the Treasury would feel under any duty to include the Board as a part of the negotiating group. It seemed to me it ought to be made clear that no such agreement had been reached. Otherwise Mr. Taylor and I might later be quoted as agreeing to such an interpretation.

It may be unfortunate that the Treasury suggested the possibility of Mr. Currie being included with Dr. Goldenweiser and Mr. Gardner in the technical staff meetings. There are internal and inter-jealousies which cannot be ignored in any "cooperation". Mr. White regards Mr. Currie as greatly superior to Dr. Goldenweiser or Mr. Gardner. He thinks both Dr. Goldenweiser and Mr. Gardner are out of sympathy with what the Treasury is doing and with the monetary policy of the present Administration, and that they are critical and animated more by desire to know so that they can combat (at least academically) rather than otherwise. On the

other hand, Dr. Goldenweiser is more or less publicly critical of Mr. Haas and Mr. White.

Mr. Eccles is somewhat embarrassed to include Mr. Currie in his group and he would like to have us, as he said, suggest it, or invite him. That would mean that we (Haas and White) would be credited by Mr. Gardner and Dr. Goldenweiser with trying to cut under them. All very petty, but all very realistic. But the cooperation may work.

Mr. Eccles and Mr. Ransom left with assurances all around of high esteem and expectation of mutual cooperation and helpfulness from now on.

Upm

DEPARTMENT OF COMMERCE

OFFICE OF THE ASSISTANT SECRETARY

WASHINGTON

October 13, 1936

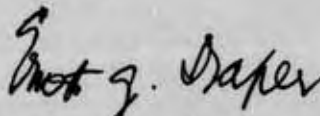
The Honorable
The Secretary of the Treasury
Treasury Department
Washington, D. C.

My dear Mr. Secretary:

Following that most interesting conference in your home last evening, I enclose a copy of report from Acting Commercial Attache Douglas Miller, Berlin, under date of September 28, on the subject, "Germany and Franc Devaluation."

I believe you will find this report timely and informative.

Yours sincerely,



Ernest G. Draper
Assistant Secretary of Commerce

enclosure 1

SPECIAL REPORT NO. 28

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Berlin
(City)Germany
(Country)September 28, 1936
(Date)

Subject: SPECIAL WEEKLY FINANCIAL REPORT NO. 4

Submitted by: Douglas Miller
(Name)Acting Commercial Attache
(Title)DEPARTMENT OF STATE
Liaison Officer

CT 2-1936

SPECIAL WEEKLY FINANCIAL REPORT NO. 4

(Required Report)

CONFIDENTIALGERMANY AND FRANC DEVALUATION

The immediate German reaction to the precipitate devaluation of the French and Swiss francs and the Dutch guilder has been one of relative calm and aloofness. Though the devaluation of the franc was considered imminent in Berlin as elsewhere, Dr. Schacht had apparently no intimation that the decision would be taken so quickly and on that particular day. On Saturday morning, he was speaking at the opening of the German Mine-Owners Convention and did not return to Berlin until late in the afternoon. This may account for the fact that no statement was issued in Berlin on Saturday to the effect that Germany would not follow the example of her three western neighbors. The Saturday Berlin Bourse was firm under the impression of the French devaluation but there was no spectacular price rise which could be interpreted as a "buying panic" and most shares did not advance more than 2 to 4 points.

At present the indications are that Germany will not devalue the reichsmark in the course of the next few days. On Sunday Herr Reinhardt,

the Assistant Minister of Finance, made the first and rather categorical statement to the effect that Germany did not intend to devalue. It is not certain whether this statement was made with the approval of Schacht or whether it represented an attempt on the part of certain party elements to determine Germany's position without waiting for Schacht's personal reaction. Reinhardt's statement was followed by an utterance of Dr. Ley, leader of the Labor Front, who called the French devaluation a "Jewish trick".

There are several and weighty reasons why Germany need not necessarily follow automatically the example of France, Switzerland and Holland and why, in any case, she can afford to wait until the details and results of this experiment are known, especially in the case of France. The German financial press was also very reserved in its comments on the French action and took a rather skeptical attitude in regard to its possible success.

It is obvious that the German position in the question of devaluation is entirely different from that of France, Switzerland and Holland with their free gold currencies. Although Germany maintains the fiction of the nominal gold parity of the reichsmark (RM 2.50 to \$1), the German currency is entirely isolated from the outer world by the rigid system of exchange control and by the prohibition of both imports and exports of reichsmark notes. The advantages which Germany would eventually derive from a devaluation of her domestic currency are much more problematic than in the case of the aforementioned three countries.

In the first instance, practically the entire foreign debt of Germany is in foreign currency and therefore a devaluation of the reichsmark would

not result in a diminution of the foreign debt burden but on the contrary in its increase in the terms of marks. This question may appear rather theoretical as long as Germany is not repaying the principal of her debts (with the exception of standstill debts) but it still applies to the servicing of these debts (notably under clearing agreements). Another important consideration is that a mere devaluation would not result in such an improvement of the German balance of foreign payments that would permit Germany to discontinue her present regime of rigid and vexatious foreign exchange control. Nor could Germany possibly defend her devalued currency with her present negligible gold reserve.

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As far as foreign trade is concerned, devaluation would certainly permit ^{Germany} to discontinue the present system of export subsidies and also do away with the respective levy on industry and trade which is meeting with growing opposition in business circles. If, in spite of reservations referred to above, Germany should nevertheless resort to devaluation, this motive will probably play a decisive role. This question has also a direct bearing on German-American trade relations. At present Germany has undertaken to discontinue the payment of subsidies in regard to merchandize exported to the United States. This undertaking was a condition for the lifting of the American countervailing duties. A devaluation would restore the advantage which German exports previously derived from the various subsidies without, however, giving the Treasury Department a pretext to reimpose the countervailing duties.

The effect of the devaluation of the French and Swiss francs and the Dutch guilder on German trade and finance can be briefly summarized under two headings. In the first instance, Germany gains as a debtor of these three countries. This gain is quite important considering that in 1933 (latest data available) France, Holland and Switzerland accounted for 3,058,000,000 marks of Germany's foreign long-term debts out of a total of 7,436,000,000 marks. Likewise, out of a total of short-term debts of 7,405,000,000 marks, Germany owed France, Holland and Switzerland 3,220,000,000 marks. Assuming that the amount of short-term debts has been reduced through repayment of standstill credits to something like 2 billion marks, Germany's total debt to these three countries is still about 5 billion marks. Granted that the ratio of devaluation in all three cases will approximate 30 percent, this means that the foreign debt of Germany, which had already been reduced considerably when the dollar and the pound sterling went off gold, is again curtailed automatically by about 1,500,000,000 marks. Germany's current payments of interest under the clearing agreements will be reduced proportionately. Finally, it should be considered that Germany has accumulated a considerable merchandise debt under the clearing arrangements with Switzerland, Holland and France (the latter is being rapidly liquidated). This debt too would also be "devalued" in a similar proportion.

On the other hand it is necessary to consider that the devaluation of the three currencies will make German exports to these countries more difficult and will, in fact, act as an increase of their tariffs. France, Switzerland and Holland are all important customers of Germany and the latter country

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is even the largest buyer of German goods in general. In 1935 the three countries accounted for 913,900,000 marks of German exports or more than one-fifth (21.4 percent) of total exports amounting to 4,269,700,000 marks.

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Douglas Miller
 Douglas Miller
 Acting Commercial Attache

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OFFICE

October 13, 1936

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H.M.Jr: See if Mr. Gordon Rentschler is in New York - outside - official. If he's not there no one else will do.

Operator: All right.

H.M.Jr: He's at the National City.

Operator: All right.

H.M.Jr: Thank you.

Operator: Mr. Rentschler. Go ahead.

Rentschler: Hello - Good morning.

H.M.Jr: How are you?

R: I'm fine.

H.M.Jr: Good. Ah -

R: How have you been?

H.M.Jr: All right. (laughs) I mean I'm not going out and play
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R: Well, you've had a lot going on. It looks like it's been done pretty well.

H.M.Jr: I wondered if there was anything as to my statement which is - which isn't clear. That's what I'm calling you up for.

R: Yes.

H.M.Jr: Is - is - I mean I wonder if everything is understood up there as to how this thing is proposed to work.

R: We understand it, but before I answer that why don't I check with the Street and see if they understand it?

H.M.Jr: Supposing you do that.

R: I'll be glad to do it and I'll do it right away, and I'll check around entirely unofficially to find out -

H.M.Jr: Yes.

R: - whether they really understand what you're trying to do.

H.M.Jr: Yes.

R: And then I'll let you know what the consensus of it is.

H.M.Jr: I'd appreciate that, and if you'd call -

R: I'd be delighted to do it and will do it right away.

H.M.Jr: Do you want to call me up, say, around three o'clock?

R: Yes, I'll give you a ring around three.

H.M.Jr: And -

R: That will give me a chance to do the checking.

H.M.Jr: Yes. How do you feel about it yourself?

R: Why I think it's all right. I think it's a move - just as we talked there before, it looks to me as though this has all worked out exactly as we thought it would.

H.M.Jr: That's right.

R: And I feel very, very happy about it.

H.M.Jr: Good.

R: And I just had Leo Shaw - he feels as I do.

H.M.Jr: Yes.

R: But I'll get Leo and I'll check, -

H.M.Jr: I see - yes - and -

R: And see whether - just what the reaction is and if anything further should be cleared up.

H.M.Jr: Thank you very much.

R: All right - fine. Glad to say hello to you again.

H.M.Jr: Right.

R: Just got back from California.

H.M.Jr: Good.

R: Quite a party out there.

H.M.Jr: You mean -

R: Well, I'll give you a ring at three o'clock.

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H.M.Jr: Thank you.

R: All right.

H.M.Jr: Goodbye.

October 13, 1936.

Operator: Mr. Knoke.

K: Good morning Mr. Secretary.

H.M.Jr: Hello Knoke. Well how are things going?

K: They are - every - They are perfect. They aren't going at all.

H.M.Jr: Wonderfull.

K: The market is entirely at a standstill.

H.M.Jr: Yes.

K: Because I guess the explanation is that the market is trying to figure out just what it all means and then too they have a little clearer picture in their own mind - they just won't operate.

H.M.Jr: Well now is everything perfectly clear with you?

K: I - the question - I've had no difficulty in answering the questions that have been raised.

H.M.Jr: Well you're a lucky man.

K: Well I - but that question was really the only one that they repeated three or four times.

H.M.Jr: Yes.

K: And that was for the import of gold.

H.M.Jr: Well the answer is "anybody can import" - right?

K: That there's no change whatever --

H.M.Jr: No

K: - from prior to yesterday.

H.M.Jr: No.

K: Has never required a license and doesn't require a license to-day.

H.M.Jr: Right. And that's the only question.

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K: That's the question that most banks were worried about.

H.M.Jr: Well these men that you talk to at the banks - what comments do they make on this move?

K: Well they - of course they (laughs) of course they (laughs) just wonder whether their business is all shot to pieces.

H.M.Jr: Well they realize it isn't.

K: They realize what?

H.M.Jr: That's it's not shot to pieces.

K: No, no - well they realize it as the Guaranty told me they had an avalanche of inquiries from commercial customers asking just where they stood and the Guaranty answered, "well there's no change as far as you're concerned at all".

H.M.Jr: Well I've very carefully said that the commercial people can do business through their banks.

K: Yes.

H.M.Jr: What?

K: Yes that is - well I don't think

H.M.Jr: I mentioned that specifically.

K: They're quite right - at least it was in the verse that I saw in the Times.

H.M.Jr: Well don't take the times. Take the New York Tribune. That's much better.

K: Tribune. Well I have it on my desk but I haven't had a chance to read it.

H.M.Jr: Well the New York Tribune is a much more accurate statement - the New York Tribune.

K: Yes. Well, as I say, I have it on my desk but --

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H.M.Jr: Well just read that because that's the best paper that was written out of Washington, strange as it may seem. I say the New York Tribune has the best statement.

K: Yes, I understand. Yes - yes.

H.M.Jr: But I - I - the banks - have you been able to quiet them down - I mean so they're all right.

K: Oh yes - I had - I began with the Chase, the City and the Bankers and the Irving.

H.M.Jr: Good.

K: And - well it didn't require any - much to calm them down anyhow.

H.M.Jr: I see.

K: They were not particularly excited but they are just sitting back and trying to digest the whole thing.

H.M.Jr: Well my reference to individual international speculators - they don't think I'm talking about the banks?

K: (Laughs) None have said so although I wouldn't be surprised if a few felt that way.

H.M.Jr: Well if the shoe pinches - you know the old saying.

K: (Laughs)

H.M.Jr: What?

K: (Still laughing)

H.M.Jr: I know who I've got in mind but I'm not saying and you know --

K: I think I know too (laughs)

H.M.Jr: And - he doesn't love me any more than he used to.

K: (Laughing) Well he's used to it because he's been through all of them and they - his London house has had the same experience before and his Paris house, etc.

H.M.Jr: And he's got it coming to him.

K: Ah - personally I agree with you.

H.M.Jr: Yes, well as long as you know who I mean.

K: (Laughing) Yes I'm pretty sure I do.

H.M.Jr: All right. And if he sends out any more telegrams calling for meetings from Mr. Landon why - not that that has anything to do with it of course. (Laughs)

K: (Laughs) I don't know whether Lochhead told you. The Guaranty said this morning that the - evidently the foreign buying orders in this market and our security market was larger than ever.

H.M.Jr: Yes, well I'm sorry to hear that.

K: Yes.

H.M.Jr: I mean - it's - it's - some day we'll have to cope with it that's what I mean - you know?

K: We'll have to what?

H.M.Jr: Some day we'll have to meet it. I mean some day the - what you buy you want to sell.

K: Yes. Oh I see what you mean. Yes it will come back at us.

H.M.Jr: I mean - whatever anybody wants to buy they'll - some day they're going to want to sell it.

K: Yes, that's right.

H.M.Jr: And when they want to sell it we'll have to meet it.

K: Yes, yes.

H.M.Jr: Right?

K: That's perfectly right.

H.M.Jr: Well I'm glad you're feeling happy. I'm feeling very happy. Goodbye.

October 13, 1936.
10:30 a.m.

H.M.Jr: Hello

Cochran: Hello

H.M.Jr: Yes? Well what's new over there?

C: Why I got back from Basle this morning at 6:45, then we all dressed up and took Mr. Bullitt to present him to the President.

H.M.Jr: I see.

C: Our new Ambassador.

H.M.Jr: Ah-ha.

C: I'm sending you a fairly long cablegram on the BIS meeting.

H.M.Jr: Ah-ha.

C: That's on the wire now.

H.M.Jr: Good.

C: From the market here to-day things are considerably better.

H.M.Jr: They are.

C: A cheerful atmosphere - we might attribute to the improvement over the internal political situation, that is, those Communist meetings on Sunday went very quietly and things look better that way and then this announcement was received very well.

H.M.Jr: It was.

C: I haven't read all the papers yet.

H.M.Jr: Yes.

C: Only criticism at all was that 24 hours.

H.M.Jr: Yes, well that's all right.

C: We knew that that would cause a little --

H. M.Jr: Yes.

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C: uneasiness but they said well better to have it even though that's in and --

H.M.Jr: Yes.

C: so on. There's nothing caustic on it but there's just a little ---

H.M.Jr: Yes. Anything outstanding up in New York? I mean in Basle?

C: No - no.

H.M.Jr: No.

C: They all think this was a big step forward. They think that the thing has become much more important than was originally the conception when it was being worked on.

H.M.Jr: Did the people in Basle know about this move we made to-day?

C: No they didn't know about it. The only one who did was Governor Norman. He knew something was coming out.

H.M.Jr: Ah-ha.

C: He walked over from the train with me last night when I was coming away.

H.M.Jr: I see.

C: And I confirmed that it was coming out but they didn't know about it so it couldn't be discussed yet.

H.M.Jr: Well how is Mr. Schacht?

C: Oh he was on the warpath.

H.M.Jr: Why?

C: (Laughing) He said why does the United States insist that I should devalue and I said I haven't heard that the United States was interested in your devaluation.

H.M.Jr: Good for you.

C: I said there's been no hint from any American official source trying to tell you how you ought to handle your currency.

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H.M.Jr: Good for you.

C: And - oh we had quite a talk.

H.M.Jr: Did you.

C: And then he gave a little story of his own words.

H.M.Jr: Good.

C: He wants the BIS to liquidate.

H.M.Jr: He does?

C: Says that that bank was set up for central bankers and his bank itself could not keep itself informed - many members - when such important negotiations were going on that it ought to be shut up.

H.M.Jr: (Laughter) Well -

C: Nothing about it down here.

H.M.Jr: What?

C: Neither the French or the British let their own men in the BIS know that these negotiations were going on.

H.M.Jr: I see. So they better liquidate it and get a higher - some really good informants, eh.

C: What that?

H.M.Jr: They ought to - they want a better spy system.

C: (Laughing) Yes - yes and - so the BIS passed a little resolution too just in favor of return to stabilization. That will probably be in your paper this morning.

H.M.Jr: Yes. But I take it Schacht was not in a good humor.

C: Just that.

H.M.Jr: Oh - I take it Schacht was not in a good humor.

C: We will help them to get around to devaluation before too long.

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H.M.Jr: How was the interrogants?

C: Quite happy. They think they've done the right thing.

H.M.Jr: Good. Good.

C: The only concern has been in regard to the internal French situation.

H.M.Jr: Ah-ha.

C: That's been considered the weak point.

H.M.Jr: Ah-ha.

C: But to-day rentes are better and the chermont is better and there's a bigger turn over in three months government bonds then there's been for a long while.

H.M.Jr: Fine - fine. Well we're feeling very happy here. We - The American press. They haven't had time to write editorials yet but the American press has handled this thing beautifully.

C: Is that so?

H.M.Jr: Yes - beautifully. And the New York Tribune, as a matter of fact, wrote the best story out of Washington.

C: The Tribune? Is that --

H.M.Jr: New York Tribune. Of course tomorrow editorially they'll go after us but the New York Tribune carries the best story I've seen so far.

C: That's splendid.

H.M.Jr: Yes.

C: That must be encouraging to you.

H.M.Jr: Very. Everybody around here acts as though they - like the cat that swallowed the canary.

C: Yes - yes (laughs) well that's fine.

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H.M.Jr: All right.

C: Well I can't review the press completely to-day because of -----

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

C: Then I'll give you a wire tomorrow on that.

H.M.Jr: All right.

C: And we'll - the long wire on the BIS is coming in to-day.

H.M.Jr: Well we can sit back now and breathe a little easier.

C: All right (laughs) fine.

H.M.Jr: All right.

C: I had a letter from you and from Wayne Taylor to-day.

H.M.Jr: Did you?

C: I appreciate it very much - you're awfully nice.

H.M.Jr: Fine.

C: And I'll get off this thing tomorrow morning then on the press.

H.M.Jr: Right.

C: Thank you. Good night.

H.M.Jr: Good night.

October 13, 1936.
10:45 A.M.

Present: Mr. Brien McMahon, Assistant to the Attorney General.
Mr. Bernard J. Flynn, U. S. Attorney, Baltimore, Maryland.
Mr. T. B. Harrington, Asst. U. S. Attorney, Baltimore, Md.
Mr. Oliphant
Mr. McReynolds

McMahon: Mr. Secretary, we thought we'd better come to you with this matter and let you know about it. It seems that Mr. Flynn has just finished indicting in Baltimore four men for conspiracy to violate the liquor laws. They, after being sentenced, decided that they wanted to tell what they knew about the situation, and, in the presence of some of the Agents of the Alcohol Tax Unit they made statements to the effect that they had obtained graft. I'll let Mr. Flynn go on from there.

Flynn: These four men were convicted, and Judge Chesnut, who passed sentence, announced to them that it was his policy always in this type of case if men would give some information to the Government as to who was the owner of the still, that he would be lenient. They refused to make any statement at that time, but after giving them a maximum sentence, why, they changed their tune a bit. Their counsel came and wanted particulars as to what they could do.

We took them in to Judge Chesnut and he again made the offer that if they gave that information he would take that into consideration. Then they decided they wanted to talk. There was one man, Jones, a part owner in it to the extent that he was getting a commission out of the profits. By the way, it's an extremely large still.

H.M., Jr.: May I interrupt. Who found the still and who made the raids?

Flynn: The raid was made by the Alcohol Tax Unit, - this particular still on Howard Street in Baltimore.

H.M., Jr.: The Treasury people made the raid?

Flynn: Yes, they made the raid; it was not a police case; we got it from the Treasury. Prior to this still, there were two other very large stills in Baltimore, one on

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Boston Street, originally, in 1934, October. Now, that still was there for six weeks in operation. We are informed by this man that when the Agents got to the still it was cleaned out, moved. They then moved right outside of the city limits of Baltimore, to Dundalk, and erected a still there. That still went for five days, and then they said they had information that the still was to be raided and they moved out, and when the Agents arrived that still was gone. Now, the third still, with the same people, then was put in on Howard Street, in a large warehouse. They say - what they called it was a "sneak." They were putting it in without the knowledge of the people they were paying.

Now then, to sum it up briefly. . .

H.M., Jr.: What do you call a "sneak"? That's a new word.

Flynn: A "sneak," as they call it, is putting in a still of this magnitude without the Agents first putting their O.K. on it, saying they could go in.

H.M., Jr.: You mean if they are paying protection.

Flynn: If they are paying protection; that's right.

H.M., Jr.: In other words, they are supposed to sneak it over on the Agents; is that the idea?

Flynn: Yes. Now, these people are from New Jersey. They say they moved down to Baltimore and started their operations - the man in charge of enforcement in Baltimore had formerly been in New York, but they knew he could be handled - and they came to Baltimore to operate because of the fact that he could be handled.

Now, they said that they paid. . . Now, this man doesn't give any definite information as to having seen any money passed to an Agent of the Treasury Department.

H.M., Jr.: What's the man's name?

Flynn: His name is Jones, and he's been convicted. What's his first name (to Harrington)?

Harrington: Ralph.

Flynn: Ralph M. Jones. He said, however, that he did see

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money turned over to a man by the name of Smith - that is Charles Smith, who is a former Agent of the Alcohol Tax Unit - and that the understanding was that this Charles Smith was to pay this money over to three Agents that he mentions. First of all was Porter, who was the head of the unit. Secondly, a man named Heddens who was in charge of it. Just what was his official position?

Harrington: Assistant Supervisor in charge.

McReynolds: He's the number two man.

Flynn: And, third, they were to pay a man by the name of Monahan, just an Agent.

Heddens was to get \$500 a week while the plant was being constructed and while they were not operating. While they were in operation he was to get \$1,500 a week.

Now, that is the information that we have received, except that it was corroborated by another one of the confederates by the name of Ballard, who was, incidentally, a local Baltimore man, didn't come down from New Jersey with them.

Jones was what they called the plant man. He was a mechanic, going around the country putting in these plants. Incidentally, he's an aviator. He flies from one place to another to make his inspections.

H.M., Jr.: Quite up-to-date.

Flynn: Yes, quite up-to-date. There were two aviators in this.

Now then, Ballard, the Baltimore man, made the statement that he knew Colonel Porter, and they got to know him by reason of the fact that his employer, a man by the name of - Kams, is it?

Harrington: Yes, Kams - K-a-m-s.

Flynn: And a man named Kassoff; incidentally Kams is Kassoff; it's an alias.

H.M., Jr.: The same thing? Kams and Kassoff are the same?

Flynn: Yes. Now, they are supposed or, at least, he was supposed to have been the moneyed man. He put the money in. He's under indictment, but has never been apprehended, not convicted, not been tried or yet caught. He's also indicted; that's on the Dundalk still. We have indictments on him and several others in that.

However, this man Ballard made the statement that Kams had sent for him on a date in October, 1934, which I believe was October 7, and was told to take the car of Kams, Kams' personal car, go to the Lord Baltimore Hotel and pick up a man by the name of Jack. The last name he didn't know, but he knew that Jack was a former police official from the State of New York. From there they were to go to the Belvedere Hotel and pick up a man named Porter, who would meet them on the pavement at the Belvedere Hotel.

He said that he took Kams' car, went to the Lord Baltimore Hotel, picked up this man Jack, then went to the Belvedere Hotel and picked up the man named Porter; that he drove them from Baltimore - from the Belvedere Hotel in Baltimore - to Fredericksburg, Virginia, and that all during the trip this man named Porter was talking about his farm and his hams and his hogs and what not. Rather peculiarly, Colonel Porter has a place in Fredericksburg, Virginia, a place where he raises hogs and sells Virginia cured hams.

Now, that's the highlights of the information that we have. I might say, however, that the Alcohol Tax Unit men were taking this statement and Heddens was present when the man made the statement. Monahan was not, but came in afterwards.

Yesterday Mr. Avis, was it? . . .

Harrington: Mr. Avis.

Flynn: And a Mr. Berkshire were over talking about this case to me, and have offered to turn over any men that we would select to carry on a further investigation of

this operation, and also said that the Intelligence Unit of your Department would be notified this morning and go ahead. However, Mr. McMahon had made this appointment.

McMahon: I wish you'd tell the Secretary about Mr. Porter's actions, which look. . .

Flynn: Oh, yes. Of course, Mr. Harrington tried the cases and is quite familiar with it all, and that's why I had him here. I asked Colonel Porter, sent for him immediately when this came up, asked him to come to my office; I wanted to talk with him. Which he did very promptly. I told him what I have said here. Colonel Porter said, "I have no recollection of ever taking a ride from Baltimore to Fredericksburg."

I suggested to him that I thought that he could be a little bit more positive than that, just not having a recollection. However, he said it was quite a shock to him, that he'd like to get his thoughts together.

I suggested that I thought what he should do was to bring this man in who made this accusation and to have him confront him. He said he'd rather not do that because he thought possibly this man may have had some information about him by seeing his picture in the newspaper or having been pointed out to him on the street, and that he would probably point to him and say, "Yes, that's the man," and then he would be in a very serious dilemma, he thought.

I explained to him that if he was pointed out by this man, it would merely be an identification by a convicted felon which would be not as serious as if it was an honest man pointing him out; on the other hand, if he was not pointed out, it would be quite evident that this man had never seen him before.

I have made two appointments for Colonel Porter since then for the purpose of getting him to confront this man, but yesterday, rather Saturday, he was sick, couldn't come up; the day before he did come up but said he'd rather get his records together as to his

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movements in the month of October, 1934. So that he has not yet. . .

H.M., Jr.: This is my attitude. This sort of thing has only happened once before, I'm pleased to say, and that was when Mr. Lamar Hardy came up from New York - has the same position that you do - and gave me certain evidence that he was not satisfied that the narcotic people in New York were all right. We put at his disposal people from Intelligence; I don't know whether that investigation has been completed yet.

McMahon: It hasn't been yet.

H.M., Jr.: I'll keep them on it.

McMahon: We very much appreciate it.

H.M., Jr.: The way I always feel is this - that it is up to me, and we welcome information like this. I do personally; I'm delighted to get it. And my attitude is that it is up to me to keep my own mess clean. When I can't do it, the President will put somebody else in who can.

Now, what I'd like to do is immediately, through Mac, get this thing organized. We'll put all the people necessary from the Treasury at your disposal to go over this thing.

Flynn: Well, I'd say that - Mr. Avis yesterday said that a Mr. Burford, from the Intelligence, would be over as soon as he possibly could get over, maybe this afternoon or tomorrow morning.

McReynolds: Burford's in my office now and available.

Flynn: That's the name.

McReynolds: Burford's one of the best men we've got.

H.M., Jr.: He happened to be the man who spent the last two or three years with about fifty Agents in a town called New Orleans, investigating a very prominent citizen and other citizens down there. I didn't even know he was in

Washington.

McReynolds: He just happened to be there.

H.M., Jr.: You've got him there?

McReynolds: Yes, Burford is available - Burford and Ireys and Stewart Berkshire.

H.M., Jr.: Why don't we bring them all in, introduce them. We've got an empty room right here. If you can take the time right now, I suggest you go in there and make the arrangements. What do you think?

McMahon: Very fine.

H.M., Jr.: We've got everybody here. Any thought before we do that?

McMahon: I don't think so.

Flynn: Of course, I did tell you that, as far as the angles of the case were concerned, that they would be working under me.

H.M., Jr.: And the men are satisfactory to you.

(On phone) In Mr. McReynolds' office is Mr. Berkshire, Ireys, and Burford. Ask them all to come in here, please.

They're the ones we'll use. As we say, Berkshire has the Alcohol Tax Unit in the Internal Revenue.

Flynn: He was over before.

H.M., Jr.: If you gentlemen will just step in the other room. . . As I say, lay out your campaign right now. And I'd like to have you feel this way: If you are not getting one hundred and one percent cooperation, why call me on the telephone. You don't have to bother to come over here. Just call me up if you are not getting one hundred and one percent cooperation. Just call me personally on the telephone. But my attitude is that it is my job to keep this mess clean and, as I say, when I can't somebody else can have the job.

(Irey, Berkshire and Burford come in)

H.M., Jr.: Now, the Department of Justice have come in here and they feel that certain people that we have in the Alcohol Tax Unit - certain very serious charges that are made against them.

Now, it's in your shop (to Berkshire). I told them I appreciate very much their coming here. I also told them that it is up to me to keep the Treasury clean. When I can't do it, the President will put somebody else in. This is your mess, see? It is up to you to do the same. I want you to go in with the Attorney General and it is up to you and you (to Irey) to supply them with the men they want. They've got to be inseparable to him. We want to handle it just the way we handled the Lamar Hardy thing up in New York.

I've told Mr. Flynn that if he isn't satisfied all he's got to do in Baltimore is pick up the phone and call me. But I want him satisfied that we are doing everything we can to assist him to either prove this crowd guilty or not guilty. And the fact that they work for us doesn't make any difference. You know our policy. Don't give a damn who it is or where the chips fall. And it is up to Mr. Flynn to let me know whether he's getting the proper cooperation and if he doesn't get it.

But this is in your shop now (to Berkshire) and Irey will help you. Find out that either they are or they are not guilty. If they are crooks, it's just too bad.

Glad to have seen you again (to McMahon).

McMahon: Glad to have seen you.

H.M., Jr.: Thank you for coming.

Oct. 13th

The following were present at the 9:30 meeting this morning:

Mr. Gaston	Mr. Oliphant
Mr. Gibbons	Mr. Taylor
Mr. McReynolds	Mr. Upham

H.M.Jr: The big fellows in New York will like this. This is what they have been waiting for.

Oliphant: You may get a letter from Coolidge.

H.M.Jr: I should send him a telegram, "Don't you think you picked the wrong horse? We are going to balance the budget in a year or two".

Note: At this point Mr. Morgenthau dictated a letter to be sent to Mr. Coolidge under personal cover. The letter follows:

"Dear Jeff:

Taking it for granted that your sense of humor is as good as it used to be, I am writing you the following personal letter.

Now that Landon has come out for balancing the budget within four years and President Roosevelt has said twice within the last week that he will balance the budget in a year or two, and you and I know that he can do it, how do you feel? After all "we are a fortunate people".

Best regards.

Yours sincerely,

(Signed) Henry "

H.M.Jr: What did you pick up in New York?

Gibbons: I saw Congressman Charlie Buckley yesterday. He said they have 30,000 more registrations in his Assembly District this year.

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H.M.Jr: All Democrats?

Gibbons: Yes.

H.M.Jr: Did you see the Daily News poll?

Gibbons: No.

Gaston: There is a good story in the Times this morning as to how they are carrying them in on cots and chairs to register.

Note: Mr. Morgenthau then began to read the different percentages in the different counties concerning votes for Roosevelt,

H.M.Jr: Will you get an extra set of the clipping together on this (gold business). I want to send them to the President tonight.

Upham: There is no Wall Street Journal.

Gaston: That's funny. They were working till last last night getting the story.

H.M. Jr: Are you sure?

Upham: I looked all around this morning and that 's what they told me at the newstands.

October 13, 1936
(Morning)

H.M.Jr: See if Mr. Gordon Rentschler is in New York - outside - official. If he's not there no one else will do.

Operator: All right.

H.M.Jr: He's at the National City.

Operator: All right.

H.M.Jr: Thank you.

Operator: Mr. Rentschler. Go ahead.

Rentschler: Hello - Good morning.

H.M.Jr: How are you?

R: I'm fine.

H.M.Jr: Good. Ah -

R: How have you been?

H.M.Jr: All right. (laughs) I mean I'm not going out and play 36 -

R: Well, you've had a lot going on. It looks like it's been done pretty well.

H.M.Jr: I wondered if there was anything as to my statement which is - which isn't clear. That's what I'm calling you up for.

R: Yes.

H.M.Jr: Is - is - I mean I wonder if everything is understood up there as to how this thing is proposed to work.

R: We understand it, but before I answer that why don't I check with the Street and see if they understand it?

H.M.Jr: Supposing you do that.

R: I'll be glad to do it and I'll do it right away, and I'll check around entirely unofficially to find out -

H.M.Jr: Yes.

R: - whether they really understand what you're trying to do.

H.M.Jr: Yes.

R: And then I'll let you know what the consensus of it is.

H.M.Jr: I'd appreciate that, and if you'd call -

R: I'd be delighted to do it and will do it right away.

H.M.Jr: Do you want to call me up, say, around three o'clock?

R: Yes, I'll give you a ring around three.

H.M.Jr: And -

R: That will give me a chance to do the checking.

H.M.Jr: Yes. How do you feel about it yourself?

R: Why I think it's all right. I think it's a move - just as we talked there before, it looks to me as though this has all worked out exactly as we thought it would.

H.M.Jr: That's right.

R: And I feel very, very happy about it.

H.M.Jr: Good.

R: And I just had Leo Shaw - he feels as I do.

H.M.Jr: Yes.

R: But I'll get Leo and I'll check, -

H.M.Jr: I see - yes - and -

R: And see whether - just what the reaction is and if anything further should be cleared up.

H.M.Jr: Thank you very much.

R: All right - fine. Glad to say hello to you again.

H.M.Jr: Right.

R: Just got back from California.

H.M.Jr: Good.

R: Quite a party out there.

H.M.Jr: You mean -

R: Well, I'll give you a ring at three o'clock.

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H.M.Jr: Thank you.

R: All right.

H.M.Jr: Goodbye.

October 13, 1936.

Operator: Mr. Knoke.

K: Good morning Mr. Secretary.

H.M.Jr: Hello Knoke. Well how are things going?

K: They are - every - They are perfect. They aren't going at all.

H.M.Jr: Wonderful.

K: The market is entirely at a standstill.

H.M.Jr: Yes.

K: Because I guess the explanation is that the market is trying to figure out just what it all means and then too they have a little clearer picture in their own mind - they just won't operate.

H.M.Jr: Well now is everything perfectly clear with you?

K: I - the question - I've had no difficulty in answering the questions that have been raised.

H.M.Jr: Well you're a lucky man.

K: Well I - but that question was really the only one that they repeated three or four times.

H.M.Jr: Yes.

K: And that was for the import of gold.

H.M.Jr: Well the answer is "anybody can import" - right?

K: That there's no change whatever --

H.M.Jr: No.

K: - from prior to yesterday.

H.M.Jr: No.

K: Has never required a license and doesn't require a license to-day.

H.M.Jr: Right. And that's the only question.

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K: That's the question that most banks were worried about.

H.M.Jr: Well these men that you talk to at the banks - what comments do they make on this move?

K: Well they - of course they (laughs) of course they (laughs) just wonder whether their business is all shot to pieces.

H.M.Jr: Well they realize it isn't.

K: They realize what?

H.M.Jr: That's it's not shot to pieces.

K: No, no - well they realize it as the Guaranty told me they had an avalanche of inquiries from commercial customers asking just where they stood and the Guaranty answered, "well there's no change as far as you're concerned at all."

H.M.Jr: Well I've very carefully said that the commercial people can do business through their banks.

K: Yes.

H.M.Jr: What?

K: Yes that is - well I don't think

H.M.Jr: I mentioned that specifically.

K: They're quite right - at least it was in the verse that I saw in the Times.

H.M.Jr: Well don't take the Times. Take the New York Tribune. That's much better.

K: Tribune. Well I have it on my desk but I haven't had a chance to read it.

H.M.Jr: Well the New York Tribune is a much more accurate statement - the New York Tribune.

K: Yes. Well, as I say, I have it on my desk but --

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H.M.Jr: Well just read that because that's the best paper that was written out of Washington, strange as it may seem. I say the New York Tribune has the best statement.

K: Yes, I understand. Yes - yes.

H.M.Jr: But I - I - the banks - have you been able to quiet them down - I mean so they're all right.

K: Oh yes - I had - I began with the Chase, the City and the Bankers and the Irving.

H.M.Jr: Good.

K: And - well it didn't require any - much to calm them down anyhow.

H.M.Jr: I see.

K: They were not particularly excited but they are just sitting back and trying to digest the whole thing.

H.M.Jr: Well my reference to individual international speculators - they don't think I'm talking about the banks?

K: (Laughs) None have said so although I wouldn't be surprised if a few felt that way.

H.M.Jr: Well if the shoe pinches - you know the old saying.

K: (Laughs)

H.M.Jr: What?

K: (Still laughing)

H.M.Jr: I know who I've got in mind but I'm not saying and you know --

K: I think I know too (laughs)

H.M.Jr: And - he doesn't love me any more than he used to.

K: (Laughing) Well he's used to it because he's been through all of them and they - his London house has had the same experience before and his Paris house, etc.

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H.M.Jr: And he's got it coming to him.

K: Ah - personally I agree with you.

H.M.Jr: Yes, well as long as you know who I mean.

K: (Laughing) Yes I'm pretty sure I do.

H.M.Jr: All right. And if he sends out any more telegrams calling for meetings from Mr. Landon why - not that that has anything to do with it of course. (Laughs)

K: (Laughs) I don't know whether Lochhead told you. The Guaranty said this morning that the - evidently the foreign buying orders in this market and our security market was larger than ever.

H.M.Jr: Yes, well I'm sorry to hear that.

K: Yes.

H.M.Jr: I mean - it's - it's - some day we'll have to cope with it, that's what I mean - you know?

K: We'll have to what?

H.M.Jr: Some day we'll have to meet it. I mean some day the - what you buy you want to sell.

K: Yes. Oh I see what you mean. Yes it will come back at us.

H.M.Jr: I mean - whatever anybody wants to buy they'll - some day they're going to want to sell it.

K: Yes, that's right.

H.M.Jr: And when they want to sell it we'll have to meet it.

K: Yes, yes.

H.M.Jr: Right?

K: That's perfectly right.

H.M.Jr: Well I'm glad you're feeling happy. I'm feeling very happy. Goodbye.

October 13, 1936.
10:30 a.m.

H.M.Jr: Hello

Cochran: Hello

H.M.Jr: Yes? Well what's new over there?

C: Why I got back from Basle this morning at 6:45, then we all dressed up and took Mr. Bullitt to present him to the President.

H.M.Jr: I see.

C: Our new Ambassador.

H.M.Jr: Ah-ha.

C: I'm sending you a fairly long cablegram on the BIS meeting.

H.M.Jr: Ah-ha.

C: That's on the wire now.

H.M.Jr: Good.

C: From the market here to-day things are considerably better.

H.M.Jr: They are.

C: A cheerful atmosphere - we might attribute to the improvement over the internal political situation, that is, those Communist meetings on Sunday went very quietly and things look better that way and then this announcement was received very well.

H.M.Jr: It was.

C: I haven't read all the papers yet.

H.M.Jr: Yes.

C: Only criticism at all was that 24 hours.

H.M.Jr: Yes, well that's all right.

C: We knew that that would cause a little --

H.M.Jr: Yes.

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C: - uneasiness but they said well better to have it even though that's in and --

H.M.Jr: Yes.

C: - so on. There's nothing caustic on it but there's just a little --

H.M.Jr: Yes. Anything outstanding up in New York? I mean in Basle?

C: No - no.

H.M.Jr: No.

C: They all think this was a big step forward. They think that the thing has become much more important than was originally the conception when it was being worked on.

H.M.Jr: Did the people in Basle know about this move we made to-day?

C: No they didn't know about it. The only one who did was Governor Norman. He knew something was coming out.

H.M.Jr: Ah-ha.

C: He walked over from the train with me last night when I was coming away.

H.M.Jr: I see.

C: And I confirmed that it was coming out but they didn't know about it so it couldn't be discussed yet.

H.M.Jr: Well how is Mr. Schacht?

C: Oh he was on the warpath.

H.M.Jr: Why?

C: (Laughing) He said why does the United States insist that I should devalue and I said I haven't heard that the United States was interested in your devaluation.

H.M.Jr: Good for you.

C: I said there's been no hint from any American official source trying to tell you how you ought to handle your currency.

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H.M.Jr: Good for you.

C: And - oh we had quite a talk.

H.M.Jr: Did you.

C: And then he gave a little story of his own words.

H.M.Jr: Good.

C: He wants the BIS to liquidate.

H.M.Jr: He does?

C: Says that that bank was set up for central bankers and his bank itself could not keep itself informed - many members - when such important negotiations were going on that it ought to be shut up.

H.M.Jr: (Laughter) Well -

C: Nothing about it down here.

H.M.Jr: What?

C: Neither the French or the British let their own men in the BIS know that these negotiations were going on.

H.M.Jr: I see. So they better liquidate it and get a higher - some really good informants, eh.

C: What's that?

H.M.Jr: They ought to - they want a better spy system.

C: (Laughing) Yes - yes and - so the BIS passed a little resolution too just in favor of return to stabilization. That will probably be in your paper this morning.

H.M.Jr: Yes. But I take it Schacht was not in a good humor.

C: Just that.

H.M.Jr: Oh - I take it Schacht was not in a good humor.

C: We will help them to get around to devaluation before too long.

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H.M.Jr: How was the interrogants?

C: Quite happy. They think they've done the right thing.

H.M.Jr: Good. Good.

C: The only concern has been in regard to the internal French situation.

H.M.Jr: Ah-ha.

C: That's been considered the weak point.

H.M.Jr: Ah-ha.

C: But to-day rentes are better and the chermont is better and there's a bigger turnover in three months government bonds than there's been for a long while.

H.M.Jr: Fine - fine. Well we're feeling very happy here. We - The American press. They haven't had time to write editorials yet but the American press has handled this thing beautifully.

C: Is that so?

H.M.Jr: Yes - beautifully. And the New York Tribune, as a matter of fact, wrote the best story out of Washington.

C: The Tribune? Is that --

H.M.Jr: New York Tribune. Of course tomorrow editorially they'll go after us but the New York Tribune carries the best story I've seen so far.

C: That's splendid.

H.M.Jr: Yes.

C: That must be encouraging to you.

H.M.Jr: Very. Everybody around here acts as though they - like the cat that swallowed the canary.

C: Yes - yes (laughs) well that's fine.

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H.M.Jr: All right.

C: Well, I can't review the press completely to-day because of -----

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

C: Then I'll give you a wire tomorrow on that.

H.M.Jr: All right.

C: And we'll - the long wire on the BIS is coming in to-day.

H.M.Jr: Well we can sit back now and breathe a little easier.

C: All right (laughs) fine.

H.M.Jr: All right.

C: I had a letter from you and from Wayne Taylor to-day.

H.M.Jr: Did you?

C: I appreciate it very much - you're awfully nice.

H.M.Jr: Fine.

C: And I'll get off this thing tomorrow morning then on the press.

H.M.Jr: Right.

C: Thank you. Good night.

H.M.Jr: Good night.

October 13, 1936.
11:20 A.M.

Present: Mr. Oliphant
Mr. Lochhead
Mr. Taylor

H.M., Jr.: George Harrison asked me a question that Jeff Coolidge called him up and asked him: Can a country which fits the pattern of a gold standard country get gold from this country? Now, may I say his advice is to say, "Yes." There is no change. The Belgians could if they wanted to.

Oliphant: If he is satisfied.

Lochhead: My feeling is that this statement you made yesterday supplements the previous statement. If they measure up to the standard set by your original statement the answer is yes, but, of course, the gold would have to be above gold export and they would have to prove that they are really a gold standard country.

H.M., Jr.: But personally he just passed over the answer as yes if they can say to us that they are on the gold standard, that it would work between points. But it's just passing it up like that.

Oliphant: That starts out "supplementing my statement of". . .

H.M., Jr.: Do you think I ought to say anything?

Oliphant: Then a little later down I stuck in the word "also" so as to leave that situation unchanged for the country that could really prove it. I think it is most undesirable to have to say it.

H.M., Jr.: Any bank that calls up, you can say it. Or he can say it. Huh?

Lochhead: I checked with a couple of them. I was speaking to Knoke about that. One of the newspapers said that this will stop the movement of gold except between governments. Now, that has raised the question in New York as to gold coming in here, for instance, if it was. . . .

H.M., Jr.: I cleared that with them.

Lochhead: They said they have had innumerable inquiries today from different people on that point.

H.M., Jr.: I've cleared that.

Lochhead: You've cleared that; then I guess there's no question about that.

H.M., Jr.: (Oh phone) Get me Bank Governor Harrison, please.

Now, anybody can bring gold on. . .

Lochhead: As long as it is kept in Customs custody on delivery to the United States.

H.M., Jr.: In Customs custody. But these fellows. . . He didn't call me; I called him. But it is very important.

Oliphant: It's very significant.

Lochhead: Very important.

Oliphant: The next attack will be that it's a return to the gold standard; you know where from.

H.M., Jr.: What are you going to say - a return to the gold standard?

Oliphant: I mean the direct attack will come from that quarter. It's a pretty smooth question.

(Mr. Taylor comes in)

H.M., Jr.: A little question in New York. Governor Harrison said Coolidge, First National, Boston, wants to know if they wish to import gold from Belgium, could they? I'm going to tell them yes, if Belgium can say to us it's on the gold standard, the answer is yes.

Lochhead: What did Mr. Coolidge mean by going outside the district to ask questions? They went outside their district to ask questions. They should have asked the Federal Reserve of Boston. That's where they made their error.

H.M., Jr.: Well, I think for him to tell me this is a distinct gesture of friendship on the part of Harrison - that he tells me Coolidge called.

Oliphant: Yes, evidence of it.

H.M., Jr.: In view of their close relationship.

Taylor: I don't know why you wouldn't, if they can satisfy us.

Oliphant: That's right. It's just unfortunate the question is being bruited about at this time by Jeff Coolidge and that crowd, if they are going to pass it out - "Well, they didn't change the price of gold; the United States is on a gold standard and still looks upon doing business with another gold standard country as the norm."

Taylor: Transition period.

(Phone): Governor Harrison is busy talking.

H.M., Jr.: Ask them to send a note in to him.

Lochhead: Interesting to know that the guaranty reports today - that they have had more orders than usual for the purchase of stock in this market.

Oliphant: That's the trouble. We automatically do business with the gold standard, but we won't do business with the non-gold standard unless they meet these terms and conditions. It sort of places us in the position of coercing the world back to the gold standard.

Lochhead: Now we're going to a managed standard.

Taylor: Really coercing them, in a way.

Oliphant: The unconditional, absolute privilege goes to the old gold; there it is automatic. We don't have to have any statements certifying this, and that, etc., and we are on a fixed gold. I'm just thinking out loud. But that's the way the orders are. Of course, "supplementing the order of so-and-so." Well, "until further notice" . . .

Taylor: Well, your big bulk of your transactions - Archie can tell you what percentage they pay - will be marked up and cleared through two other currencies favoring ours.

H.M., Jr.: (On phone) George, I've got my group in here, and the answer to that is this, and I wish you'd pass this along to Knoke, because I hear he's worried about it too, see?

Harrison: Yes.

H.M., Jr.: That if a country can qualify on the old gold standard in the sense that - I mean we were operating on up to September 25th, see?

Harrison: Yes.

H.M., Jr.: And we could satisfy ourselves if she was on that international gold bullion standard - that's what it was, wasn't it? - why, we would let gold flow as between countries and between points.

Harrison: Yes.

H.M., Jr.: But quite frankly we'd just as leave let that go by, see?

Harrison: You'd quite frankly what?

H.M., Jr.: We don't want to advertise it.

Harrison: No, I'm not advertising it. But I think that you - at your next press conference a lot of them are going to ask you that question because the papers refer to it.

H.M., Jr.: Well, the next press conference isn't until Thursday morning and then we'll know more about it.

Harrison: Yes. And as to my inquiry, that position I've taken is the only one that I have intended myself, which is at Jeff Coolidge's request. I said I "assumed that."

H.M., Jr.: Well, you assumed right. And the other bank question that is bothering Knoke - Can banks bring gold in? The answer is yes.

Harrison: Yes, I think that's clear.

H.M., Jr.: So if Knoke, in talking to the banks, can clear that up, if any of them are worried about it, that would help us.

Harrison: I think it would help, because it makes for a more normal flow.

H.M., Jr.: Well, the less confusion the better. But in the Tribune story they have that very clearly.

Harrison: Yes.

H.M., Jr.: Would you tell Knoke to carry it out in talking to them?

Harrison: Yes.

H.M., Jr.: And if anything else comes up during the day that isn't clear, let me know.

Harrison: Yes, I shall.

H.M., Jr.: Because there's nothing like giving information, and there's no reason why they shouldn't have it.

Harrison: There's no reason that a constructive step shouldn't be attempted in adjusting a confusing situation.

H.M., Jr.: Exactly, and I think that if they want to understand it they will appreciate that this is a constructive step.

Harrison: Yes.

H.M., Jr.: We're under terrific handicap three weeks before a campaign. People can't get a campaign out of their mind and they just look for little chips in our armor which they'd be glad to overlook three weeks after the campaign.

Harrison: The reason I asked you about that is I'm sure you didn't want to speak to Coolidge.

H.M., Jr.: I appreciate your attitude. And if anything else comes up during the day give me a ring, will you?

Harrison: All right, I will.

October 13, 1936.
11:25 a.m.

H.M.Jr: George, I've got my group in here and the answer to any inquiry is this and I wish you'd pass this along to Knoke because I hear he's worried about it too, see?

Harrison: Yes.

H.M.Jr: Ah - I mean if a country can't qualify, that is, on the old gold standard in the sense of - I mean that we were operating on up to September 25th, see?

H: Yes.

H.M.Jr: And - and we would - to satisfy ourselves if she was on that international gold bullion standard - that's what it was, wasn't it? Why we would let gold flow as between countries and between points.

H: Yes.

H.M.Jr: But quite frankly we'd just as leave let that go by, see?

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H: Well I'm not advertising it but I think that you - at your next Press Conference a lot of them are going to ask you that question because the papers refer to it - the ticker straightened it out.

H.M.Jr: Well the next Press Conference isn't until Thursday morning and then we'll know more about it.

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H.M.Jr: And --

H: And as to my inquiries - well that's the position that I've taken and the only one that I've offered myself - which was a Jeff Coolidge - I said I assumed that.

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H: Yes.

H.M.Jr: And the other question involving Knoke - "Can banks bring gold in?" The answer is yes, see?

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H.M.Jr: Exactly.

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- 3 -

H.M.Jr: And they just look for little chinks in our armor which they'd be glad to overlook three weeks after the campaign.

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H.M.Jr: I appreciate your attitude.

H: Yes.

H.M.Jr: And if anything else comes up during the day give me a ring, will you?

H: All right I will.

H.M.Jr: Thank you.

H: Good.

October 13, 1936

As I see it:

We are not returning to the old gold standard or anything like it. Indeed, we are not seeking stabilization, merely stability in foreign exchange rates. Nor do we seek a stability that is fixed in amount or perpetual in duration. The needs of foreign trade and commerce are met although exchange rates vary if the fluctuation is not too wide; and even such stability need be sought only for that relatively short period of time for which the mass of forward commitments in foreign trade are customarily made.

To attempt a stability more absolute in amount and more enduring in time would serve no useful present purpose. It would involve setting up some system, such as the old gold standard, which we would have to be prepared to defend to the last ditch and, by the same token, endure to the last pain. This country has had enough of that sort of worship of a monetary fetish.

HO

Oct 13

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11:25 a.m.

H.M.Jr: George, I've got my group in here and the answer to any inquiry is this and I wish you'd pass this along to Knoke because I hear he's worried about it too, see?

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- 2 -

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- 3 -

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H.M.Jr: I appreciate your attitude.

H: Yes.

H.M.Jr: And if anything else comes up during the day give me a ring, will you?

H: All right I will.

H.M.Jr: Thank you.

H: Good.

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE October 12, 1936.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

FROM L. W. Knoke

WITH BANK OF ENGLAND.

Mr. Bolton called me at 11:55 today. He wanted to know whether the new Treasury Regulations would be published tonight. I replied that as far as I knew, none were contemplated. Bolton then raised a number of technical points in connection with the new arrangement. He referred to my cable of last Saturday dealing with the opening of special accounts for Stabilization Fund operations. Sometimes it would be somewhat difficult for them to disentangle the intention, he thought, in cases where, as had actually happened in the past, they were accumulating dollars for specific purposes (the radio deal for instance) at the same time that they were operating on behalf of the Fund. I explained that, as I visualized the situation, he would put the dollars acquired for such special purpose into his regular account and those purchased on behalf of the Fund into the special account. I appreciated his difficulty at all times to tell exactly which was bought for the one and which for the other purpose, but that since each trusted the other, this would present no practical problem. As far as we were concerned we would request the opening of special accounts for the reasons explained to him on Saturday.

He next raised the question of clearing house funds versus federal funds. In accordance with London market custom he can buy dollars only for two days forward; the dollars he gets are clearing house funds, with the result that conversion into gold can only take place the following day or three days after the date of purchase. I assured him that it was perfectly understood here that cancellation or

FEDERAL RESERVE BANK
OF NEW YORK

180

OFFICE CORRESPONDENCE

DATE October 13, 1936.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM: L. W. Kroke

BANK OF ENGLAND.

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a change in the new arrangement would be without prejudice to past transactions. That, he said, would suit him to perfection.

He then asked me what we planned to do with our sterling balances. I replied that I would prefer to leave this question open for the time being, adding that we were fully aware that conversion of this balance would not be automatic but a matter of negotiation. Bolton replied, "I think you can put that on one side now - this question of negotiation. As far as we are concerned, you can have gold for any sterling you have here at any time." As to that, he repeated, we could rest assured. I told him I certainly appreciated their attitude but, nevertheless, for the time being, I thought we would prefer to consider conversion to be automatic only as new sterling or francs or dollars, as the case might be, were acquired. Bolton asked how I thought this matter of negotiation would actually work out. Would he have to ring me up and say he had so and so many dollars which he had accumulated over a period and could he have gold, and would I then let him know later? I confirmed that that was my understanding. Did I think, he continued, that later on this arrangement might be extended a little bit so as to make the question of converting into gold optional not only for new purchases but also on accumulated balances? I replied that naturally I could not answer that question but that, in my opinion, it all depended upon practical experience as we went along. That, Bolton thought, was the right way of looking at things anyway.

WK:KMC

Regraded Unclassified

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 13, 1938.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATIONFROM L. W. KnokeWITH BANK OF FRANCE.

Mr. Cariguel called me at 12:53 today to inquire whether I had received his cable giving an order and asking that we open in his name a new account S and also a new earmarked gold account S. He asked whether the arrangement was in force from today on. I replied that the cables to which he referred had not reached here but that it was my understanding that the new plan was in force. He stated that he had today bought a little over \$2,000,000 which he would want credited to the new S account; he would give us instructions by cable to convert this amount into gold. I asked him what his wishes were with regard to his balance and he replied he would let me know tomorrow. He had bought some gold from the Belgian National Bank against dollars today, thus using part of his balance, and was hopeful that he might get a little more gold tomorrow. If he did not succeed, he would request that we convert here. I told him that we would just wait to hear from him.

I suggested that in his cable tomorrow morning he mention that his gold prices were quoted us in accordance with the new arrangement and that his prices would always be good for the day; should he, however, alter them, the new price would not apply to business already consummated.

LWK:KMC

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 13, 1936, 11 a.m.

NO.: 992

FROM COCHRAN.

This morning I returned from Basel where the first BIS meetings since the thirteenth of July were held on Sunday and Monday. The long routing agenda was disposed of by the directors. They also noted the recent amendments of statutes of French and Latvian central banks, as well as the currency measures which were recently adopted by the Governments of France, the Netherlands, Latvia, Switzerland, Turkey, Italy, Greece and Czechoslovakia.

The following resolution was passed by the directors:

"The Board of Directors of the Bank for International Settlements, taking note of the recent governmental measures and declarations relative to the modification of certain monetary systems, again draws attention to the urgent necessity of securing general stability of the exchanges".

The principal topic of discussion of the central bankers who met at Basel naturally was that of the currency changes which the Three-Power Agreement began.

END SECTION ONE.

BULLITT.

EA:LWW

Paraphrase of
Section Two. No. 992 of October 13, 1936,
American Embassy, Paris.

At Basel the general opinion was held that while the first purpose of the Three-Power plan had fundamentally been to help France devalue, such world-wide interest had been given to the agreement, and it had been followed by such wide repercussions on other monetary systems, that the plan had probably acquired a significance greater than had been planned originally.

With regard to the effects which recent developments have on the BIS itself, depreciation of the Swiss franc, used by the bank as its official monetary unit, causes certain technical problems. The currency devaluation caused no important losses or gains for the Bank, since it follows the practice of keeping quite evenly balanced its deposits and its investments in the currency of any one country. The statement of the Bank will have to show a compression, since the statement is expressed in old gold Swiss francs. There is a more acute problem, whether the Bank can continue to pay, on the basis of the old Swiss franc, cumulative 6 per cent gold dividends. Now it will no longer be feasible to try to restrict operations of the Bank to currencies meeting requirements of gold or gold exchange standards.

With

- 2 -

With regard to the Netherlands, President Trip of the BIS and the Netherlands Bank was philosophical, saying that he had always been opposed to devaluation since it meant certain interests would be sacrificed, and it was likely to hit worst some of those who can least afford to lose by such action. He said he now feels that considerable uncertainty has been removed. He can plan a more definite course of action than he could when he had hanging over him the threat of devaluation.

President Trip said that in the Netherlands the step had become inevitable after Switzerland followed the lead of France. The Colijn Government was strengthened rather than weakened by the circumstances of the alignment. Trip prefers his system of letting the florin find the level best for it; he said that his stabilization fund had not acted up to the present. The stabilization fund purchased 100,000,000 florins from the Netherlands Bank, but there has been no revaluation of gold stocks, and the Government has consequently had no profit to spend.

Trip also said that another advantage of his system is that it gives rise to no rush of gold into the Netherlands, such as had taken place in the case of the Swiss action. It is not his wish that the Netherlands accumulates large

reserves

- 3 -

reserves which might be taken away very suddenly. The currency measure will certainly bring profit to the Dutch Indies, according to Trip. It is his opinion that the cost of living in the Netherlands can be kept down satisfactorily largely through reduction of tariffs and quotas, and ~~through~~ subsidies.

To the last moment President Bachmann of the Swiss National Bank insisted that France would not be followed by Switzerland. He had so informed the governors of the Netherlands Bank and the Bank of France. Bachmann was evidently more surprised than most of his fellow countrymen by the decision of the Swiss Federal Council, taken by a secret vote of 5 to 2 after he had defended his monetary policy before them. Switzerland has gotten back very important amounts of capital, and it is a problem already to find uses for this capital. It is therefore feared that it may be hard to prevent a rise in prices in Switzerland. There arose a premature controversy as to the use to which devaluation profits should be put. The Swiss Federal Railways were ^{strongly} ~~desirous~~ of a share in such profits in order to reduce obligations. The devaluation was a source of delight for the hotel keepers, as it came just before the early snows in the mountains and before the winter tourist season.

- 4 -

I was asked by Governor Norman how steady I thought our arrangement would keep the currencies of Great Britain, France and the United States. The Governor expressed surprise that the United States had entered into this arrangement before the elections in November. It seemed to some of my friends that Governor Norman was just a little unhappy that treasuries rather than central banks are responsible for the currency changes just made.

The opinion was expressed by Sir Otto Niemeyer that the agreement was a real advance for all of us. He said he earnestly hopes that the Blum Government would endure; the question ~~was~~ of whether the Blum Government might last and inspire enough confidence to make a success of devaluation was a popular one at Basel. Niemeyer thought that the foreign policies of Blum had been splendidly developed and carried out. The Bank of England's liaison officer, Cobbold, who has worked out with the Bank of France the details for cooperation ^{of} stabilization, ^{funds} told me he thought the mechanics of the agreement had now been perfected, so no difficulty should now arise. It simply remains, he said, for France to improve her internal affairs.

As for the Italians, their own decision seemed to be entirely pleasing to them.

I made a call upon Heschler, who is the resident

German

- 5 -

German officer of the Bank for International Settlements. Just at the point when he was volunteering to me his personal opinion that in view of present circumstances Germany should not pay us one cent on the Dawes and Young bonds, Schacht came in. The latter promptly corrected Heehler, and said that on the present basis the service would be continued. Schacht then expressed to me his opinion on the three-power arrangement; he said that no stability had been achieved thereby. He predicted (1) that the British would allow the pound to drop below 4.86, and (2) that it would prove necessary to devalue the franc some more. As for Belgium, he was inclined to doubt whether that country could for very long hold its present currency rate.

END SECTIONS TWO TO FIVE, INCLUSIVE.

BULLITT.

EA:LWW

Paraphrase of sections six to ten, inclusive, of telegram No. 992 of October 13, 1936, from the American Embassy, Paris.

Schacht asked why the United States was insisting on devaluation by Germany. I replied that I had not heard of any suggestion being made by American officials towards influencing Germany in the slightest in determining what it should do about its currency. Schacht retorted that the American press was most positive in urging that Germany devalue.

Then Schacht insisted that his problem would not be solved by Reichsmark devaluation, that the problem of balance of payments was primarily the one to be solved. He must have colonies, he said, and German foreign debts must be revised. Even if Germany only had the colonies where it could buy raw materials with German currency, the debts could be taken care of, he said. Schacht wanted us to know that if Germany were given colonies, peace in Europe would be guaranteed, including peace between Germany and the U.S.S.R. After that Germany would be ready to disarm as far as the other powers would disarm, and would be ready to enter a League of Nations which did not have the Treaty of Versailles for its basis. I said that we had not touched on other topics in the recent triangular conversations on monetary matters, and that the United States, furthermore, does not have any of the colonies Germany formerly had. I also made mention of the fact that we were even

- 2 -

trying to give independence to the Philippine Islands - he then said that he would not have them if they were given to him.

I remarked to Schacht that his trip to the Balkans had according to the press been for him a big success, and without force or change in frontiers had given Germany more trade. This trade he explained simply amounted to the Balkans giving the Germans raw materials in return for arms. He told me that his present trading system could be carried on without change in the currency, even though, he said, he could easily "move it up or down". However, he wanted to make progress toward ~~more free~~ freer trading.

Schacht expressed disgust with the BIS and his colleagues in it. He told me he was the only governor of a central bank now really entitled to a seat on the Board of the BIS, but that he could not evict all his colleagues, so they ought to take him off the Board. Schacht himself did not mention to me his unhappiness over not having been invited to participate in currency negotiations, or not having been informed of the negotiations. He did however tell others that there ought to be liquidation of the BIS if it, as the international headquarters for central bankers, cannot keep itself and its members informed when there are under way international

- 3 -

national negotiations like this. Schacht thus blustered about quite a bit, but the possibility of devaluation was never definitely excluded by him.

The resolution passed by the BIS which I quoted in the first part of this telegram was introduced by Reusch, another German director. It was introduced undoubtedly at Schacht's instruction. In its original form/^{it} made reference to the BIS resolution of July 11, 1932, which called for a return to the international gold standard, and so on, which reference was deleted in the meeting of the Directors. It is the opinion of some of the officials of the BIS that this resolution may assist Schacht in moving toward devaluation notwithstanding the statement of Hitler and Schacht's own statement.

Assistants to Schacht were quite receptive to any information and advice they could get about devaluation. One BIS expert is drawing up a plan suggesting possible German action - which he is doing wholly in a personal and unofficial capacity. The majority of non-German observers at Basel thought that Germany had made a mistake in adopting the present stubborn and critical attitude, although there was one (or possibly two) non-German observer who thought that Schacht had now acquired a better bargaining position than heretofore. It is the opinion of some observers that Germany will not do

- 4 -

anything about the currency until in January, when the next annual standstill meeting will be held. However almost everyone feels that it would be best for Germany to act at once before the world gets readjusted to the new currency relationships now being established and while there is a rise in prices. In other words, the rest of the world would not be so much disturbed over devaluation by Germany no as it would be when they are all settled down again. Furthermore, devaluation has a better chance of success while prices are rising than when they are going down, or even when prices are stationary.

The Belgian director, Galopin, whose banking interests involve about half of total Belgian banking, said that since the French franc was devalued there has been considerable repatriation of French commercial balances which Belgium had held. However he said there had been practically no repatriation of genuine flight capital which had taken refuge in Belgium when it came from France. Exactly the same statement was made by Swiss bankers with respect to French commercial balances leaving Switzerland but French refugee money did not leave. Doubt was therefore expressed by several observers of the BIS as to whether France would get back enough capital to make a success of the devaluation. The opinion was held by everyone that much depended upon the degree of confidence the Government could inspire through overcoming

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internal
/difficulties of a political and social nature.

There was rather general agreement that the French have been shortsighted in penalizing hoarded gold, and in taxing alleged speculation profits. It is felt that should no penalties have been imposed the return flow of capital would have been much larger and there would have been a much quicker French pick-up. There was general feeling, however, that most French banking and business interests were genuinely glad that the franc had been devalued. They had made some money out of it, and now would have the desire and possibility to expand their business in a way that would contribute to the country's general economic improvement.

I made reference herein to Schacht's tour of the Near East; in connection therewith, the following ^{Basel} story may be of interest to you. At the time Dr. Schacht embarked on his tour, Sir Otto Niemeyer had a trip to the near (East?) in behalf of British financial and trading interests all planned. Then it was thought inadvisable to choose Niemeyer as the representative best fitted to offset the effects of the tour which Schacht made. It was considered a wise move on the part of the British, consequently, that the King should have undertaken a series of visits in the Near East, and particularly, in Turkey, after it became necessary to cancel his Riviera visit. The visit of the King, it is understood, has been followed

- 6 -

followed by very important orders for British business, especially for British exports to Turkey. The Italians, I have been told, were so annoyed over Schacht's Balkan visit that they have now given Jugoslavia a much more favorable commercial treaty than the Jugoslavs could have hoped for under other circumstances.

November 9 has been set as the date for the next meeting of the Directors of the BIS at Basel.

END OF MESSAGE.

BULLITT.

EA:LWW

TELEGRAM RECEIVED

From Kaunas

Dated October 13, 1936

Rec'd 1:40 p.m.

Secretary of State,
Washington.

24, October 13, 5 p.m.

Legation's 22, September 28, 5 p.m. and despatch 62,
October 2nd.

Minister of Foreign Affairs informed me today with emphasis that Lithuania will not (repeat not) devalue the litas even should Germany devalue the mark, a course which he said Germany will probably be obliged to take.

Copy to Berlin.

LANE.

October 13, 1936

I just gave orders (at ten minutes to four) not to let sterling go below 4.90 today. I told them to buy up to 100,000 pounds. I thought it was a mistake, on the first day of the announcement, to let sterling go below 4.90. No one, either here or at the Federal Reserve, had thought of the public reaction toward letting sterling drop below 4.90. Whether we convert into gold, I told them that I would make that decision after I find out how much we had bought.

*Memory
O.S. Summary*

SECY MORGENTHAU ANNOUNCES NEW TYPE OF
GOVERNMENT CONTROLLED GOLD STANDARD EFFECTIVE
TODAY BY WHICH U S SUBJECT TO CHANGE ON 24
HOURS NOTICE WILL PERMIT FRANCE AND GREAT
BRITAIN TO WITHDRAW GOLD FROM THIS COUNTRY IN
EXCHANGE FOR ANY DOLLAR BALANCES THEY HOLD OR
MAY ACQUIRE IN PERFORMING THEIR PART OF TRI-
PARTITE CURRENCY AGREEMENT- LIKEWISE U S MAY
WITHDRAW GOLD FROM GREAT BRITAIN IN EXCHANGE
FOR POUNDS OR FROM FRANCE IN EXCHANGE FOR FRANCS
- ARRANGEMENTS PROVIDES FIRST MEANS FOR EXODUS
OF GOLD FROM THIS COUNTRY THOUGH PRIVATE
TRANSACTIONS ARE BARRED- SALES OF GOLD TO BE
MADE TEMPORARILY AT LEAST AT 35 DLS AN OUNCE
PLUS 1-4 OF 1 PC HANDLING CHARGE

OCT 13 1936

12.45
OCT 13 1936

HULL SAYS STABILIZATION MEANS INCREASE
IN WORLD TRADE

WASHN - SECY OF STATE HULL TOLD HIS
PRESS CONFERENCE TODAY THAT THE NEWEST STEP
T
OWARD MONETARY STABILIZATION WAS ONE PART
OF THE UNITED STATES PROGRAM TO RESTORE
WORLD TRADE

-0-

Stock Market Gossip

WCNS32

NEW YORK.--STOCKS OPENED STRONG AND ACTIVE UNDER LEAD OF STEEL AND RAIL SHARES TODAY. SEVERAL NEW HIGHS FOR THE YEAR OR LONGER WERE ESTABLISHED IN THE OPENING BLOCKS.

10/13--R1018A

WCNS34

ADD STOCK MARKET, NEW YORK

OPENING BLOCKS RANGED TO 15,000 SHARES AND WITHIN A FEW MINUTES QUOTATIONS WERE ABBREVIATED AS TICKERS ATTEMPTED TO CATCH-UP WITH THE ACCUMULATION OF WEEK-END BUYING ORDERS. MARKETS ABROAD WERE FIRM AND THE GOOD BUSINESS STASTICS OVER THE WEEK-END ENGENDERED FURTHER BULLISHNESS HERE.

BROKERS WERE INCLINED TO BELIEVE THE WEEK-END ANNOUNCEMENT OF A TRI-PARTITE STABILIZATION AGREEMENT WOULD HAVE NO DIRECT MARKET SIGNIFICANCE, ALTHOUGH IT WAS GENERALLY CONSIDERED A FAVORABLE DEVELOPMENT.

10/13--R1030A

OCT 13 1936

12.18

GOLD PACT

LOCAL BANKERS WERE INCLINED TO MINIMIZE SIGNIFICANCE OF THE ANNOUNCEMENT OF RECIPROCAL ARRANGEMENT OF THE UNITED STATES WITH GREAT BRITAIN AND FRANCE FOR GOLD TRANSACTIONS THROUGH STABILIZATION FUNDS- IT WAS SAID THAT THE AGREEMENT SIMPLY PROVIDES FACILITY FOR STABILIZATION FUNDS OF FRANCE AND GREAT BRITAIN TO EARMARK GOLD IN THE U S AND THAT NO CHANGE RESULTS IN THE STATUS OF COMMERCIAL CUSTOMERS OR BANKS OPERATING IN FOREIGN EXCHANGE

BANKERS HERE ECHOED THE OPINION EXPRESSED IN LONDON THAT THE AGREEMENT DOES NOT ESTABLISH A NEW TYPE OF GOLD STANDARD- THE OPPORTUNITY TO SHIP GOLD TO COUNTRIES WHICH MAINTAINED FIXED BUYING AND SELLING RATES HAS BEEN NIL SINCE THE RECENT DEVALUATION MOVE ABROAD AND TRADERS ARE STILL AT LIBERTY TO BUY GOLD ABROAD FOR SALE TO THE U S AN OPERATION WHICH IS POSSIBLE AS LONG AS A FREE MARKET FOR GOLD EXISTS IN LONDON

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DETROIT PRESS - October 12, 1936.

NEW YORK.--THE STABILIZATION AGREEMENT BETWEEN THE U. S., FRANCE AND GREAT BRITAIN SHOULD HAVE A STIMULATING EFFECT ON WORLD TRADE AS THE LACK OF SUCH AGREEMENT HAS TENDED TO RESTRICT INTERNATIONAL BUSINESS, FOREIGN EXCHANGE OFFICIALS SAID TODAY.

THEY MINIMIZED THE TREASURY FEELING THAT THE AGREEMENT WOULD BE A "DIVORCEMENT" OF THE SPECULATORS CONTROL OF THE FOREIGN EXCHANGE MARKET, AS THEY CONTEND THERE HAS BEEN NO SUCH CONTROL. MOST OF SUCH "SPECULATORS," THE BANKERS SAID, ARE "SMALL FRY" AND ONLY A FEW OF THEM ARE IN THE UNITED STATES.

THE BANKERS FELT THAT CHIEF EFFECT WOULD BE IN ENDING WIDE FLUCTUATIONS IN FOREIGN EXCHANGE, THUS AFFORDING AN EASIER FLOW OF GOLD TO THE VARIOUS COUNTRIES AND THEREBY STIMULATING TRADE.

LARGE FOREIGN BALANCES NOW HELD IN THE UNITED STATES AND ENGLAND LIKELY WILL NOT BE SERIOUSLY CHANGED, BANKERS BELIEVED, SINCE MANY ABROAD FEEL THAT AMERICAN BUSINESS WARRANTS THE UNITED STATES AS A SAFE DEPOSITARY FOR FUNDS. FOR THIS REASON, ALSO, THEY DO NOT ANTICIPATE ANY TREMENDOUS REPATRIATION OF FRENCH FUNDS WHICH FLOWED HERE PRIOR TO THE FRENCH DEVALUATION PROGRAM.

10/13--5120P 5

OCT 13 1936

8.45

GOLD EXCHANGE AGREEMENT

LONDON- THE BRITISH TREASURY -OSFT-PEDALLED-
TODAY ANY IMPLICATION THAT THE ANGLO-FRANCO-
AMERICAN GOLD EXCHANGE AGREEMENT MEANT TYING
THE POUND TO GOLD- FINANCIAL QUARTERS REGARDED
THE AGREEMENT AS ENCOURAGING TO MONETARY STABILI
-TY

THE OFFICIAL ANNOUNCEMENT WAS MADE IN A
TREASURY STATEMENT WORDED TECHNICALLY- IN
OFFICIAL QUARTERS IT WAS EMPHASIZED THAT THE
POUND WAS -STILL FREE-

IN A SPEECH BEFORE THE LORD MAYOR-SBANQUET
LAST NIGHT NEVILLE CHAMBERLAIN CHANCELLOR OF
THE EXCHEQUER EMPHASIZED THE NEW AGREEMENT WAS
-PURELY TECHNICAL AND INVOLVED NO CHANGE IN
POLICY NOR DOES IT IN ANY WAY ALTER THE FACT
THAT STERLING IS STILL A FREE CURRENCY-

-BY U P-

-O-

Pontak on Currency Agreement

WCNS17

LONDON.--THE BRITISH TREASURY "SOFT-PEDALLED" TODAY ANY IMPLICATION THAT THE ANGLO-FRANCO-AMERICAN GOLD EXCHANGE AGREEMENT MEANT TYING THE POUND TO GOLD. FINANCIAL QUARTERS REGARDED THE AGREEMENT AS ENCOURAGING TO MONETARY STABILITY.

THE OFFICIAL ANNOUNCEMENT WAS MADE IN A TREASURY STATEMENT WORDED SO TECHNICALLY THAT THE SO-CALLED "MAN IN THE STREET" COULD MAKE LITTLE OF IT. IN OFFICIAL QUARTERS IT WAS EMPHASIZED THAT THE POUND WAS "STILL FREE."

10/13--R930A

LONDON REACTION TO GOLD AGREEMENT

11.22

LONDON- SECRETARY OF TREASURY MORGENTHAU-S

203

GOLD POLICY IS WELCOMED HERE AS A NECESSARY
COROLLARY TO THE TRI-PARTITE CURRENCY AGREEMENT-
IT IS POINTED OUT THAT IN ORDER TO WORK WITH
AGREEMENT IT IS TECHNICALLY NECESSARY TO MAKE
GOLD AVAILABLE FOR THE ULTIMATE SETTLEMENT OF
INTERNATIONAL BALANCES- WHILE BROADLY SPEAKING
THE METHOD ADOPTED IS THAT OF A GOLD STANDARD
THERE IS A SIGNIFICANT DIFFERENCE BETWEEN THE
NEW SYSTEM AND THE OLD GOLD STANDARD IN THAT
PREVIOUSLY GOLD VALUES OF CURRENCIES WERE FIXED
IMMUTABLY WHILE UNDER THE NEW ARRANGEMENTS
AMERICAN AND FRENCH CURRENCIES ARE ONLY TEMPOR-
-ARILY FIXED AND CAN BE VARIED AS THESE GOVERN-
MENTS DESIRE WHILE THE VALUE OF STERLING IS
EVEN LESS FIXED AND WILL VARY DAILY ACCORDING TO
CIRCUMSTANCES

AMERICA FRANCE AND BRITAIN ARE THUS
BACK ON AN ELASTIC GOLD STANDARD- IT IS CONSIDER-
-ED HERE THAT THE DAYS OF PRIVATE GOLD
ARBITRAGE ARE NUMBERED IN VIEW OF THE FACT THAT
THE EXCHANGE FUNDS ARE LIKELY TO BE THE BIGGEST
OPERATORS IN THE LONDON OPEN GOLD MARKET- THE
BRITISH EQUALIZATION FUND IS ESTIMATED TO HOLD
TODAY BETWEEN 200 000 000 AND 220 000 000
POUNDS STERLING OF GOLD AND HAS THEREFORE
AMPLE RESOURCES TO START OPERATIONS- THERE IS
NO DOUBT THE BRITISH FUND WILL CONTINUE TO BUY
AND SELL GOLD AS NECESSARY WHEN THE OCCASION
OFFERS BUT IT WOULD NOT RESIST ANY PROLONGED
PRESSURE UPON STERLING SUFFICIENT TO
EXHAUST ITS GOLD HOLDING AND UNDER SUCH CIRCUM-
STANCES WOULD ALLOW STERLING TO DEPRECIATE
IN TERMS OF DOLLARS

9.50

OCT 13 1936

DOW JONES MORNING GOSSIP

WALL STREET WAS LARGELY PLEASED WITH THE LATEST TRI-PARTITE MOVE TOWARD STABILIZATION OF WORLD CURRENCIES THROUGH A NEW TYPE OF GOVERNMENT CONTROLLED GOLD STANDARD AGREEMENT BETWEEN THE THREE POWERS - THERE WAS A LESS FAVORABLE ATTITUDE TOWARD THE CURBING OF INTERNATIONAL TRADING IN GOLD THE STREET REGARDING IT AS ANOTHER MOVE TOWARD CONTROL OF FREE MARKETS - LONDON MARKETS WERE FIRM WITH RESTRICTED TRADING AND MOST OF THE CONTINENTAL MARKETS OVER OUR HOLIDAY REPORTED HIGHER PRICES - THERE APPEARS TO BE LESS TENSION OVER THE NEUTRALITY EMBORGLIO TOWARD SPAIN BUT IT IS REALIZED THAT THIS PHASE OF INTERNATIONAL IRRITATION HAS NOT YET PASSED

- -

OCT 13 1936

11.43

ADD STOCK MARKET GOSSIP

WALL STREET RETURNS FROM ITS HOLIDAY IN A FAIRLY OPTIMISTIC FRAME OF MIND - WHILE SOME BELIEVE THAT PROFIT-TAKING MAY CONTINUE MOST TRADERS ARE STILL BULLISH ON THE TREND - BROKERS ADMIT THAT THERE HAS BEEN INCREASED PUBLIC PARTICIPATION IN THE MARKET WITH SOME RATHER HURRIED BUYING OF LOW PRICED STOCKS WHICH HAVE BECOME ACTIVE AND SOME OF WHICH ARE CERTAINLY DISCOUNTING MUCH OF THEIR IMMEDIATE POTENTIALITIES

A BROKER FROM AMSTERDAM VISITING THIS COUNTRY SAYS THAT NOT ONLY HIS COUNTRY BUT THE WHOLE CONTINENT IS BULLISH ON AMERICAN TRADE OUTLOOK AS WELL AS OUR SECURITIES AND THAT IS PERHAPS THE MAIN REASON FOR THEIR NOT SELLING MUCH STOCK ON THE DEVALUATION SITUATION

MANY IN THE STREET BELIEVE THAT TRADE IS COMING UP TO EARLY EXPECTATIONS AND IN SOME DEPARTMENTS IS GOING AHEAD OF THE OPTIMISTIC PREDICTIONS MADE IN THE LATE SUMMER -AT THE SAME TIME STOCKS HAVE OFTEN ENOUGH GONE AHEAD OF THE MOST BULLISH FORECASTS AND THE LINE OF DEMARCATION WHERE THE DISCOUNTING PROCESS HAS CAUGHT UP WITH TRADE EXPECTATIONS IS PRETTY NARROW IN MANY INSTANCES SO THAT WARY TRADERS HAVE BEEN TAKING PROFITS IN CERTAIN ISSUES

1244
FRENCH REACTION TO GOLD STEP

PARIS - REACTION IN PARIS FINANCIAL CIRCLES
TO THE AMERICAN GOLD ACTION WAS GOOD ESPECIAL-
LY AS IT AFFORDS THE FIRST DEFINITE PROOF THAT
THE INTERNATIONAL MONETARY AGREEMENT IS MORE
THAN A SCREEN TO COVER FRENCH DEVALUATION

IT IS INTERPRETED HERE ESSENTIALLY AS A
TRIANGULAR UNDERTAKING TO SELL AS WELL AS BUY
GOLD AND ULTIMATELY WILL OPEN THE ROAD TO A
RETURN OF METAL TO EUROPE

OCT 13 1936

NEVERTHELESS THE EXTREMELY TENTATIVE
CHARACTER IS STRESSED SINCE IT CAN BE DENOUN-
CED WITHIN 24 HOURS

EXCHANGE TRADERS IN PARIS SUPPOSE THAT
THE RATES AT WHICH LONDON AND PARIS WILL SELL
GOLD TO ONE ANOTHER AND WITH NEW YORK WILL BE
FIXED DAILY AND THAT THE METAL WILL BE EARMARK-
ED AND NOT SHIPPED

AN OUTSTANDING FINANCIAL EDITOR DESCRIBES
THE SITUATION LIKE AN ARMED PEACE OR ARMISTICE
BUT COMMENDS IT AS PRECLUDING A CURRENCY WAR-
ANOTHER EDITOR EXPECTS FURTHER TECHNICAL
AGREEMENTS AS EXPERIENCE TEACHES

FRENCH REACTION TO GOLD STEP 12.44

PARIS - REACTION IN PARIS FINANCIAL CIRCLES
TO THE AMERICAN GOLD ACTION WAS GOOD ESPECIAL-
LY AS IT AFFORDS THE FIRST DEFINITE PROOF THAT
THE INTERNATIONAL MONETARY AGREEMENT IS MORE
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ANOTHER EDITOR EXPECTS FURTHER TECHNICAL
AGREEMENTS AS EXPERIENCE TEACHES

-0-

PRIVATE U S GOLD EXPORTS TO BELGIUM
STILL LEGALLY POSSIBLE

1.59

OCT 13 1936

WASHN - EXPORTS OF GOLD FROM THE U S
TO BELGIUM BY BANKS OR PRIVATE INDIVIDUALS ARE
STILL LEGALLY POSSIBLE IF THE DOLLAR SHOULD
FALL TO THE EXPORT POINT AGAINST THE BELGA
TREASURY OFFICIALS SAID

WHETHER GOLD EXPORTS BY PRIVATE
INTERESTS WOULD BE LICENSED UNDER SUCH
CIRCUMSTANCES HOWEVER IS A QUESTION WHICH
THE TREASURY DECLINED TO ANSWER DEFINITELY

NOTHING IN SECY MORGENTHAU-S ANNOUNCEMENT
YESTERDAY CHANGED THE OLD GOLD REGULATIONS
WHICH PERMITTED ALMOST AUTOMATIC PRIVATE EX-
PORTS OF GOLD TO A GOLD STANDARD COUNTRY IF
AND WHEN THE DOLLAR REACHED THE EXPORT POINT
THE TREASURY ASSERTED - BUT WHETHER THESE REG-
ULATIONS WOULD CONTINUE UNCHANGED IN THE FACE
OF AN ACTUAL SITUATION IS PROBLEMATIC - IN
THE MEANTIME THE TREASURY THROUGH ITS EXCHANGE
CONTROLS EVIDENTLY WILL ATTEMPT TO KEEP
THE DOLLAR FROM FALLING TO THE EXPORT POINT

-0-

AMSTERDAM

DOW JONES - October 13, 1936.

208

OCT 13 1936

10.43
HOLLANDS ATTITUDE ON GOLD AGREEMENT

AMSTERDAM - HOLLAND WILL FOR THE TIME
BEING NOT JOIN THE NEW GOLD AGREEMENT AS THE
OBJECT OF THE ACCORD IS TOO LIMITED -
THEREFORE THERE WILL BE NO ALTERATION IN THE
DUTCH GOLD DELIVERY POLICY

-0-

OCT 13 1936

12.17

ITALIAN GOVERNMENT DECREES

ROME-U P- THE ITALIAN GOVERNMENT TO PREVENT
PRICE INCREASES AS A RESULT OF THE LIRE-S DE-
VALUATION OPENED MARKETS TO A LARGER VOLUME OF
FOREIGN GOODS TODAY

THIS WAS DONE IN TWO WAYS

- 1- BY LOWERING CUSTOMS DUTIES
- 2- BY LIBERALIZING IMPORT QUOTAS

A LIST OF QUOTAS FOR THE LAST THREE MONTHS
OF THE YEAR MADE PUBLIC INDICATES THAT ITALY IS
WILLING TO TAKE A LARGER VOLUME OF FOREIGN
GOODS THAN FORMERLY

COMPARATIVE QUOTAS FOR THIS TRI-MESTER AS
COMPARED WITH THE LAST FOR A FEW REPRESENTATIVE
FOODSTUFFS ARE- POULTRY 800 000 LIRE 750 000
LIRE- EGGS 8 000 000 LIRE 850 000 LIRE-
POTATOES 11 000 000 LIRE 650 000 LIRE- DRY COD-
FISH 20 000 000 LIRE 7 000 000 LIRE AND COFFEE
73 500 000 LIRE 36 500 000 LIRE

-0-

845
OCT 13 1936
REUTERS BASLE DISPATCH SAYS THE URGENT NEC-
-ESSITY OF ENSURING GENERAL STABILITY OF THE
WORLD CURRENCIES WAS INSISTED UPON IN A RESOLU-
TION ADOPTED BY THE ADMINISTRATIVE COUNCIL OF
THE BANK FOR INTERNATIONAL SETTLEMENTS AT A
MEETING HELD IN BASLE ON MONDAY
--

9361 81 130

9.26 a.m

GOLD EXCHANGE AGREEMENT

TOKIO- REUTERS- OFFICIAL CIRCLES APPROVE
THE LATEST DEVELOPMENT IN THE TRI-PARTITE
MONETARY AGREEMENT AND DECLARE JAPAN HAS NO
INTENTION OF LOWERING YEN EXCHANGE BELOW ITS
PRESENT QUOTATION

-0-

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 14, 1936

211

~~115~~

TO Secretary Morgenthau
FROM Herman Oliphant

You will recall that in December, 1934 and in March, 1935, you, with the approval of the President, issued licenses to the Central Banks of Guatemala and Mexico authorizing them to acquire certain amounts of gold from the United States in order to build up their monetary reserves. Each time you issued such licenses you obtained the approval of the President.

In order to make it possible for the Department to issue such licenses immediately in such special cases, a letter dated March 25, 1935, was sent by Coolidge as Acting Secretary to the President asking for blanket authority to sell gold to any foreign government or foreign central bank at the \$35 price whenever the Secretary of the Treasury deemed such sale to be in the public interest. The President approved such letter and it is sent to you to be kept with other documents of the same character.

We have not found anything in the files to indicate that the Federal Reserve Bank of New York or the public has been advised of the existence of such letter.

Herman Oliphant



THE SECRETARY OF THE TREASURY
WASHINGTON

MAR 25 1935

The President

The White House

Dear Mr. President:

I have heretofore, with your approval, issued licenses to the Central Banks of Guatemala and Mexico authorizing the acquisition from the United States of gold which such banks stated they needed to augment their monetary reserves. You indicated your approval of the issuance of such licenses by signing the notation at the foot of letters dated December 11, 1934 and March 16, 1935, photostatic copies of which are enclosed.

I think it would be desirable for the United States to sell gold in reasonable amounts to foreign governments, foreign central banks, and the Bank for International Settlements which need gold to build up adequate monetary reserves and for other purposes.

In reply to this Department's request for a statement of its views on this matter, the Federal Reserve Bank of New York stated:

"* * * As we see it, sales of gold by the Treasury under the circumstances described might be regarded both as of possible future benefit to our foreign trade and as tending to the ultimate reestablishment of monetary stability in foreign countries. Furthermore, the adoption of this policy would enable Latin-American central banks of issue, such as the Banco Central de Guatemala, subject to the conditions outlined, to obtain gold in the United States, where there is now no free gold market, instead of being obliged to sell dollars in order to purchase the gold either in the gold market in London or from the Bank of France."

I am in general accord with the views thus expressed.

Accordingly, subject to your approval noted at the foot hereof, I propose to sell gold to any foreign government or foreign central bank (including the Bank for International Settlements) at the price provided for in Section 44 of the Provisional Regulations issued under the Gold Reserve Act of 1934 whenever such sale would be in my judgment advantageous to the public interest and not inconsistent with the purposes of such Act; and will at the same time license the purchaser under Section 54 of such regulations to acquire, transport, and export the gold or deliver it to the New York Federal Reserve Bank to be held under earmark for the foreign government or central bank.

Faithfully yours,



Acting Secretary of the Treasury.

APPROVED:


THE WHITE HOUSE

March 25, 1935

Enclosures.

October 14, 1936
9:48 a.m.

Operator: Mr. Knoke.

Knoke: Good morning, Mr. Secretary.

H.M.Jr: Hello, Mr. Knoke. Mr. Taylor and Lochhead are in here with me. Now what's your feeling on sterling this morning?

K: Well, so far as to trend, there is no indication at all.

H.M.Jr: Yes.

K: At the present level, I would very decidedly suggest not stepping into it, but rather see what - where sterling may settle down.

H.M.Jr: Yes.

K: We might - we could step in and make a little money but I don't see that to be the purpose of it.

H.M.Jr: Well, as I understand from Lochhead, you have an order to buy 20,000 pounds.

K: No - no -

H.M.Jr: For October -

K: Chase told us that they had to sell 25,000 at 4.89-1/2, but as I also told Lochhead that is the Chase method of finding out what we are doing.

H.M.Jr: Yes. Wait a minute. Archie will talk to you - just a minute - he says -

Lochhead: Hello, Knoke.

K: Yes.

L: Just as I came in here, they told me they had had an offer of 200,000 ounces of silver from London at the fixed, which we told them to take for the Export-Import Bank -

K: Well -

L: - and so, therefore, they'll be trying to cover the sterling on that.

K: Oh, I see.

L: And so that will give a test to see where the market really is.

-2-

K: I see.

L: But that's the order I meant. It's for the account of the Export-Import Bank.

K: Yes.

L: And they're holding - their account covers that -

K: Well, they're calling me on the other phone so that -

L: I see. They're probably maybe calling you now to say what they done on it.

K: Yes.

L: O.K.

H.M.Jr: Knoke?

K: Yes.

H.M.Jr: You say - what is this feeler you had from the Chase?

K: Well, he said he had 25 here to sell, 25,000 pounds, he said.

H.M.Jr: Oh.

K: At 4.89-1/2.

H.M.Jr: Yes.

K: And rather - he gave me the feeling that he wanted - just wanted to find out what we were doing. I simply said, 'Why we have no interest.'

H.M.Jr: No interest?

K: Yes.

H.M.Jr: Yes. Well, I - I don't want the thing to slip too much today.

K: No, I - I fully appreciate that and there is nothing to indicate at the moment that it will, but I certainly -

H.M.Jr: Well, it's down a half a point. Half a point.

K: Yes - well, I mean - yes, that's right. From - down

-3-

from the closing, but you see we held it at what may have been a little higher level than it should have closed at.

H.M.Jr: I see.

K: So far there's none of the banks here have any - any orders either way to amount to anything.

H.M.Jr: But you don't see any reason why we shouldn't buy before twelve o'clock.

K: On the contrary, we ought to.

H.M.Jr: Good.

K: But we should not - I think we shouldn't buy when the thing just breaks even.

H.M.Jr: Well, I'm going to call you again at ten after because I'm going this morning for a little exercise, and I'll call you again in about fifteen minutes.

K: All right, sir.

H.M.Jr: Thank you.

K: Five after ten this morning.

H.M.Jr: 9:50 - 9:50.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: October 14, 1936, 4 p.m.

NO.: 1001

FROM COCHRAN.

Paris exchange market quite active, franc weak against all leading currencies except sterling. Bank of France said to have acquired large amount of sterling. Dollars scarce here and Bank of France increased its price from 21.43 to 21.46 and three-eighths. Dollars also said to be strongly bid in London at 4.8975. Although there were some professional sellers on the market yesterday evening due to German note over Thorez speech, no uneasiness over this matter evident today and Bourse has been strong with rentes up and internationals making important gains. At 3:30 this afternoon there was current on the exchange market a report alleged to have come from Basel that Schacht had resigned.

At noon today I had a telephone conversation with the BIS economist, Jacobsson, but nothing was mentioned of such a possibility at that time. However, he did say that the resident officers of the BIS, and particularly Hechler, the German assistant manager, were quite provoked when they learned yesterday morning that the three powers had consummated a further arrangement of intense interest to central bankers - which had been done the day after their directors' meeting and after the directors left for their respective capitals.

Jacobsson told me that Beyen was considering the

- 3 -

propriety of cabling the federal that this new move is good so far as it goes, but that the BIS would like to see further developments along this line. I made the suggestion to Jacobsson that for the present it might be preferable not to say anything.

I sent to Jacobsson and Beyen copies of the State Department's radio bulletin account of the press comment of the Secretary of the Treasury on the gold arrangement just consummated.

It is the opinion of Baumgartner that the Paris press reception of the arrangement has been quite good. The "twenty-four hour" feature - the most vulnerable point - was the object of some political sniping. However, French technical writers genuinely appreciate that this constitutes a big step forward.

Frederic Jenny, for instance, explained our rules about releasing gold only to central banks when gold export points reached and pointed out that instead of now forcing gold arbitrage between the United States and rest of the (omission) through the too narrow channel of the National Bank of Belgium, Washington chose the present plan. Jenny says Secretary Morgenthau's declaration

END SECTIONS ONE AND TWO.

BULLITT.

EA:LWW

LMS

GRAY

Paris

Dated October 14, 1936

Rec'd 6 p. m.

Secretary of State,
Washington.

1001, October 14, 4 p. m. (SECTION THREE)
brings to three power agreement an indispensable complement and he considers that the American decision implies a rapprochement of the English and American points of view in the monetary domain. Jenny concludes: "If we are still far from real stabilization, the modification of the American gold policy completing the tripartite monetary agreement seems indeed none the less of a nature to bring us closer to this stabilization. That is why the importance of it appears to be real".

London press appears unanimously favorable to the gold arrangement. FINANCIAL TIMES today carries following headlines "Gold and currency pact welcomed. Sharp check on activities of speculators. Exchange funds of 850 million pounds can operate more thoroughly. Move towards revival of international trade".

LONDON TIMES today says under "City Notes":

"The announcement that Great Britain, France, and the United States had agreed in conformity with their
exchange

LMS 2-No. 1001, October 14, 4 p. m., Sec. 3, from Paris.

exchange stabilization plans that the exchange control funds should be able to convert the paper currencies they bought into gold made a good impression in the city. It made a good impression for several reasons; in the first place it showed that each country realized that the only satisfactory maneuvering

BULLITT

SMS:NPL

LMS

GRAY

Paris

Dated October 14, 1936

Rec'd 8:15 p. m.

Secretary of State,
Washington.

1001, October 14, 4 p. m. (SECTION FOUR)

for exchange funds was gold and not paper currencies; secondly, that each country was in earnest in its desire to promote stabilization by a return to the gold standard; and thirdly, that America by relaxing her restrictions on the export of gold is not less ready than other countries to cooperate in this vitally important matter. Convertibility, of course, will not extend to the private individuals until stabilization de jure takes place which will not occur in the immediate future. But suggestions that speculators are responsible for currency chaos are not wholly justified. Businessmen who realize that certain policies must lead to the depreciation of currency are entitled to protect themselves against consequential heavy losses by purchases of gold if they can do so. They are guilty of no offense other than of insuring themselves against loss. They have to rely upon their own judgment in these matters for it usually happens that depreciation
of

LMS 2-No. 1001, October 14, 4 p. m., Sec. 4, from Paris.

of a currency takes place almost in the face of repeated official denials."

FINANCIAL NEWS, fourteenth, began its story as follows:

"The announcement of the three power gold pact was well received in the city yesterday. Gold earmarking facilities are regarded as essential for the smooth working of international exchange control. Considerable

BULLITT

SMS-NPL

LMS

GRAY

Paris

Dated October 14, 1936

Rec'd 6:29 p. m.

Secretary of State,
Washington.

1001, October 14, 4 p. m. (SECTION FIVE)
dissatisfaction was expressed at widespread misinterpretation of the agreement as an informal stabilization of sterling. The new arrangement is designed merely to assist technical cooperation between the monetary authorities and in no way indicates any limits within which sterling will be maintained. Foreign financial centers generally warmly welcomed the new arrangements".

Press reports from the Netherlands indicate that Dutch are reserving for the present any decision on adhering to this new system. The point is made that their stabilization fund already the facility for converting its foreign currency holdings into gold on the London market.

German press now less inclined to minimize the three power agreement and such papers as FRANKFURTER ZEITUNG revealing some apprehension lest Germany may have missed an opportunity. (END OF MESSAGE)

BULLITT

RGC:SMS

COPY
Incoming Cablegram

London, October 14, 1936.

Federal Reserve Bank of New York

New York

No. 266/36 CONFIDENTIAL FOR KNOKE

- ONE With reference to your cable No. 237/36 and recent telephone conversations please open in the name of the Bank of England in your books a new dollar account G and gold deposit account No. 3. We shall use these accounts exclusively for the purpose of clearing any exchange control operations.
- TWO We shall advise you daily of the London gold price at which price we shall be prepared to buy from or sell to you gold to settle any control transactions in sterling you may undertake up to your close of business on that day. Similarly we shall advise you of any dollar transactions as a result of which we either earmark or release gold with you at your published price.
- THREE As requested we have opened a new sterling account No. 3 in the books of the Bank of England in your name and a new gold deposit account B
- FOUR In accordance with your No. 239/36 we have today sold to you 20954.611 fine ounces gold at 141sh.11d. which we will set aside on your behalf on gold account B and we have today debited your sterling account No. 3 with £148,690:8:7

Chief Cashier
Bank of England

October 14, 1936.
10:13 a.m.

H.M.Jr: Hello?

Operator: Mr. Knoke.

Knoke: Yes, sir.

H.M.Jr: Knoke, how are things now?

K: We are bidding in the market 5/16ths.

H.M.Jr: Fine. Well now, Knoke -

K: Yes.

H.M.Jr: I want this market unless - I want you to try to keep it at 4.89-1/2.

K: Yes.

H.M.Jr: See?

K: Yes.

H.M.Jr: Now I don't want you to do it in a jump but I want you - I want it to be aggressive, and I don't want it to go - I want to close it up if it's possible at 4.89-1/2.

K: Yes.

H.M.Jr: See?

K: All right.

H.M.Jr: Now, Mr. Taylor and Mr. Lochhead are both in the room, and Lochhead tells me that we could buy gold - buy sterling up to 4.89-3/4 and it would be all right.

K: Yes. What - what Lochhead means at 4.89-3/4 cost to us, we couldn't bid more than 4.8960 in the market though because of the - of the charges which we have -

H.M.Jr: 4.89 what? Sixty - well, all I'm saying is 4.8950.

K: Yes.

H.M.Jr: See?

K: Yes. Yes, that leaves leeway for us.

- 2 -

H.M.Jr: What's that?

K: There's enough leeway for us there.

H.M.Jr: Do you know any reason why we shouldn't?

K: No - no very valid reason.

H.M.Jr: All right. All right. Now you go ahead and keep in touch with Lochhead, and I'm - I'm willing to go in and be aggressive and try to keep this thing at 4.89-1/2, which means a drop of a half a cent.

K: Yes.

H.M.Jr: - today which is enough.

K: Yes.

H.M.Jr: See?

K: Yes. All right.

H.M.Jr: Please.

K: Yes. All right, sir.

H.M.Jr: Thank you.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 14, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHL. W. KnokeBANK OF ENGLAND.

I called Mr. Bolton at 11:46 today to tell him that we were operating in this market, buying sterling at 4.89 5/16 and had purchased so far about £200,000. The supply was furnished, as far as I could make out, by the Far East, by London, by the cotton trade and stock exchange houses, the latter obviously in connection with buying of our securities. Bolton seemed to be much interested in these purchases of securities. I told him, for his own ears, that I estimated ~~it~~^{them} at in excess of \$5,000,000 for yesterday, about half of which probably for British account. With regard to the latter figure, Bolton suggested that a substantial part of that originated in Paris and Amsterdam but was concentrated in London.

I asked what their operations had been today and he replied, "Nil, except that as a result of their supplying the market with French francs for account of the French Fund, they had lost about £1,000,000 in gold today to the Bank of France. Repatriation of Swiss capital, he said, had died down after running into big figures during recent days. The Swiss National Bank had been buying gold in the London market through commercial banks at an enormous clip, so much so, as a matter of fact, that the Bank of England went after them. Today the market was as a result under control and being supplied with Swiss francs (which I take it means that the Swiss Bank now concentrates its London business with the Bank of England). I inquired what total he estimated the capital flow to Switzerland had

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 14, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHL. W. KnokeBANK OF ENGLAND.

- 2 -

reached and Bolton suggested a total of £25,000,000 in addition to a similar amount transferred to France. I inquired what the Swiss attitude was vis-a-vis the arrangement just completed. Bolton thought so far the Swiss had shown no desire to enter into an arrangement with the British. He summed up the conversation with the comment that for the moment the British were losing gold to everybody. I asked whether that upset him; he replied, "No," he would let me know when it did.

 LWK:KMC

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 18, 1936.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knoke

WITH BANK OF ENGLAND.

I called Mr. Bolton at 11:30 today. Things were very quiet in London, he said, guilders rather firm on substantial buying of Dutch securities for London account.

I mentioned that I had just been looking over reports of the exchange position of our banks and found that the whole sterling short position as reported was only a few million dollars, this in reply to a question he had raised a couple of days ago. I referred to the weekly order on gold which we had continued to renew and asked whether they were still interested in having it. Bolton was very emphatic in stating that the order was very useful to him. As regards their present gold losses, he stated that they were small, probably about £500,000 a day, representing capital going back to France and Switzerland. This was of course very moderate compared to a few days ago when the movement had been rather alarming at one time. The figure of half a million pounds mentioned above and that of 25 million pounds mentioned during recent telephone conversations, Bolton explained, represented the gold lost by the Fund; additional amounts equal in size were transferred out of the liquidation of hoarded gold. These figures of course were nothing but rough guesses. I mentioned that the Swiss had sent us a cable evidencing some interest in operating with us in gold and I indicated the substance of our reply. Bolton inquired whether we had had similar inquiries from others and I answered that cables had been received from the Belgians, the Bulgarians and the Swedes, but that it was not quite clear to us what they had in mind. With reference to the Swiss, Bolton stated, the British had had some

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE **October 16, 1936.****CONFIDENTIAL FILES**SUBJECT **TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.****L. W. Knoke**

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sort of an arrangement with them to buy and sell gold from time to time but there was nothing cut and dried to it.

LWK:KMC

October 14, 1936
3:35 p.m.

Operator: Mr. Knoke.

Knoke: Yes, Mr. Secretary.

H.M.Jr: How are things going?

K: We are bidding 7/16ths.

H.M.Jr: Yes.

K: At 3/8s we only got 25,000 pounds.

H.M.Jr: Yes.

K: Since we put in the ^{bid of} 7/16ths, we haven't bought any yet.

H.M.Jr: Yes. Well, I'd say that was very satisfactory, wouldn't you?

K: Yes, I think the - I think our buying this morning at 5/16ths seems to have taken out of the market the excess supply.

H.M.Jr: Yes. Well, I'll call you a little later.

K: All right, sir.

H.M.Jr: We could get it up -- 3:50.

October 14, 1936
3:50 p.m.

H.M.Jr: Hello?

Operator: Mr. Hogate.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello?

Hogate: Hello, Mr. Secretary.

H.M.Jr: How's my fellow publisher?

H: (Laughs) He's quite an advertiser, don't you think?

H.M.Jr: (Laughs) Say, listen, any time you want a good promotional idea, I'll give it to you free.

H: Well, you know I've always heard that once a newspaper man, always one, and I believe that after that swell idea you gave me.

H.M.Jr: Say, nothing has happened in 4 years that has given me as good a belly laugh as that advertisement.

H: (Laughs) I thought you'd get a great kick out of that ad.

H.M.Jr: God, I hope that Arthur Sulzberger never finds out that I made the suggestion.

H: He never did, and I hope that he doesn't raise hell that we used his editorial (laughs).

H.M.Jr: Yes.

H: I may have to run to you for help (laughs).

H.M.Jr: I bought the Sun last night on the way home, and I saw it -

H: Oh, did you? Well, I - I - I -

H.M.Jr: I've been showing it to everybody who comes into my path, and Herbert Gaston, who's a good newspaper man, he said he thinks it's the best story of the year.

H: I - I think it's - it's beautiful and the funny thing is I didn't hear a word out of the Sun, and

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I expected - I expected after it ran in one edition, that I'd hear from Mr. Stewart about it (laughs).

H.M.Jr: Well, as a matter of fact, it was very cleverly worded, and whoever wrote the copy did a swell job.

H: Well, that will please the gentleman, and with your permission I'll tell him that. One of our boys wrote it here, and I thought he did a good job.

H.M.Jr: Well, I don't think - I think you better keep that to yourself.

H: Well, I guess you're right.

H.M.Jr: Have you had any comment on it?

H: Yes, I've had several people call me up and kid me about it.

H.M.Jr: They kid you?

H: Some of them got the full significance, too, because they knew what the Sun had done, see?

H.M.Jr: I see.

H: I think it caused a good deal of - of comment. I must have had a dozen or so telephone calls about it today.

H.M.Jr: Good.

H: I -

H.M.Jr: Well, I got a great kick out of it.

H: Well, I knew you would. I didn't - did you get my letter with the ad in it?

H.M.Jr: It just came in now and -

H: Oh, did it?

H.M.Jr: - I've been wanting to call you and I was out this morning, and then I got your letter, and -

H: Well, I didn't know whether that would get to you or not.

H.M.Jr: Oh, yes - oh, yes.

H: (laughs).

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H.M.Jr: Well -

H: I got a great kick out of it. It's -

H.M.Jr: Well, I - it's that kind of an ad which makes talk which ought to - which is a thing which you can't do very often in a publishing business.

H: That's right.

H.M.Jr: Yes.

H: Well, it was one of those things, you know. Seriously or not, it was a darn good suggestion you made to me, and on top of that, it was a darn good thing for you to have it printed that way.

H.M.Jr: Oh, absolutely.

H: Yes.

H.M.Jr: And - and particularly in the Sun.

H: Yes. Well, I thought it did more good there than any place I could put it.

H.M.Jr: Absolutely (laughs).

H: (laughs).

H.M.Jr: Well, I hope you get - I hope you get about 10 full pages of advertising as a result of it.

H: (Laughs) Well, I hope I do.

H.M.Jr: All right.

H: You may be interested in some - some Government bond advertising. I think we could sell those.

H.M.Jr: (Laughs).

H: (Laughs).

H.M.Jr: Attaboy.

H: (Laughs).

H.M.Jr: (Laughs).

H: All right - thank you so much for calling me.

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H.M.Jr: Goodbye.

H: How is - how - how is the comment on gold all along the line?

H.M.Jr: Everything is fine.

H: I thought so.

H.M.Jr: I read all the papers this morning very carefully and having an awful hard job being snooty about it.

H: Yes. The Tribune tried to be - tried to be.

H.M.Jr: Yes. Well, they didn't do a very good job.

H: No. They didn't do a very thorough job.

H.M.Jr: No.

H: And the Sun had to call Mr. Kimmerer to their assistance last night.

H.M.Jr: Yes.

H: You saw that probably.

H.M.Jr: I saw that and I also saw their despatch from London which was rather silly.

H: Yes.

H.M.Jr: And I should think their readers after while would sort of lose confidence in - in their news columns when they print that kind of stuff.

H: Well, there's - there's too much of that kind of stuff going on.

H.M.Jr: Yes. But the other foreign cables, I thought, and I thought the Associated Press story was very good.

H: It was - it was very fair.

H.M.Jr: Yes, I - I haven't got any kick, and the main thing is it's a really constructive move, and it's going to help America. That's the main thing.

H: I don't think there's the slightest doubt about that.

H.M.Jr: Yes. It's really - I mean, if this was three weeks after election instead of three weeks before, everybody would admit that it's a move in the right direction.

H: Everybody would have said it's a fine thing.

H.M.Jr: Righto.

H: Say, some day aren't you going to have to - aren't you going to have to say something about what you're doing in that fund?

H.M.Jr: Yes. I think we will when we ask for the extension.

H: Yes. Well -

H.M.Jr: We got a good story.

H: I - I got just one thing to suggest to you on that.

H.M.Jr: Yes.

H: I'd like awfully well to have a leak on that a day or so ahead - an hour or so ahead - a day or so ahead.

H.M.Jr: I see.

H: I don't mean definite but just the general idea on the thing.

H.M.Jr: Well, after election, I want to sit down and have a good heart-to-heart talk with you.

H: All right.

H.M.Jr: And then - then we can again talk as - ah - ah -

H: (Laughs)

H.M.Jr: - as a couple of Dutchess County farmers.

H: Well, we haven't - we haven't had much separating in any way at any time, I don't think.

H.M.Jr: No, but I - I want very much to talk to you about it.

H: All right, fine. Well, maybe we can do it in Dutchess County.

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H.M.Jr: Righto.

H: Thank you so much for calling.

H.M.Jr: Goodbye.

H: Goodbye, Mr. Secretary.

October 14, 1936
4:30 p.m.

H.M.Jr: You got about 100?

K: Yes, 95,000 pounds so far, and we might pick up a few odds.

H.M.Jr: Well, I'll - I'll take another hundred.

K: Yes, that's - that's -

H.M.Jr: I don't want it to go - the more I thought - I don't want it to go below 4.90 today.

K: Yes, and well - I think you can rest assured it won't go there.

H.M.Jr: And now I think we'll convert.

K: You think we'll convert?

H.M.Jr: Yes.

K: All right.

H.M.Jr: After all, that quarter of one per cent is ours, and if you figure it as the Bank of England figures it - Knoke says - Lochhead says it works out 4.90.

K: That's right.

H.M.Jr: What?

K: That's - it works out 4.90 allowing for interest, etc.

H.M.Jr: Yes.

K: So at 4.90, we could - we break even but here when we bid 4.90 in the market, we have to add certain charges which are 15 points.

H.M.Jr: Yes, but -

K: So we really pay for the sterling 4.9015.

H.M.Jr: But that's even when you don't pay any one quarter handling?

K: Well - no, that will bring up - with a quarter per cent you are easily in clover.

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H.M.Jr: Yes, we got 10 points to the good.

K: That's right - yes, offhand, I don't know, but at least you are to the good.

H.M.Jr: What?

K: You are - you are to the good on that.

H.M.Jr: Yes, Archie says he has figured it.

K: Oh, I see.

H.M.Jr: He says about a point and a quarter to the good.

K: Yes.

H.M.Jr: So whatever we think - I think we might as well start working it. After all, we figured it out that on \$100,000, we lose what? (Pause during which H.M.Jr. speaks to some one in his office) He says \$25 and \$30 -

K: On what?

H.M.Jr: On \$100,000.

K: We lose?

H.M.Jr: Well, I mean if you figured the quarter - if we paid the quarter - the 15 points.

K: Yes.

H.M.Jr: The 15 points on \$100,000, as he says is - is what? About \$25 or \$30.

K: Yes - \$30.

H.M.Jr: Well, now - and if the quarter - we're paying that to ourselves, so we make a little on it.

K: That's right - that's \$250.

H.M.Jr: And if the English figure it, it looks like 4.90.

K: Well, as far as - yes - as far as the English are concerned we wouldn't give them the rate anyhow.

H.M.Jr: No.

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K: We won't give them the rate at which we buy. We simply tell them that we - that they are to receive so and so much sterling.

H.M.Jr: Yes. Well, I think that whatever we do - I'll wait here another 5 or 10 minutes and call you back.

K: All right, sir.

H.M.Jr: Have you any good reasons to give why we shouldn't convert?

K: Well the - my - my one reason is this - that I think it would have looked a little - but I said to Lochhead before - a little less hoggish if we - if we don't step in just the moment we can break even.

H.M.Jr: Well -

K: Well, that's all right.

H.M.Jr: I wouldn't use the word 'hoggish'. I think that's -

K: Well - (laughs) Mr. Secretary, that's why I said - I wouldn't have said that to you -

H.M.Jr: Oh.

K: That's what I said - I said to Lochhead before.

H.M.Jr: No, I don't (laughs). He says what do you mean by talking to him like that? Well, no, I just meant - I don't see why it doesn't look all right.

K: Well, I've no strong feeling of that.

H.M.Jr: You have no strong feeling?

K: I would - no - my - my suggestion before was to - to let it drop an eighth below - to 4.89-7/8.

H.M.Jr: No, I didn't want to do that.

K: Well, that's all right. You have good reasons there.

H.M.Jr: Now, it's a public relations matter, -

K: Yes.

H.M.Jr: - and on that my hunches have been pretty good up until now.

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K: All right, sir.

H.M.Jr: I mean I - I mean don't want it to go below 4.90.

K: Yes.

H.M.Jr: So let's say we'll convert.

K: Yes.

H.M.Jr: And we'll - we'll blame Archie.

K: (Laughs) All right.

H.M.Jr: (Laughs) All right.

K: All right, sir.

H.M.Jr: All right.

4:50 - 4:50.

October 14, 1936
4:35 p.m.

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H.M.Jr: How do we stand now?

Knoke: We have a total of 573,000 pounds -

H.M.Jr: Yes.

K: - of which 55 were done at 7/16ths, -

H.M.Jr: Yes.

K: At which price the City and the Central Hanover are now bidding.

H.M.Jr: They're bidding at what?

K: 7/16ths.

H.M.Jr: 7 - they're bidding?

K: Yes, on - on our behalf.

H.M.Jr: Yes. Well, I don't think we'll force it another sixteenth.

K: Well, that's - that's - I was hoping you wouldn't.

H.M.Jr: No - no.

K: All right; that's fine. Then I'll leave that in -

H.M.Jr: Yes.

K: - another 15 minutes -

H.M.Jr: Yes.

K: - and I think we'll have the market closing at 7/16ths.

H.M.Jr: All right; I'll talk to about five o'clock. Call me at five o'clock.

K: I shall call you - all right.

H.M.Jr: Thank you.

October 14, 1936
4:57 p.m.

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Operator: Hello? Put Mr. Knoke on.

H.M.Jr: Hello, Knoke? Hello?

Knoke: Hello?

H.M.Jr: Hello, Knoke?

K: Yes, sir.

H.M.Jr: Well, are you going to put them to bed?

K: Yes, I hope so. We've done another 25 plus 20, another 45,000.

H.M.Jr: Making how much?

K: 668,000.

H.M.Jr: Well, that's all right. At what - at what price is she bid?

K: 7/16ths.

H.M.Jr: Very nice. I'm satisfied.

K: 668,000 pounds closing at 7/16ths.

H.M.Jr: All right, and then we'll give them the order to convert.

K: Yes, we'll cable them tonight on that.

H.M.Jr: And how are you sleeping?

K: How am I what?

H.M.Jr: How are you sleeping?

K: (Laughs) Thank you - very well, not at the office but at home.

H.M.Jr: (Laughs) I meant at home.

K: (Laughs).

H.M.Jr: I mean are you feeling all right?

K: Oh, yes, I'm feeling very well.

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

K: Thank you, sir.

H.M.Jr: Goodnight.

K: Goodnight.

H.M.Jr: 5 o'clock - 5 o'clock.

October 14, 1936
5:10 p.m.

Knoke: - for the Chase.

H.M.Jr: Yes.

K: And we had 60,000 pounds with the Central Hanover.

H.M.Jr: Yes.

K: That may be increased by 5 or 10 --

H.M.Jr: Yes.

K: - but I'll know in the next few minutes. Roughly, about 150,000 pounds.

H.M.Jr: All right. And then you'll get off the cable?

K: A cable - I have it right before me here.

H.M.Jr: Well, I'll let Archie go to his room and you can - he can clear it with you. He'll be in there in a minute or two.

K: All right, sir.

H.M.Jr: Thank you.

K: Good night.

October 14, 1936
5:10 P. M.

Mr. White, Mr. Taylor, Mr. Lochhead, Mr. Oliphant, accompanied by Mr. Livesey of the State Department, met with the Secretary.

The Secretary said to Mr. Livesey, "Here is the proposition. If you will read this incoming cable from the Swiss National Bank, and this is the proposed answer. Here is the point. The way I feel, Livesey, if we send them that regular kind of formal thing, I don't want to hurt their feelings and the question I have raised is should we ask the Swiss Minister, through your Department, to come in and say to him this matter is up and if the Treasury of Switzerland wants to take it up with the Treasury of the United States, we will be very glad to talk with them."

Mr. Livesey inquired, "Haven't they selected their channel? It may be a matter of some delicacy over there. Wouldn't it be better to go back through the same channel?" The Secretary answered, "Yes. But in every other case, we have had to seek a new channel to do this thing. After all, 1933 fell down, right along, because it was done through the Central Banks. This time it is done through the Treasuries and, in all the conversations, the President has been very insistent always to use the word 'Treasury'. I was just thinking. We have taken the leadership in this thing. You don't have to answer me tonight. And I was just thinking, wouldn't it be the nice thing if I sent for the Swiss Minister and said, 'We are not doing this thing any more through the Central Banks until we come to an agreement. Now if your Treasury wants to do something, we will be very glad to communicate through the Swiss Minister here to the Treasury in Switzerland but we don't want to have you feel that we don't want to do business with Switzerland.' That's the way I feel tonight. But I am perfectly willing to have you talk it over with anybody you want and let's try to clear it by noon tomorrow."

Mr. Livesey said, "Offhand, I would not see any incorrectness in doing that. Of course, I would not be able to find out the relation between the Bank of Switzerland and the Government of Switzerland but I doubt that they have taken this action without instructions from their Government over there." Lochhead remarked, "They operate in the exchange market anyway."

Mr. Oliphant said to the Secretary, "But if you see the Swiss Minister, you might say that if that means one thing your response would be one way." The Secretary remarked, "My inclination would be to do it but I want to get started right and I would like the advice of the State Department." Mr. /

Livesey said, "Well, I will be very glad to think it over and consult among our people who are supposed to have a little more to do with the diplomatic types than we are." The Secretary then asked Mr. Livesey, "Would you try to get in touch with me sometime in the forenoon tomorrow?" And Mr. Livesey answered, "By all means."

"Supposing you take those two things," he said to Mr. Livesey, "and give me some kind of an answer by tomorrow noon. In the meantime, we will do nothing. Another thing, I told the English that I wouldn't enter into another agreement with another country without first telling them, so if I did anything I would tell the British and the French -- that's my understanding. I am getting very diplomatic. I appreciate your coming over."

October 14, 1936
4:35 P. M.

Mr. Lochhead, Mr. Taylor, Mr. White, and Mr. Oliphant met in the Secretary's office.

Mr. Lochhead said, "Here's a cable that came in to the Federal Reserve Bank of New York from the Swiss National Bank and here is suggested reply. (Copies are attached.)

From: Bank Nationale Suisse
Berne, Switzerland

To: Federal Reserve Bank
of New York

Date: October 14, 1936

"Referring to declaration of Morgenthau concerning your new gold transaction practices are you prepared to buy and sell gold from and to us? Are you further prepared to accept gold sold to you by us earmarked your account at Bank of England instead of to be sent New York? Are you prepared to earmark for us gold bought from you? Please cable conditions you would apply to such transactions?

(Signed) Bank Nationale Suisse"

Draft of Suggested Reply:

"Is the inquiry concerning the purchase and sale of gold made on behalf of the Swiss Government or on behalf of the National Bank of Switzerland? If the former, the Federal Reserve Bank would not be in position to discuss concrete and detailed procedures until general arrangements had been made between the Treasuries of the Swiss Government and the United States Government."

The Secretary said, "Do you mind if I can get Herbert Fels over here? I have another idea on the way to handle this. I have another way of thinking on it." Oliphant said, "Do you want to know what's back of that idea?" The Secretary said, "Yes." Oliphant explained, "It's another independent sovereign and they are entitled to the dignity of its being discussed with them just as you did with the French and British. In the second place, you have had no official advice from there either that they subscribed to the principles of the statement or that they have an exchange fund or that they plan to help, and the thought was -- of course, the Federal Reserve Bank can tell them that their Treasury ought to approach you directly but the Bank can say, We can't profitably discuss details with you until the matter has been discussed between the two Treasuries."

H.M.Jr. said, "The point is, before I do anything I want to show it to Herbert Feis. We are referring to the Swiss Government and it gets into the realm of the State Department and I want him to see it." Lochhead remarked, "Except that in our draft we were careful to say 'Treasuries' instead of 'Governments'". Oliphant said, "I agree." The Secretary then said, "It's all right, but he ought to be seen on this. Then he may say -- does he want to send for the Swiss Minister, being friendly, and say we have this thing. We don't want to seem rude or abrupt but if you want to do this thing, we are very glad."

Oliphant said, "That's another possibility -- ask the Swiss Minister what this means." H.M.Jr. added, "After all, my attitude is, we want them all to come in." Taylor's comment was, "One of the reasons for doing it that way is that these boys are a little inclined to be sharpshooters -- the Swiss National Bank."

The Secretary said, "But if you fellows have a good memory, the reason we got this agreement was because I went 75% all the way." Oliphant then expressed his opinion as follows: "Following your line of thought, you could very well promptly inform your partners that this inquiry has come in."

At this point, the Secretary phoned to Secretary Hull's office to try to reach Dr. Feis.

H.M.Jr. spoke to Mr. Gray and asked him to send somebody over at 5:00 o'clock.

Addressing the group, the Secretary said, "We will have them here at 5:00 o'clock and I would like you fellows to come back then."

C A B L E

From: Bank Nationale Suisse
Bern, Switzerland

To: Federal Reserve Bank of N. Y.

Date: October 14, 1936

REFERRING TO DECLARATION OF MORGENTHAU CONCERNING YOUR NEW GOLD TRANSACTION PRACTICES ARE YOU PREPARED TO BUY AND SELL GOLD FROM AND TO US? ARE YOU FURTHER PREPARED TO ACCEPT GOLD SOLD TO YOU BY US MARKED YOUR ACCOUNT AT BANK OF ENGLAND INSTEAD OF TO BE SENT NEW YORK? ARE YOU PREPARED TO MARK FOR US GOLD BOUGHT FROM YOU? PLEASE CABLE CONDITIONS YOU WOULD APPLY TO SUCH TRANSACTIONS?

(Signed) Bank Nationale Suisse

Oct 15 1936

I suggest the following reply by you to the inquiry of the National Bank of Switzerland under date of October 14, 1936:

"Is the inquiry concerning the purchase and sale of gold made on behalf of the Swiss Government or on behalf of the National Bank of Switzerland? If the former, the Federal Reserve Bank would not be in position to discuss concrete and detailed procedures until general arrangements had been made between the Treasuries of the Swiss Government and the United States Government."

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October 14, 1938

The following were present in the Secretary's office at 4:45 this afternoon: Mr. Gaston, Mr. Upham, Mr. Oliphant and Mr. Prentiss.

The Secretary asked Mr. Prentiss, "What's happened in relation to our friend up in New York?" Mr. Prentiss answered, "The only thing that has happened is this: they have been telephoning in -- the New York Post telephoned me and wanted to know if there was anything to the story that the Republican candidate for Governor is in debt to the Receivership of the closed bank in Yonkers." HM, Jr. asked Mr. Prentiss, "What did you tell them?" Prentiss replied, "I told them the matter is confidential and I know nothing about it. Then they telephoned and wanted to know if a depositor in the closed bank could make a demand on the Receiver there for the information."

HM, Jr. then asked Mr. Prentiss, "What's the answer to that?" Mr. Prentiss replied, "There is no answer to that. The matter is all confidential and it's up to the Receiver." Mr. Morgenthau then inquired, "Could the Receiver do it if he wanted to?" Mr. Prentiss' reply was, "I assume he could. I don't know of any law that would prevent." Oliphant remarked, "It would involve, in effect, his publishing a list of the accounts receivable -- notes."

Mr. Prentiss' comment on Mr. Oliphant's remark was, "Yes. They all appear in our quarterly reports here." The Secretary then said, "But that's not published," and Mr. Prentiss answered, "No."

To Mr. Prentiss the Secretary said, "Then I would say that somebody has put the Post wise and it has nothing to do with what we talked about." Prentiss agreed, saying, "Nothing whatsoever. But, of course, this campaign is on and a lot of people know a lot of things in a town like Yonkers; also, of course, that activity with various real estate concerns."

Continuing his remarks to Mr. Prentiss, the Secretary said, "But we understand each other perfectly and that is that we are going to keep out of it." Mr. Prentiss answered, "Those were exactly my instructions the other day. I am making no statements whatsoever." HM, Jr. said, "Fine!"

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE October 14, 1936.

TO Secretary Morgenthau
FROM Mr. Taylor

Memorandum on Conversations with Chairman Eccles
and Vice Chairman Ransome.

Cy Upham has given you in some detail the general trend of the conversations themselves so that I will confine myself to impressions.

1. The first of these impressions, and a very strong one, is that the Federal Reserve Board wishes to cooperate fully with the Treasury and desires similar cooperation on our part. The final form of this cooperation, as well as its limits, can only be determined after the Tuesday luncheons and the conferences of the experts have had an opportunity to develop further.

2. The Federal Reserve Board is having minor difficulties in establishing the relationship to the district banks and whereas there is no specific trouble, it will be a question of time before the new relationships have had a chance to work out in practice. This difficulty is, of course, particularly present in the relationship of the Board to the New York Federal Reserve Bank which for many years considered itself the Central Bank for the United States. Eccles quoted certain passages from the Banking Act of 1933 and from Senator Glass' statements in Committee to emphasize the intention of Congress to make all the district banks subordinate to the Federal Reserve Board, particularly with respect to their foreign operations. He recognizes clearly the fact that the New York Federal Reserve Bank acts as our fiscal agent but also feels that it is difficult for the personnel of the Bank to keep its functions entirely compartmented.

The suggestion which you made this morning as to the scope of the original cooperation is entirely in line with the conversations we had yesterday afternoon, which were to the effect that the best way to start matters would be to arrange a preliminary meeting between Goldenweiser, Gardner and whoever else the Board wished to have present, and Haas, White and Upham. At this meeting the limits of the original working arrangement could be defined and, with the exception of the detailed operations of the Stabilization Fund, we saw no reason why the Federal Reserve Board should not have access to all the information which we had available. I mentioned particularly the charts which White has been working on for the past year and various other general and specific information which could be of interest to them.

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On their part they wished the Treasury to be completely informed on all matters which would be helpful to the Treasury in properly judging the domestic situation and the Treasury's attitude toward changes in reserve requirements, open market operations, et cetera; in fact, more or less the list of subjects which were discussed this morning. I emphasized at every opportunity that the form of the cooperation was not nearly as important as the spirit and that on our part we wished to do everything possible to work together on common problems. Eccles and Ransome expressed similar sentiments and it was on this general plane that the conversation was held and concluded.

In connection with the events at lunch, my impression of Eccles' attitude was about as follows: Your question about the extension for the Stabilization Fund came to him more or less as a surprise and there was a slight confusion in his mind between the immediate action necessary when Congress convenes and the working out of a longer term program. In other words, there was no intention or desire on his or Ransome's part to interfere with the immediate program but it would strengthen any position which he or the Board might be asked to take if he could tell the Committee he not only thought it was essential to have the Stabilization Fund, but that the Treasury and the Federal Reserve Board were cooperating fully, that the existence of the Fund was very much in the national interest and that it would be much better to extend the powers without revision at this time pending further developments in the world as well as in our internal situation. Putting it another way, I don't think that he was doing any trading but that his whole approach was intended to emphasize his desire for closer cooperation.

well

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October 14, 1938

Taylor, Lochhead, White and Upham were present in the Secretary's office this morning and the Secretary told them the following, which came up for discussion at his luncheon meeting yesterday with Eccles, Ransome, Taylor and Upham.

He said, "The Federal Reserve are pressing us for statistics on stabilization. After listening to Eccles and Ransome yesterday, I sense that they want to know just what I am doing with the Stabilization Fund. They did not actually say that. All they asked for were statistics. Would it be safe to say that we will give Goldenweiser and Gardner the same statistics that we give Haas and White? I do not want to do anything until Haas gets back. They claim they have four different functions on internal business: regulation of margins and loans on securities; excess reserves; discount rates, and open market operations. The thing to do is for you fellows to list out what you want from them. Let them give us a list of what they want and we will give them a list of what we want.

"What they are crying about is that we accumulate a lot of sterling and they want to know what possible effect it will have on excess reserves.

"It seems to me that, as a first move, White ought to make up a list of the information that we want. I am not sure, but I might say that I will give them, every Monday, a statement as to what our balances are in sterling and francs. We might make a list of what we want and of what White and Haas have been getting on stabilization with the suggestion that they get the same."

October 14, 1936
4:48 p.m.

H.M.Jr: Swell. No - no - no. I'm for this a thousand per cent.

Herbert Feis: Fine. Thanks. And on the Far East, I told Hornbeck and -has he called you?

H.M.Jr: No.

F: Well, he was a little bit shy about calling you.

H.M.Jr: Well -

F: - And I told him to try it.

H.M.Jr: I'll call him later. But this is a question of the Swiss Bank coming in through the Federal Reserve, and I just don't know quite how to handle it, and I don't want to turn them down too coldly, and it's a question whether I should take it up through the Swiss Legation, and so forth, but don't you worry about it.

F: Lindsay will be there at five.

H.M.Jr: What?

F: Lindsay will be there at five.

H.M.Jr: No, you go ahead, and if it's at night now, let us know about it.

F: And the reason I've been so difficult all day is we're having our foreign service examinations, -

H.M.Jr: Fine.

F: - so I've been locked up in that examining room all day long.

H.M.Jr: If it's at night now, let me know - I may want to go to it some time.

F: All right.

H.M.Jr: O.K.

F: Good.

H.M.Jr: Goodbye.

F: So long.



OFFICE OF
THE TREASURY ATTACHÉ

UNITED STATES TREASURY DEPARTMENT

TIRPITZUFER 44

BERLIN W. 35, GERMANY

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RECEIVED

OCT 26 1936

Investigative Unit
BUREAU OF CUSTOMS
WASHINGTON, D. C.

October 14, 1936

The Honorable
The Secretary of the Treasury
Washington, D. C.

(Through the Commissioner of Customs)

Sir:

With reference to my letter of October 12, 1936, regarding editorial comments in German newspapers following the devaluation of the French franc, I enclose herewith a summarization of eighteen editorials from various German newspapers.

This concludes the review of newspapers which has been made by this office. It is believed that the material which has been sent in fairly covers a cross-section of German opinion as the editorials summarized were taken from the leading German dailies for the few days on and after September 26th when editorial comments were directed to the international currency situation. Since about October 5th no particular interest has been displayed by the German press on the devaluation question.

Respectfully,

ERWIN G. MAY
Treasury Attaché

Enclosure: as above.

FRANKFURTER ZEITUNG

Sept. 28, 1936

Reichs Edition, Morning Sheet

Major portion of the article merely a statement of fact. Says, however, that the significance of the devaluation of the franc lies in the fact that it was the result of conference, as shown in the common declaration of the three countries, in which the U.S.A. and England expressed the hope for the greatest possible stabilization. It calls French move a step which may bring about the "de facto" stabilization of important countries.

FRANKFURTER ZEITUNG

Sept. 29, 1936

Reichs Edition

This is the first time in the development of general currency chaos that simplification has been attempted. There is the possibility that a de facto stabilization will be achieved among the free currencies which may level the way to a cleansing of currency-relations, but this will sharpen the difference between the two types of countries, those with free currencies and those with controlled currencies. World trade cannot be cured by an establishment of currencies alone, but by a redistribution of gold and the sources of raw materials, a satisfactory solution of the debt problem - in short, a clean-up of the results of the Versailles system.

Even though the new devaluation was unavoidable, it means a serious aggravation of the situation for the debtor countries.

A change in the value of German currency is out of the question..

Devaluation in three of the rich countries means a heavy load for the German export situation. Relative increase of prices of German goods would, in the importing countries, mean a decrease in imports from Germany, whereas the decrease in prices of imports from those countries would not compensate, as Germany has with these countries a large export surplus which she needs to pay debts and to buy raw materials.

Devaluation has made the step back into world trade difficult for Germany, but without the inclusion of Germany and the debtor countries, world trade will not be healthy.

If the devaluation of the franc is a preliminary to international cooperation, then it is a step in the positive direction.

FRANKFURTER ZEITUNG

Thursday, October 1, 1936

Editorial re Dr. Schacht's Address to the Central Committee of the Reichsbank.

" generally speaking one may say that the declaration of the Reichsbank, which is the responsible agency for Germany's policies, has given notice of a disposition to open mindedness even at the cost of sacrifice; that the events abroad are being carefully followed and that Germany is ready at all times to cooperate in satisfactory international agreements. Germany does not recognize any compulsion in the circumstances. The declaration clearly indicates that it must remain for Germany to decide what means it will use in order to support its most urgent export requirements. If foreign countries seize upon currency devaluation to assist themselves in their difficulties -- and that has occurred nearly everywhere in the world -- then surely no objective and just observer can take offense if Germany seeks to counteract the effect of depreciated currencies upon her exports, through the self-assistance device of the gainful industries (the export levy)."

DEUTSCHE ALLGEMEINE ZEITUNG

Sept. 29, 1936

Edition, Greater Berlin, Morning

England's responsibility in the currency market has increased with the new victory, as almost all continental currencies now dependent upon the pound.

Article questions whether rise in prices will not immediately cancel all benefits to be gained from devaluation.

Devaluation impossible for a country with strict currency control, little gold reserve, and lacking a maneuver-fund in foreign exchange. Further, since currency of such a country has long since been independent of the Ausland, devaluation is completely unnecessary.

Against any devaluation of the mark.

BERLINER TAGEBLATT

Sept. 26, 1936

Second Morning Edition

"Currency Entente between London, Paris and New York"

Report of the news as such. Merely mentions that any devaluation is dangerous and that the success of the French experiment depends upon the guarantees which the two Anglo-Saxon countries have given to France.

Second Evening Edition, same date.

Profit for France will be small. England and America have only bound themselves very conditionally, and in trade policy not at all. France stands alone among the three with a request for practical action - the other two countries give only theoretical approval. The greater portion of the causes for this move can therefore be found in inner French politics.

BERLINER TAGEBLATT

Sept. 27, 1936

Sunday Edition

PAUL SCHEFFTER on New Burdens of International Politics.

Claims U.S.A. helped bring about condition which forced franc off (antidumping act, countervailing duties, etc.)

HERLINER TAGEBLATT

Sept. 27, 1936

Sunday Edition, Commercial Section.

"The Devaluation Wave"

Inner bookkeeping transactions the deciding motive of the move. The discussions with America and England have had no important success which is to be seen from the very thin formulation of the three-power declaration. This declaration contains no trade-political guarantees; but it could have contained somewhat more than these particularly conditional currency-political guarantees.

HERLINER TAGEBLATT

Sept. 29, 1936

Second Morning Edition

"The German Course"

Every country will welcome the statement of the three nations, if it really is the beginning of the end of the currency war, but each country must be guided by its own political, economic and financial conditions when deciding whether to follow the French example or not.

Discussion of German stand on the question - new plan, Germany has the mark under control, etc.

LEIPZIGER NEUESTE NACHRICHTEN

Sept. 27, 1936

Review of events leading up to French devaluation, discussion of probable results (very vague) and statement to the effect that since Germany's policy has proved successful, it will be continued.

KOELNISCHE ZEITUNG

Sept. 27, 1936

Reichs Edition

"The Capitulation of the Franc"

The latest step does not yet mean currency peace, and is but a step in that direction, only an agreement between the "Rich countries". Only their cooperation with and their understanding of the "Poor countries" will bring about order.

The devaluation of the franc is a sign of its capitulation, after all its efforts to maintain the gold standard. Although the agreement represents three quarters of world trade, it means nothing to economic peace or currency peace.

Warning to other countries to avoid all attempts to gain an advantage from currency maneuvers sounds pharisaic coming from those countries which started and won the race for the lowest currency.

For Germany the situation is made increasingly difficult.

By this means, world trade cannot be cured.

KOELNISCHE ZEITUNG

Sept. 29, 1936

Reichs Edition

"Causes and Results of the Franc Devaluation"

The kernel of the Agreement lies, not in the vague promises about world stabilization and a settling of relations between countries, but in the capitulation of the franc, viewed as the victory of London and New York. Holland and Switzerland thereby left in the lurch by the leader of the gold bloc.

There can be no talk of world stabilization - only the opposite seems in view.

The "trade and currency peace" which has been held up to view (as a result of the new agreement) seems to be a community of the rich nations, whose purpose will be to force upon all other nations not only its trade policies, but its political will.

Currency is no longer independent of inland politics but a tool thereof.

No other land except Germany has withstood the lures of devaluation.

Advantages and disadvantages of devaluation are different in each country, but advantages only for a country which has a head start either in time or in proportion.

HAMBURGER FREMDENBLATT

Sept. 28, 1936

Nothing can be said at the moment. Only time will show whether world trade and trade conditions within France will be benefited by the move.

HAMBURGER NACHRICHTEN

Sept. 26, 1936

Summary of developments which led up to French move, and indication that this move is the only possible one which France could have taken.

Writer speculates as to probable results of devaluation, and doubts whether it will have any ultimate benefit.

Berlin not surprised by move, and Germany, because it has its currency under control, can view all future developments quietly.

EILDienst

Sept. 26, 1936

"The New Franc"

This is the first decisive step of the Blum regime. Long years of deflationary policy had had no positive results, while its disadvantages were very evident. Credit shrank, employment fell, and with it consumption and production.

The state felt this strongest, for although suffering from chronic deficit, had to give financial help as conditions became more critical.

The Blum cabinet meant a change in economic and currency policies. Supported by workers, who were hostile to deflation, the direction it would take was clear: revival of credit and trade by ending the deflationary policy. It was self-evident that this animation would bring with it a rise in prices. When the currency was threatened by the policy of falling prices, it was clear that it could not be held during continued price increases. Two ways were open:

- (1) that of automatic price adjustment through dévaluation, like England and the U.S.A., and
- (2) that which Germany had taken so successfully, by means of a well-functioning system of foreign exchange management, in connection with the "New Plan" to maintain the currency.

The Blum cabinet did neither the one nor the other, hoping that one day New York and London would be ready to make a currency pact, and in the meantime could not put through its aims within the country, as marxist workers had the situation in control, bringing about wage increases by strikes, etc., and a corresponding increase in prices. This raise in prices, together with political uncertainty, constantly threatened the franc. One of the two ways was necessary.

Although the Blum cabinet has finally fought through to this step, it has previously dared no decision in all other fields, and lets things go. No danger is threatened the franc from outside, i.e. from England and U.S.A. Even if the "agreement" is not binding, London and New York will give every aid to the franc before long, as its devaluation is viewed as a necessary preliminary to the reconstruction of normal currency relations in the world.

It is also to be questioned if French government will again get control of workers and if it can prevent the wave of price increases resulting from further boundless demands of the workers from breaking over its head.

REACTION ON CURRENCY POLICIES OF OTHER COUNTRIES -

Gold Block:

Hardest hit, as France was its chief support. Question of tourist trade will be a large factor in the stand of Switzerland.

Belgium, Scandinavia, etc.:

Those which have already devalued will not be unfavorably influenced, as this step has long been expected.

Germany and Other Countries with Strict Foreign Exchange Control:

Have no cause to be nervous, as they have their currencies well in hand and can quietly await further developments.

Balkans:

Will give little resistance to French effort to persuade adjustment, as systems of foreign exchange control not very good.

Countries Outside Europe:

Will hardly be touched, as they are more or less dominantly influenced by the dollar.

United States of Soviet Socialist Republics:

Since last February the Rubel was established on the basis of the franc, although its value at that time was conceded to be high, thought possible that Soviets knew of coming devaluation and thereby could devalue without admitting weakness of currency. Since all of Russia's export is paid in foreign exchange, the devaluation of the Rubel will have little effect on world trade.

Sept. 26, 1936

ANGRIFF

Blum has not kept faith and the rich must pay. But this step came too late and the rich do not pay. The only ones hit are the small people. The man on the street feels in this step a betrayal.

French capital has extraordinary powers of flight in times of uncertainty, as the French, through their experiences in recent years are too suspicious in matters of money. The question of confidence is very important in devaluation and this question is now placed before the Blum government.

The Blum government hopes to quiet suspicion by announcing that a "currency entente" has been formed with England and America. But both of these countries have reserved ways out by declaring the agreement not binding. The only thing reached by the Franco-Anglo-American

discussions is at most that exchanges in London and Washington will not undertake too-wild maneuvers against the franc.

Difficulties in France remain now as before, and the question is one of political confidence. The attempt to get an inland loan failed. The attempt with the raising of the discount rate also failed. Wages have been raised, but stabilization of prices has failed.

The Fuehrer said that only an increase in production and not capitalistic maneuvers could bring an improvement in the standard of living. The French government goes other ways and the small man must bear the result. The only question he asks is whether the devaluation will bring him new markets for his products. France is the fourth-largest exporter in the world, but the world market is not to be conquered with a twist of the hand, as it has been complicated by reciprocal trade and various modes of payment.

If such results are expected in France, the inland must remain quiet - no strikes, occupation of factories, etc. It also depends on whether the communists remain quiet or whether they agitate.

The currency entente is not tangible, but pay envelopes, the price of bread, and meat, rents, etc. are, and are the things that hit the small household.

VOELKISCHER BEOACHTER, Berlin Edition

Sept. 29, 1936

Devaluation of the franc is an experiment. Has become panacea for all political and economic ills and any government using it as such bound to be disappointed.

It can only be welcome to Germany that the exchange of merchandise between England, France and America should increase, as when that happens their exchange with other countries will also increase. Or will it? Will the very probable increase in exports for the countries who have just devalued be an increase in world trade in general, or just at the expense of those who devalued earlier? It may seem only a shift in the volume of world trade, which may or may not be productive, depending upon the political effects of the shift.

When currencies were formerly balanced and steady, it was a sign that payment-balances were in order. Now the stability of currency is not an indication but a means which hopes to bring payment-balances in order.

The best one can say about the new agreement would be that the time in which countries could force their export at the expense of other countries by means of currency politics is at an end. Much has been gained if this new agreement puts an end to such currency and plainly political steps as are made without agreement with other countries.

German currency policy has been the reason for the success in obtaining raw materials and giving employment. Since it has shown itself practical, it will not be changed.

VOELKISCHER BEOBACHTER, Berlin Edition

Sept. 27, 1936

French devaluation is the result of French politics. Summary of conditions leading up to this step. Writer not yet able to say what results devaluation will have on trade within France.

No surprise to Germany. National Socialism has eliminated currency speculation -- new plan, foreign exchange laws, etc., keep German currency steady.

October 27, 1936

Mr. Erwin G. May,
Treasury Attache,
Tirpitzufer 44,
Berlin W. 35, Germany.

Dear Mr. May:

This will acknowledge receipt of your letter
of October 14th together with a summarization of
editorials from various German newspapers.

Thank you for sending these.

Sincerely yours,

(Signed) Wayne C. Taylor

Assistant Secretary

October 14, 1936
4:57 p.m.

Operator: Hello? Put Mr. Knoke on.

H.M.Jr: Hello, Knoke? Hello?

Knoke: Hello?

H.M.Jr: Hello, Knoke?

K: Yes, sir.

H.M.Jr: Well, are you going to put them to bed?

K: Yes, I hope so. We've done another 25 plus 20,
another 45,000.

H.M.Jr: Making how much?

K: 668,000.

H.M.Jr: Well, that's all right. At what - at what price is
she bid?

K: 7/16ths.

H.M.Jr: Very nice. I'm satisfied.

K: 668,000 pounds closing at 7/16ths.

H.M.Jr: All right, and then we'll give them the order to
convert.

K: Yes, we'll cable them tonight on that.

H.M.Jr: And how are you sleeping?

K: How am I what?

H.M.Jr: How are you sleeping?

K: (Laughs) Thank you - very well, not at the office
but at home.

H.M.Jr: (Laughs) I meant at home.

K: (Laughs).

H.M.Jr: I mean are you feeling all right?

K: Oh, yes, I'm feeling very well.

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

K: Thank you, sir.

H.M.Jr: Good night.

K: Good night.

H.M.Jr: 5 o'clock - 5 o'clock.

October 14, 1936
5:03 p.m.

H.M.Jr: Hello?
Marriner
Eccles: Hello?
H.M.Jr: Marriner?
E: Yes, sir. How are you today.
H.M.Jr: Oh, I'm pretty well. And you?
E: Oh, I'm fine.
H.M.Jr: I just thought I'd tell you that somebody is trying to dig up a story that the Federal Reserve Board was not informed the first time we made the gold move on the 25th, you see? That you were informed the second time but not the first, see? Hello?
E: Yes.
H.M.Jr: Well, we're just not saying anything you know.
E: Well, I think that's the best thing to say.
H.M.Jr: But if I am asked tomorrow morning at my press conference, I'm going to say just what I said the other time, that you and I and individual members of the Board worked in the closest cooperation.
E: Yes. All right.
H.M.Jr: See?
E: All right - yes.
H.M.Jr: But I just wanted to let you know that they're trying to dig up that story.
E: Well, of course, I think we ought to - we ought to avoid any - giving them any opportunity to create in the public mind any idea of cleavage. That's what some of them would like to do.
H.M.Jr: Oh, sure. Well, you know I called you at Salt Lake or Utah wherever you were that night.
E: Yes.
H.M.Jr: And I had what's-his-name, the Acting Chairman over here. Ransom was here Friday afternoon.

E: Well, that's all water over the dam, and I think we ought to, of course, avoid any -

H.M.Jr: Yes, but I mean as a matter of history -

E: Yes.

H.M.Jr: I mean the Board did know it before it happened.

E: Well, before it was announced.

H.M.Jr: No, before it happened.

E: Well -

H.M.Jr: Before it happened.

E: Who - who's trying to stir this thing up, you know?

H.M.Jr: No, it's just one of these stories that Gaston brings in to me and let's me know what's going on, that's all.

E: He hasn't any idea where the source of it is?

H.M.Jr: No, he just sort of picked it up.

E: If you get an idea where the source is, I'd like to know.

H.M.Jr: Yes. Well, any way, I passed it along, and if they ask me tomorrow morning, I'll simply tell them what I did before.

E: All right. I think that will cover it and if anything happens here, we'll try to follow it through on the same thing.

H.M.Jr: Yes, you might pass it along to what's your man's name?

E: Yes - Thurston?

H.M.Jr: Yes.

E: Yes.

H.M.Jr: Right.

E: All right.

H.M.Jr: Thank you.

Prepared 272
October 14, 1936

FRENCH DEBT TO THE UNITED STATES

Cash Advances: The Liberty Bond Acts authorized the Secretary of the Treasury, with the approval of the President, to establish credits in favor of foreign governments engaged in war with enemies of the United States, and, to the extent of those credits, to make advances to such governments through the purchase at par of their respective obligations. Under this authority loans were made during the war and after the Armistice to meet commitments made in the United States in connection with the prosecution of the war.

Sale of War Supplies on Credit: Under authority of the Act of June 9, 1918, the President, through the head of any executive department, was authorized to sell any surplus war supplies on such terms as the head of such department deemed expedient. For the purpose of disposing of our huge war stocks stored in Europe, the United States Government created the United States Liquidation Commission which was headed by the late Honorable Edwin B. Parker. This commission sold to the Government of France surplus war stocks for which it acquired obligations in the principal amount of \$407,341,145.01 payable in ten years with interest at the rate of 5 per cent per annum payable semi-annually, except that no interest was payable the first year on \$400,000,000. This indebtedness was considered by the French Government to represent a commercial transaction. It was, however, included in the amount of the debt funded under the agreement of April 29, 1936.

Amount of Indebtedness: The indebtedness of the Government of France to the United States represents obligations originally acquired

- 2 -

as the result of cash advances made under authority of the Liberty Bond Acts for the purpose in general of assisting that government to purchase supplies in the United States in connection with the prosecution of the war, and obligations acquired as the result of the surplus war material sold to that government on credit. The total cash advances to the Government of France amounted to \$2,997,477,800, of which \$1,970,000,000 were made prior to November 11, 1918 (Armistice) and \$1,027,477,800 were made after that date. The obligations acquired as the result of the sale of war material on credit amounted to \$407,341,145.01 and were all acquired after the Armistice in connection with the liquidation of the surplus war stocks of the United States stored in Europe.

The obligations of the Government of France acquired as a result of cash advances were, at the time of the funding, payable on demand and bore interest at the rate of 5 per cent per annum. Those acquired for surplus war material were payable in 1929 and 1930 and bore interest at 5 per cent per annum, which was being paid currently. In funding the indebtedness of this government to the United States, these rates were reduced to $4\frac{1}{2}$ per cent per annum for a part of the period up to December 15, 1922, and to 3 per cent per annum from December 15, 1922 to June 15, 1925.

From time to time the Government of France had made certain principal payments on the indebtedness representing the cash advances and had paid some interest thereon. It had paid the interest currently on the obligations acquired for the sale of the surplus war stocks. The account

- 3 -

at the time of the funding of the French indebtedness on June 15, 1925, stood, therefore, as follows:

Principal of obligations held for cash advanced under the Liberty Bond Acts (net)	\$2,933,405,070.15
Principal of obligations given for surplus war supplies purchased on credit	<u>407,341,145.01</u>
Total principal debt	\$3,340,746,215.16
Accrued and unpaid interest up to June 15, 1925, including certain adjustments	<u>735,801,257.03</u>
	\$4,076,547,472.19
Payments received on account of principal and interest after December 15, 1922	<u>51,160,785.30</u>
Net indebtedness as of June 15, 1925	\$4,025,386,686.89
Paid in cash upon execution of agreement	<u>386,686.89</u>
Indebtedness which was funded into bonds	<u>\$4,025,000,000.00</u>

The agreement concluded provided that the bonds to be issued to the United States would mature serially on June 15 of each year, beginning with June 15, 1926 and ending June 15, 1987; and also provided that the bonds would bear no interest until June 15, 1930; ~~and~~ thereafter, until June 15, 1940, 1 per cent; from June 15, 1940 to June 15, 1950, 2 per cent; from June 15, 1950 to June 15, 1958, $2\frac{1}{2}$ per cent; from June 15, 1958 to June 15, 1965, 3 per cent; and from June 15, 1965 to June 15, 1987, $3\frac{1}{2}$ per cent. These rates represent an average rate over the entire funding period of about $1\frac{5}{8}$ per cent per annum.

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Payments Made Under Agreement: The following statement shows the amount of principal and interest paid by the French Government between June 15, 1926 and June 15, 1931:

<u>Date</u>	<u>Interest Payment</u>	<u>Principal Payment</u>	<u>Total Payment</u>
June 15, 1926	\$ ---	\$30,000,000	\$ 30,000,000
June 15, 1927	---	30,000,000	30,000,000
June 15, 1928	---	32,500,000	32,500,000
June 15, 1929	---	32,500,000	32,500,000
June 15, 1930	---	35,000,000	35,000,000
Dec. 15, 1930	19,325,000	---	19,325,000
June 15, 1931	19,325,000	1,350,000	20,675,000
Total ...	\$38,650,000	\$161,350,000	\$200,000,000

The payments due during the fiscal year 1932 (due December 15, 1931 and June 15, 1932), aggregating \$50,000,000, were postponed under the so-called Hoover moratorium and their repayment was arranged over a period of ten years ending June 30, 1943, by the agreement entered into on June 10, 1932, pursuant to Joint Resolution of the Congress of the United States, approved December 23, 1931. No payments have been made since June 15, 1931 under the original debt agreement, and no payment has been made under the moratorium agreement of June 10, 1932.

Current Status of French Indebtedness: The status of the French indebtedness to the United States as of June 15, 1936, was as follows:

Principal

Amount as funded	\$4,025,000,000
Less bonds redeemed	161,350,000
Principal of bonds now held	\$ 3,863,650,000

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Interest due and unpaid

Semi-annual installments postponed under the moratorium agreement	\$ 38,636,500
Semi-annual installments covering payments due December 15, 1932 to June 15, 1936	154,091,460
Amount of interest due and accrued December 15, 1933 to June 15, 1936, which was included in the moratorium annuities	<u>4,856,355.58</u>

Total interest due	<u>\$ 197,584,315.58</u>
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Total indebtedness June 15, 1936	<u>\$4,061,234,315.58</u>
--	---------------------------

French Expenditures in the United States Made From Cash Advances:

The policy established by the United States Government with respect to cash advances was that our loans should be made to each allied government to meet the cost of commodities purchased in the United States for its own use; that we would not loan to one government the dollars needed for purchases to be made by or on behalf of another government; and that neither the financial condition of the borrower nor questions of political expediency in our own country should be factors in determining the government to which our dollars should be loaned and whose obligations we would consequently take.

During the period April 6, 1917 to November 1, 1920, the Government of France reported expenditures in the United States for the following purposes from cash advances:

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Munitions, including remounts	\$ 827,194,624.57
Exchange and cotton purchases	806,630,000.00
Foods	295,212,583.22
Tobacco	40,710,011.76
Other supplies	276,572,214.16
Transportation	32,519,420.36
Shipping	122,359,280.23
Reimbursements (Funds turned over to Great Britain for purchases made in United States by Great Britain for account of France)	1,045,781,623.40
Interest	268,791,426.37
Maturities	289,744,755.28
Relief	143,137,042.12
Silver	6,300,000.00
Miscellaneous unclassified	41,293,949.75

Total reported expenditures \$4,196,246,931.23

Means of financing these expenditures:

Net cash advances by the United States Treasury (to November 1, 1920)	\$2,966,028,442.45
---	--------------------

Purchase of French francs by the United States for which the French Govern- ment received dollars	1,025,438,235.88
--	------------------

Dollar reimbursements to France from other governments	19,302,357.55
---	---------------

From French private sources	185,477,895.35
-----------------------------------	----------------

\$4,196,246,931.23

Included in the item of "Exchange and cotton purchases" is the sum of \$200,000,000 for loans made to the French Government for account of the Bank of France for the purpose of maintaining the French franc. In addition, there were maturities of \$289,744,755 in the United States

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which the French Government was permitted to redeem, largely from funds advanced by the United States Government, so that the French Government would not be under the necessity of carrying on a refunding operation in the American market and thus competing with the Liberty Bond campaigns of the Treasury Department. These two items, together with the amount of the obligations acquired for surplus war supplies sold on credit, which had always been considered by the French Government as commercial transactions, aggregate almost \$900,000,000, which have received special consideration by being included in the total debt funded under the original funding agreement. In any future reconsideration of the French debt to the United States the character of these original obligations should be kept in mind. ✓

Effect of Monetary Policies on French Debt to the United States:

It is of interest to show the effect of the various monetary policies adopted by the French Government and by the United States Government since the creation of this debt. At the time of the creation of this indebtedness the French franc was valued at 19.3 cents in terms of American money. Shortly after the funding agreement with the United States was signed, the franc was devalued to about 3.92 cents. In January, 1934, the United States devalued the dollar by approximately 40% and the franc thereby became worth 6.63 cents in terms of the dollar. Last month the French franc was again devalued to a range between about 4.3 cents to 4.9 cents, or a mean of about 4.6 cents per franc.

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The following statement shows in French francs the original amount (\$3.340M) of the French debt to the United States and the original French debt to Great Britain (£514M). These foreign debts have been converted at the par rates of the franc at the dates indicated.

	Debt Dec., 1920. Franc 19.3¢	Debt June, 1928. Franc 3.9179¢	Debt Jan., 1934. Franc 6.63¢	Debt Oct., 1936. Franc 4.64¢
Debt to U. S. (\$3.340M)...	F. 17,304M	F. 85,250M	F. 50,375M	F. 71,988M
Debt to G. B. (£515M)	12,978	63,940	63,940	53,993

(Figures in above statement not strictly accurate, but are used for comparative purposes to show effects of devaluation.)

debt

MEMORANDUM
COVERING
THE INDEBTEDNESS OF FOREIGN GOVERNMENTS TO THE UNITED STATES
AND SHOWING
THE TOTAL AMOUNTS PAID BY GERMANY UNDER THE DAWES AND YOUNG PLANS

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Treasury Department,
Office of Commissioner of Accounts and Deposits,
Revised January 10, 1936.

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INDEBTEDNESS OF FOREIGN GOVERNMENTS TO THE UNITED STATES

The United States made loans to the allied governments before and after the Armistice for the purpose, in general, of assisting those governments to purchase supplies in the United States in connection with the prosecution of the War. In addition the United States, after the Armistice, sold surplus war and relief supplies on credit to various countries of Europe, including some of the allied governments. At the conclusion of the war period the Treasury hold obligations of twenty nations, payable either on demand or within a short period of time. The purpose of this memorandum is to set forth certain detailed information concerning these obligations.

I. AUTHORITY FOR ACQUIRING OBLIGATIONS

The United States acquired obligations of foreign governments as a result of (1) cash advances made under authority of the various Liberty Bond Acts; (2) sales on credit of surplus war material under authority of the Act of July 9, 1918; (3) sales on credit of relief supplies under authority of the Act of February 25, 1919; (4) sales on credit for relief purposes of flour by the United States Grain Corporation under authority of the Act of March 30, 1920; and (5) services rendered by the United States Shipping Board Emergency Fleet Corporation. Excerpts from the First Liberty Bond Act and the Act of July 9, 1918, and copies of the Acts of February 25, 1919 and March 30, 1920, may be found on pages 312-313 of the Combined Annual Reports of the World War Foreign Debt Commission, copy attached. Skeleton forms of some of the obligations originally acquired under those various acts will be found on pages 314-317 of the Combined Annual Reports of the World War Foreign Debt Commission.

II. CASH ADVANCES

Purposes. - The Liberty Bond Acts authorized the Secretary of the Treasury, with the approval of the President, to establish credits in favor of foreign governments engaged in war with enemies of the United States, and, to the extent of those credits, to make advances to such governments through the purchase at par of their respective obligations. Under this authority loans were made during the war and after the Armistice for the purpose, in general, of enabling the respective governments to meet commitments made in the United States in connection with the prosecution of the war. The total principal amount of obligations acquired under this authority, including a loan of \$12,167,000, authorized by the Act of February 14, 1929, in connection with the debt agreement concluded with the Government of Greece, was \$9,610, 403,575.45. The rates of interest borne by these obligations and the amounts and dates of cash advances to each country, except the above-mentioned loan of \$12,167,000 made to Greece on May 10, 1929, are set out in detail on pages 318-333 of the Combined Annual Reports.

Policy. - The policy established by the United States Government with respect to the cash advances made under the Liberty Bond Acts was fully discussed in an article by former Assistant Secretary of the Treasury Rathbone appearing in the April, 1925, issue of Foreign Affairs, excerpts from which will be found on pages 62 and 63 of the Combined Annual Reports. In general, this policy was "that our loans should be made to each allied government to meet the cost of commodities purchased here for its own use; that we would not loan to one Government the dollars needed for purchases to be made by or on behalf of another Government, and that neither the financial condition of the borrower nor questions of political expediency in our own country should be factors in determining the Government to which our dollars should be loaned and whose obligation we would consequently take."

Pre-Armistice and Post-Armistice Cash Advances. - The Treasury advanced to various governments up to November 11, 1918, the principal sum of \$7,077,114,750 and after the Armistice, including the loan of \$12,167,000 made to Greece on May 10, 1929 under authority of the Act of February 14, 1929, the principal sum of \$2,533,288,825.45.

The Second Liberty Bond Act, as amended, granted authority to the Secretary of the Treasury to establish credits in favor of foreign governments up to the termination of the war between the United States and Germany. Thus a limitation was placed on the authority to establish credits, but no such limitation was placed on the authority to make cash advances under credits previously established. The action of the Secretary of the Treasury in establishing a credit in favor of a foreign government was an entirely separate and distinct transaction from that of making a cash advance. The Victory Liberty Bond Act, which was an amendment to the Second Liberty Bond Act, authorized the Secretary of the Treasury, with the approval of the President, to establish credits in favor of foreign governments for certain specified purposes for a period of eighteen months after the termination of the war as fixed by proclamation of the President "in addition to the credits authorized by Section 2 of the Second Liberty Bond Act, as amended." The authority to establish additional credits was never used by the Secretary of the Treasury. It should be pointed out, however, that this authority was in addition to that authorized by the Second Liberty Bond Act; that the Victory Liberty Bond Act was approved on March 3, 1919, four months after the Armistice; and that the Victory Liberty Bond Act expressly provided that the date of the termination of the war between the United States and Germany should be fixed by proclamation of the President of the United States. Such a proclamation was issued on November 14, 1921

by President Harding in connection with the ratification notice concerning the Treaty of Peace with Germany. It fixed July 2, 1921 as the date of the termination of the war. The last credit was established on April 2, 1920, and only two cash advances under credits previously established were made to foreign governments after July 2, 1921, viz:

(1) An advance to the Government of Czechoslovakia on May 29, 1922, in the sum of \$717,834.36, for the purpose of allowing the Czechoslovak Government to pay the United States Shipping Board for services rendered to that government in connection with the repatriation of its troops from Siberia. This advance was in the nature of an adjustment of accounts between the Czechoslovak Government and the United States. The Czechoslovak Government turned over to the Shipping Board the amount of the advance and the Board immediately redeposited the amount in the Treasury, the effect being that no funds left the United States Treasury on account of this advance. The actual result was that the Treasury accepted from Czechoslovakia an interest-bearing obligation of that government for the amount due the United States Shipping Board.

(2) An advance of \$12,167,000 on May 10, 1929, to the Government of Greece out of credits established prior to November 11, 1918. This advance was specifically authorized by Act of Congress approved February 14, 1929. Under date of February 10, 1918, the United States, France, and Great Britain agreed to establish credits in favor of Greece, each in the aggregate amount of 250,000,000 drachmas (\$48,236,629.05 in the case of the United States) to enable that government to carry on war operations. The United States advanced \$15,000,000 against its credits, leaving a balance of \$33,236,629.05 still on the books. Greece contended that the full amount of the credit was payable, but the United States, for various reasons, had maintained that it was not obligated to advance any further funds. While made in connection with

the settlement of the Greek war debt to the United States, the sum of \$12,167,000 advanced under the Act of February 14, 1929, represented a new loan made to the Government of Greece, to be repaid over a period of twenty years with interest at the rate of 4% per annum. The service of the loan is administered by the International Financial Commission. The proceeds of the loan were expended by the Refugee Settlement Commission for the purpose of placing refugees in productive work. The Commission, by its organic articles, must always have an American citizen as its chairman. Full information concerning this debt settlement will be found in the Annual Reports of the Secretary of the Treasury for the fiscal years 1928 and 1929. The supply of these reports has been exhausted, but copies may be available at a local library.

Expenditures Reported by Foreign Governments.- The Annual Report of the Secretary of the Treasury for the fiscal year 1920 discussed in some detail (page 69) the expenditures made in the United States during the period from April 6, 1917 to November 1, 1920, by foreign governments receiving cash advances from the United States Treasury. On pages 338 to 348 of that report statements will be found showing the amount of cash advanced to each government and expenditures made in the United States as reported by them.

Part of the statement from the Annual Report is as follows:

"Under the Liberty Loan acts the Treasury was authorized for the purpose of more effectually providing for the national security and defense and prosecuting the war, to establish credits for foreign Governments and to purchase their obligations at par. The foreign Governments were therefore required by the Treasury to state the purposes to be served in order to enable the Treasury to determine whether they were germane to the purposes indicated by the Liberty loan acts and whether and in what amount credits should be given. The Treasury did not, of course, make expenditures for the foreign Governments. It paid to them the purchase price of the

securities; and they made the expenditures. After this was done they made further statements to the Treasury showing the actual application of the proceeds of the loans.

* * * * *

"Under arrangements which were entered into about September 1, 1917, purchases were made by the missions of the various foreign Governments under the general supervision of a purchasing commission, originally composed of Bernard M. Baruch, Robert S. Brookings, and Robert S. Lovett, established by agreement between the Secretary of the Treasury and the respective foreign Governments for the purpose of coordinating governmental buying in the United States. Proposed purchases of each Government were considered in relation to the requirements of the United States and of the allied Governments before being approved. Purchases of food were made with the approval of the Food Administration and those of fuel (coal and oil) with that of the Fuel Administration. On March 4, 1918, by order of the President, the work of the commission was integrated with that of the War Industries Board. Under date of December 14, 1918, the arrangements between the commission and the foreign Governments were terminated and the functions of the former which then remained were taken over by the Treasury Department. Those had come substantially to an end by June 30, 1919. From the inception of the commission the coordination which it was able to bring about became increasingly effective each month, and on May 15, 1918, an arrangement was made with the War Trade Board, whereby the issue of export licenses to the foreign Governments was withheld except for purchases which had been approved by the commission. This arrangement continued until the export restrictions were withdrawn by the War Trade Board, in December, 1918.

"In Europe the Interallied Council on War Purchases and Finance, created in the autumn of 1917 with the view of considering and coordinating the demands of the Allies upon the American Treasury, continued in operation until after the armistice. In initiating, soon after America entered the war, the Purchasing Commission in the United States and the Interallied Council on War Purchases and Finance in Europe, the Treasury broke new ground and took important first steps toward coordination of the demands of the Allies upon the American Treasury and the American market with each other and with the requirements of the United States. Finding their sanction only in the Treasury's circumscribed activities, they were, however, necessarily limited in power and scope, and their functions to a large extent were properly superseded by other and more comprehensive instrumentalities as soon as the latter were created.

"After the signing of the armistice, it was the belief of the Treasury that its further loans to foreign Governments should be reduced so far as possible, and that they should finance themselves in our financial markets. Steps were taken as rapidly as possible to relax governmental supervision and to induce the respective Governments to act independently. The consequence was that the Belgian, British, French, and Italian Governments all found means during the period to obtain funds here from private lenders, on treasury bills and on long-time obligations; their transactions with the United States Treasury formed a smaller proportion of their entire transactions; and important maturities, including that of the Anglo-French loan of \$500,000,000 on October 15, 1920, have been met without the assistance of the United States Treasury. Payments in dollars by various of our departments to the British Government have amounted since July 1, 1919, to something like \$70,000,000, and are probably not yet complete; and payments to the British Government for sterling furnished by it for the use of the United States Government in meeting commitments for war expenditures in England amounted during the year ended November 15, 1920, to about \$48,000,000.

"In considering the statements it must be borne in mind that the amounts shown under the various headings do not for the most part include expenditures of dollars obtained by foreign Governments otherwise than from the American Government's loans and expenditures in Europe, and therefore do not represent total disbursements. Furthermore, purchases of commodities here are included in the item of exchange, particularly for the earlier part of the war. In the ordinary course of trade, all transactions in these would have been reflected in a net balance of trade which would have been settled through the importation of gold or the sale of exchange except in so far as it might have been capitalized through the purchase of American securities held abroad, or of securities of the foreign Governments offered in the United States or adjusted by transfer of bank balances or otherwise. In the early stages of the war, all commodity purchases by Great Britain were thus merged in exchange except purchases of munitions and sugar. Therefore, the exchange item in the British statement of expenditures reflected purchases of wheat, food, cotton, leather, and oil under Government control, as well as all transactions of individual buyers in the United States, and the amounts shown under specific headings included only commodities bought under Government control after centralized purchases and finance were established. The amount expended by France for exchange was of a less complex character than the disbursements shown under the same heading for Great Britain. After March, 1917, imports into France were in general prohibited until after the armistice. In some cases, however, imports from the United States were authorized and in such cases the Bank of France undertook to provide funds sufficient to pay for them. Prior to November 30,

1918, the dollar funds provided by the Bank of France constituted the major part of the French exchange payments. There are also included under this heading certain sums expended in New York in purchasing drafts on Paris or in making payments for cotton. Some purchases on French account were paid for by drafts on London; this being particularly true in the earlier part of the period. The purchases of these drafts are included in the British item of expenditure and the amount of transactions as estimated from time to time for the French and British Governments forms part of the reimbursement by the French to the British. It will readily be apparent that completely to analyze the total purchases of exchange is impossible. It was consistently the aim of the Treasury Department to have whole classes of transactions, such as the buying of wheat and food, taken out of the general exchange market, so far as possible, to be provided for by direct payments, and to determine, as completely as possible, the character of the remaining exchange transactions. The system of governmental supervision and control which, under the Executive order of January 26, 1918, became effective over exchange transactions on February 18, 1918, and other steps pursued made it possible to exercise a close scrutiny on items of exchange purchases until the end of June, 1919, when control of exchange by this Government was terminated. It will be recalled that the 'unpegging' of their exchanges by the British, French, and Italian Governments took place in March, 1919.

"The items of reimbursements included in the statements of expenditures consist principally of payments by France and Italy to Great Britain for cereals, sugar, meats, and munitions and for neutral freights, and other disbursements made to neutrals, and of payments by Belgium to Great Britain for horses, petrol, oats, flour, and certain relief supplies furnished by Great Britain out of supplies obtained actually or constructively from the United States. The expenditures for silver represent principally sales to the British under the provisions of the Pittman Act for the purpose of strengthening the metallic reserve of the currency of India. Such sales were not, however, paid for entirely out of United States Treasury advances. The British authorities received \$71,353,249.99 for rupees made available to the Federal Reserve Bank of New York, and the sum of \$9,999,658.07 in gold was shipped to this country from India. The interest item includes, with the exception of Cuban and Greek interest and of the partial payments of \$3,265,802.51 mentioned on page 57 on account of Russian interest, the amount received by the United States on its advances to foreign Governments. The contributions for relief in the statements of British, French, and Italian expenditures include an item of \$16,000,000, which each contributed toward the relief of the people of Austria. The French expenditures also include part of the amount provided by the French Government toward the relief of the people of France and Belgium. Almost the whole of the advances to Roumania and Serbia, and considerably

more than half of those to Belgium and the Czechoslovak Republic were for relief. The Treasury's program of advances for relief during the period between November 30, 1918, and June 30, 1919, was largely based upon reports from the American Relief Administration, which represented that they were necessary as a military measure to prevent the spread of anarchy; and a considerable part were made upon the condition that they should be expended through the American Relief Administration."

The following statement gives in round millions of dollars a summary of the expenditures, by classes, reported by each government as having been made in the United States for the period April 6, 1917 to November 1, 1920:

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A SUMMARY OF THE EXPENDITURES, BY CLASSES, REPORTED BY
THE FOREIGN GOVERNMENTS SPECIFIED AS MADE IN THE
UNITED STATES BETWEEN APRIL 6, 1917, AND NOVEMBER 1, 1920.
(In millions of dollars)

	Total	Great Britain	France	Italy	Belgium	Russia	Other Countries (1)
Expenditures:							
Munitions, including remounts	2,493.6	1,330.6	827.2	259.1	14.1	58.7	3.9
Munitions for other governments ..	205.5	205.5	-----	-----	-----	-----	-----
Exchange and cotton purchases	2,644.8	1,682.4	806.6	87.6	-----	53.2	15.0
Cereals	1,422.5	1,375.4	-----	41.8	5.3	-----	-----
Other foods	1,629.7	1,169.2	295.2	141.4	22.2	1.7	-----
Tobacco	145.1	99.2	40.7	-----	5.2	-----	-----
Other supplies	613.1	215.3	276.6	63.5	3.4	49.3	-----
Transportation	136.1	-----	32.5	99.9	1.5	2.2	-----
Shipping	173.4	48.9	122.4	.8	-----	1.3	-----
Reimbursements	1,872.9	19.3	1,045.8	784.0	23.2	.6	-----
Interest	730.5	387.8	268.8	57.6	11.0	4.1	1.2
Maturities	648.2	353.5	289.7	-----	-----	5.0	-----
Relief	538.2	16.0	143.1	16.0	264.5	-----	95.6
Silver	267.9	261.6	6.3	-----	-----	-----	-----
Food for Northern Russia	7.0	7.0	-----	-----	-----	-----	-----
Purchases from neutrals	18.7	-----	-----	18.7	-----	-----	-----
Special credit against credits to be established for United States Government war purchases in Italy	25.0	-----	-----	25.0	-----	-----	-----
Miscellaneous	168.6	47.7	41.3	56.4	3.1	3.1	17.0
Total reported expenditures	13,740.8	7,219.4	4,196.2	1,651.8	358.5	179.2	135.7

(1) Cuba, Czechoslovakia, Greece, Liberia, Rumania, Yugoslavia.

A SUMMARY OF THE EXPENDITURES, BY CLASSES, REPORTED BY
THE FOREIGN GOVERNMENTS SPECIFIED AS MADE IN THE UNITED
STATES BETWEEN APRIL 6, 1917, AND NOVEMBER 1, 1920. (Continued)
(In millions of dollars)

	Total	Grent Britain	France	Italy	Belgium	Russia	Other Countries (1)
Sources of funds used to meet expenditure:							
Net cash advanced by United States to November 1, 1920 *	9,466.3	4,196.8	2,966.0	1,631.4	349.2	187.7	135.2
Reimbursements from United States advances to other governments ...	1,872.9	1,853.6	19.3	-----	-----	-----	-----
Dollar payments by United States Government for foreign currencies	1,490.5	449.5	1,025.4	14.4	1.2	-----	-----
Proceeds from rupee credits and gold from India (Payment for silver purchased)	81.4	81.4	-----	-----	-----	-----	-----
From other sources	829.7	638.1	185.5	6.0	3.1 (Minus)	8.5	.5
Total	13,740.8	7,219.4	4,196.2	1,651.8	358.5	179.2	135.7

* Cash advances to November 1, 1920 (net) as shown above	a/	(Millions)
Repayments to November 1, 1920	a/	\$9,466.3
Total cash advances to November 1, 1920	<	114.5
Cash advances since November 1, 1920:		9,580.8
Italy, March 30, 1921		\$16.7
Czechoslovakia, May 29, 1922		.7
Greece, Act February 14, 1929		12.2
Total cash advances as shown on page 15		29.6
		9,610.4

a/ Exclusive of \$5,000,000 conditional advances to Russia not availed of and returned.

(1) Cuba, Czechoslovakia, Greece, Liberia, Rumania, Yugoslavia.

III. SALE OF WAR SUPPLIES ON CREDIT

Under authority of the Act of July 9, 1918, the President, through the head of any executive department, was authorized to sell any surplus war supplies on such terms as the head of such department deemed expedient. On February 11, 1919, the Secretary of War, by direction of the President, created the United States Liquidation Commission - War Department, which was headed by the late Judge Edwin B. Parker. This commission was created for the purpose of disposing of America's vast stores of surplus war supplies accumulated in Europe, principally in France, for use of the American Expeditionary Forces, and "to settle all claims and accounts between Allied Governments and their nationals on the one part and the United States War Department on the other part, growing out of or in anywise connected with the war." The Commission, in its report of May 31, 1920, indicated the basis on which the supplies disposed of were valued. The supplies were sold to the various countries shown in the table on page 15 of this memorandum. The Commission received obligations from the governments purchasing the supplies payable within from three to ten years, with interest at the rate of 5 per cent per annum. The dates and amounts of the obligations so acquired from each government are included in the statement shown on pages 326-328 of the Combined Annual Reports.

In addition to the sales of surplus supplies made by the United States Liquidation Commission, the Secretary of War and the Secretary of the Navy also sold supplies on credit under the Act of July 9, 1918, for which they acquired obligations of the purchasing governments. All of these obligations bore interest at the rate of 5 per cent per annum except those received from Nicaragua, which bore interest at the rate of 6 per cent per annum, and are included in the statement on pages 326 and 327 of the Combined

Annual Reports. Since the publication of the Combined Annual Reports additional obligations bearing interest at 6 per cent per annum have been received from Nicaragua in the sum of \$265,245.00, and a credit in the sum of \$11,522.50 was allowed Rumania as being the value of certain material acquired by the United States from that Government.

The total principal amount of obligations acquired on account of the sales on credit by the United States Liquidation Commission, the Secretary of War, and the Secretary of the Navy, under the Act of July 9, 1918, was \$595,386,104.79. (This amount is exclusive of \$3,736,628.42 acquired by the United States Shipping Board Emergency Fleet Corporation for services rendered. See page 14).

IV. SALE OF RELIEF SUPPLIES ON CREDIT

American Relief Administration. - The Act of February 25, 1919, appropriated \$100,000,000 as a revolving fund until June 30, 1919, for the participation by the United States, in the discretion of the President, in the furnishing of foodstuffs and other urgent supplies to populations of certain countries of Europe or countries contiguous thereto. President Wilson delegated to the American Relief Administration, which was headed by the Honorable Herbert Hoover, the authority of equitably distributing the relief supplies in accordance with the provisions of the Act. Out of the appropriation of \$100,000,000 the sum of \$95,050,391.08 was expended for which there were delivered to the Treasury obligations in the principal amount of \$84,093,963.55 from various foreign governments. Approximately \$10,900,000 was spent for child feeding and other charitable services for which no obligations were taken. A full report of the expenditures under this authority was made to the President under date of September 25, 1920.

This report was printed in the Congressional Records of January 6, 1921 and December 18, 1930. The dates and amounts of the obligations so acquired from each government are shown on page 327 of the Combined Annual Reports.

United States Grain Corporation. - The Act of March 30, 1920, authorized the United States Grain Corporation, with the approval of the Secretary of the Treasury, to sell or dispose of flour in its possession, not to exceed 5,000,000 barrels, for cash or on credit at such prices and on such terms or conditions as considered necessary to relieve the populations in the countries of Europe or countries contiguous thereto suffering for the want of food. The American Relief Administration acted as the fiscal agent of the United States Grain Corporation in dispensing this relief. For these supplies there were delivered to the Treasury obligations of foreign governments in the principal amount of \$56,858,802.49. The dates and amounts of the obligations so acquired from each government are shown on page 328 of the Combined Annual Reports.

V. TRANSPORTATION SERVICES

The United States Shipping Board acquired obligations in the net principal amount of \$3,736,628.42 from the Government of Poland for transportation services rendered that government in connection with the shipment of supplies to Poland. The Shipping Board transferred these obligations to the United States Treasury for collection. The dates and amounts of such obligations are included in the statement beginning on page 326 of the Combined Annual Reports.

SUMMARY

The following statement shows the principal amount of obligations originally acquired from each foreign government under the Acts of Congress specified above, including those acquired by the United States Shipping Board.

PRINCIPAL AMOUNT OF OBLIGATIONS OF FOREIGN GOVERNMENTS ORIGINALLY ACQUIRED UNDER THE VARIOUS ACTS OF CONGRESS

Country	Total principal amount of obligations received under Liberty Bond Acts	Total principal amount of obligations received for surplus supplies sold on credit under act of July 9, 1918	Relief Supplies		Total
			Total principal amount of obligations received for relief supplies furnished on credit under act of February 25, 1919	Total principal amount of obligations received for relief supplies furnished on credit under act of March 30, 1920	
Armenia	\$ -----	\$ -----	\$ 8,028,412.15	\$ 3,931,505.34	\$ 11,959,917.49
Austria	-----	-----	-----	24,055,708.92	24,055,708.92
Belgium	349,214,467.89	29,872,732.54	-----	-----	379,087,200.43
Cuba	10,000,000.00	-----	-----	-----	10,000,000.00
Czechoslovakia ..	61,974,041.10	20,604,302.49	6,428,089.15	2,373,238.25	91,879,671.03
Estonia	-----	12,213,377.88	1,785,767.72	-----	13,999,145.60
Finland	-----	-----	8,281,926.17	-----	8,281,926.17
France	2,997,477,800.00	407,341,145.01	-----	-----	3,404,818,945.01
Great Britain ..	4,277,000,000.00	-----	-----	-----	4,277,000,000.00
Greece	1/27,167,000.00	-----	-----	-----	27,167,000.00
Hungary	-----	-----	-----	1,685,835.61	1,685,835.61
Italy	1,648,034,050.90	-----	-----	-----	1,648,034,050.90
Latvia	-----	2,521,869.32	2,610,417.82	-----	5,132,287.14
Liberia	26,000.00	-----	-----	-----	26,000.00
Lithuania	-----	4,159,491.96	822,136.07	-----	4,981,628.03
Nicaragua	-----	431,849.14	-----	-----	431,849.14
Poland	-----	2/83,682,708.66	51,671,749.36	24,312,514.37	159,666,972.39
Rumania	25,000,000.00	12,911,152.92	-----	-----	37,911,152.92
Russia	187,729,750.00	406,082.30	4,465,465.07	-----	192,601,297.37
Yugoslavia	26,780,465.56	24,978,020.99	-----	-----	51,758,486.55
	\$9,610,403,575.45	2/599,122,733.21	\$84,093,963.55	\$56,858,802.49	\$10,350,479,074.70

1/ Includes \$12,167,000 authorized under the act of February 14, 1929.

2/ Includes \$3,736,628.42 acquired by the United States Shipping Board Emergency Fleet Corporation for services rendered.

The following statement shows the above mentioned obligations separated into Pre-Armistice and Post-Armistice indebtedness:

Country	Pre-Armistice cash loans	Post-Armistice		Total Indebtedness
		Cash loans	War supplies and relief supplies	
Armenia	\$ —————	\$ —————	\$ 11,959,917.49	\$ 11,959,917.49
Austria	—————	—————	24,055,708.92	24,055,708.92
Belgium	171,780,000	177,434,467.89	29,872,732.54	379,087,200.43
Cuba	10,000,000	—————	—————	10,000,000.00
Czechoslovakia	—————	61,974,041.10	26,905,629.93	91,879,671.03
Estonia	—————	—————	13,999,145.60	13,999,145.60
Finland	—————	—————	8,281,926.17	8,281,926.17
France	1,970,000,000	1,027,477,800.00	407,341,145.01	3,404,818,945.01
Groat Britain	3,696,000,000	581,000,000.00	—————	4,277,000,000.00
Greece	—————	127,167,000.00	—————	27,167,000.00
Hungary	—————	—————	1,685,835.61	1,685,835.61
Italy	1,031,000,000	617,034,050.90	—————	1,648,034,050.90
Latvia	—————	—————	5,132,287.14	5,132,287.14
Liberia	—————	26,000.00	—————	26,000.00
Lithuania	—————	—————	4,981,628.03	4,981,628.03
Nicaragua	—————	—————	431,849.14	431,849.14
Poland	—————	—————	² 159,666,972.39	159,666,972.39
Rumania	—————	25,000,000.00	12,911,152.92	37,911,152.92
Russia	³ 187,729.750	—————	4,871,547.37	194,601,297.37
Yugoslavia	10,605,000	16,175,465.56	24,978,020.99	51,758,486.55
	\$7,077,114,750	\$2,533,288,825.45	\$740,075,499.25	\$10,350,479,074.70

¹ Includes \$12,167,000 authorized under act of February 14, 1929.

² Includes \$3,736,628.42 acquired by the United States Shipping Board Emergency Fleet Corporation, for services rendered.

³ Exclusive of \$5,000,000 conditional advance not availed of and returned. (See page 325 of Combined Reports).

VI. SETTLEMENTS

In 1921 and 1922 the World was in a state of financial disorder. No debtor nation could have paid its debt to the United States had payment been demanded. Many of them were unable to pay the interest rate of 5 per cent called for by their obligations. Only with time and more stable conditions could the possibility of settlement arise.

Recognizing the fact that the debtor nations could not pay on demand, Congress originally authorized the debts to be funded on not longer than a 25-year basis and at not less than 4-1/4 per cent interest. The Act of February 9, 1922 created the World War Foreign Debt Commission, consisting of five members, with authority

"to refund or convert and to extend the time of payment of the principal or interest, or both, of any obligation of any foreign government now held by the United States of America, or any obligation of any foreign government hereafter received by the United States of America * * * arising out of the World War, into bonds or other obligations of such foreign governments in substitution for the bonds or other obligations of such governments now or hereafter held by the United States in such form and of such terms, conditions, date or dates of maturity, rate or rates of interest, and such security, if any, which shall be deemed for the best interests of the United States of America,"

with the proviso that the Commission was not authorized to extend the time of maturity beyond June 15, 1947, and that the rate of interest on the funded obligations should not be less than 4-1/4 per cent per annum (maximum rate borne by the liberty bonds). A copy of the Act of February 9, 1922, will be found on pages six and seven of the Combined Annual Reports.

British Settlement and Amended Authority - The British Government sent a Commission, composed of its Chancellor of the Exchequer and the Governor of the Bank of England, to the United States late in December, 1922, for the

purpose of negotiating with the American Commission for the settlement of the indebtedness of Great Britain to the United States. After several meetings the conclusion was reached that the restrictions imposed by the Act of February 9, 1922, made it impossible to make any settlement which would be within the capacity of Great Britain to fulfill. It was, therefore, decided to draw up a tentative settlement with the British Government which provided for payment over a period of 62 years with interest at the rate of 3% for the first ten years and 3-1/2% for the remaining 52 years, and to submit the matter to the President with the Commission's recommendation that it be approved and submitted to Congress for its consideration. President Harding's message of February 7, 1923, embodying the Commission's report, will be found on pages 96 to 100 of the Combined Annual Reports of the Commission.

The Act of February 28, 1923, amended the Act of February 9, 1922, by authorizing the settlement of the indebtedness of the British Government to the United States on the terms recommended by the Commission, increasing the membership of the Commission from five to eight, and authorizing settlements with other governments indebted to the United States to be made upon such terms as the Commission believed to be just, subject, however, to the approval of Congress. A copy of the Act of February 28, 1923 will be found on pages 105 and 106 of the Combined Annual Reports. Other settlements were subsequently made on the basis of the estimated ability of the debtors to pay. Each settlement received the approval of Congress before it became effective.

Basis of Computations. - The obligations of the British Government acquired by the United States under the Liberty Bond Acts for cash advances were payable on demand and bore interest at the rate of 5% per annum. In September, 1919, the Secretary of the Treasury announced that the Treasury

was prepared to discuss with its foreign debtors the question of converting their demand obligations held by the United States for cash advances made under the Liberty bond acts, and at the same time to discuss the matter of funding the interest accruing over a period of two or three years on such obligations. While no agreement was concluded, the interest which had accrued since the Spring of 1919, with the exception of \$100,000,000 paid on account in October and November, 1922, had not been paid. It was agreed in the British settlement that interest would be computed at the rate of 4-1/4% per annum from April 15 and May 15, 1919, the dates to which last paid, up to December 15, 1922, the date as of which the debt was settled, and that from the amount of this accrued and unpaid interest there would be deducted the payments aggregating \$100,000,000 made in October and November of 1922, together with interest on such amount at 4-1/4% from the date of payment to December 15, 1922, and the balance, except for a payment of \$4,128,085.74 made by the British Government to round off the amount found due, would be funded under the debt agreement.

The amount of the accrued and unpaid interest included in the settlements made with Estonia, Finland, Latvia, and Poland was also computed at the rate of 4-1/4% from the date of the respective obligations or from the date to which interest was last paid in each case up to December 15, 1922, and funded as of the latter date in the same manner as under the British settlement. The Hungarian and Lithuanian settlements were made on the same basis except that the interest in the Hungarian settlement was computed up to December 15, 1923, and in the Lithuanian settlement up to June 15, 1924.

The negotiations for the Belgian settlement did not begin until August, 1925. In these negotiations the question arose as to whether the settlement should be made as of December 15, 1922 on the same basis as that of the British settlement, or as of some later date, with computations

adjusted accordingly. It was finally agreed to make the settlement as of June 15, 1925, to compute the accrued and unpaid interest on the post-armistice debt at 4-1/4% up to December 15, 1922, add the amount thereof to the principal, and to compute interest at 3% per annum on the total amount then due up to June 15, 1925. This basis of computation was followed in the settlements with Czechoslovakia, France, Italy, Rumania, and Yugoslavia. Interest on the indebtedness of Greece was computed in this manner but the 3% rate was applied up to January 1, 1928. Austria received special treatment similar to that accorded in the settlements made by it with other relief creditors. In the case of Czechoslovakia there were some differences between the records of the Czechoslovak Government and the War Department with respect to the purchase of surplus war material on credit. The amount due, with accrued and unpaid interest on the basis of the above-mentioned computations, amounted as of June 15, 1925, to \$117,858,413.94. In order not to delay the settlement it was agreed, however, that the entire amount should be compromised and settled for the round sum of \$115,000,000. The difference was considered as a reduction in the accrued and unpaid interest.

The Belgian pre-armistice debt was accorded special consideration because of certain promises which Belgium had received at the Peace Conference with respect to reparation payments to be received from Germany and the pre-armistice debts which Belgium owed to the Allied and Associated Powers. Because of these circumstances it was agreed that the pre-armistice debt should be repaid over a period of 62 years without any interest. These special considerations are discussed on pages 40 to 42, 167 to 168, and 178 to 180 of the Combined Annual Reports.

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The following is a table showing in each case the principal and interest at the time of funding, the credit allowances, the cash payments upon execution of the agreements, and total debt as funded:

STATEMENT SHOWING PRINCIPAL AND INTEREST COMPUTED AT THE RATES SPECIFIED IN DEBT AGREEMENTS ON INDEBTEDNESS OF FOREIGN GOVERNMENTS TO THE UNITED STATES AT TIME OF FUNDING, CREDIT ALLOWANCES, THE CASH PAYMENTS ON EXECUTION OF AGREEMENTS, AND THE TOTAL DEBT AS FUNDED.

Country	Indebtedness at time of funding			Credit allowances and Cash payments on execution of agreements		Funded debt
	Principal	Interest	Total	Applied on principal	Applied on interest	
Austria	\$ 24,055,708.92	\$ 559,176.08	24,614,885.00	\$ -----	\$ -----	\$ 24,614,885
Belgium	377,029,570.06	40,767,664.60	417,797,234.66	-----	17,234.66	417,780,000
Czechoslovakia	91,879,671.03	25,978,742.91	117,858,413.94	-----	3/2,858,413.94	115,000,000
Estonia	13,999,145.60	1,765,219.73	15,764,365.33	2/1,932,923.45	1,441.88	13,830,000
Finland	8,281,926.17	727,389.10	9,009,315.27	-----	9,315.27	9,000,000
France	3,340,516,043.72	684,870,643.17	4,025,386,686.89	386,686.89	-----	4,025,000,000
Great Britain	4,074,818,358.44	529,309,727.30	4,604,128,085.74	-----	4,128,085.74	4,600,000,000
Greece	3/ 27,167,000.00	3,127,922.67	30,294,922.67	2,922.67	-----	30,292,000
Hungary	1,685,835.61	253,917.43	1,939,753.04	-----	753.04	1,939,000
Italy	1,647,869,197.96	394,330,263.38	2,042,199,466.34	199,466.34	-----	2,042,000,000
Latvia	5,132,287.14	647,275.62	5,779,562.76	-----	4,562.76	5,775,000
Lithuania	4,981,628.03	1,049,918.94	6,031,546.97	-----	1,546.97	6,030,000
Poland	159,666,972.39	18,896,053.60	178,565,025.99	-----	5,025.99	178,560,000
Rumania	36,116,972.44	8,477,479.10	44,594,451.54	4,451.54	-----	44,590,000
Yugoslavia	51,037,886.39	11,319,226.00	62,357,112.39	7,112.39	-----	62,350,000
	\$9,864,238,203.90	\$ 1,722,582,624.63	\$11,586,820,828.53	2,533,563.28	7,026,380.25	\$11,577,260,885

Cash received upon execution of agreements

600,639.83 4,167,966.31 4,768,606.14

Credit allowances

2/1,932,923.45 1/2,858,413.94 4,791,337.39
2,533,563.28 7,026,380.25 9,559,943.53

Amount funded

9,861,704,640.62 1,715,556,244.38 11,577,260,885.00

- (1) Amount of interest written off in compromise settlement with Czechoslovakia referred to on page 20.
- (2) Allowance for total loss of cargo of S.S. JOHN RUSS sunk by a mine in Baltic Sea (See page 27.
- (3) Includes 4% twenty-year loan of \$12,167,000 authorized by Act of February 14, 1929.

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The following shows in each case the date of the debt funding agreement, the date as of which the debt was funded, and the page reference to funding agreements in the Combined Annual Reports of the World War Foreign Debt Commission and in the Annual Reports of the Secretary of the Treasury:

<u>Country</u>	<u>Date of Agreement</u>	<u>Date as of which debt was funded</u>	<u>Page</u>
Austria	May 8, 1930	Jan. 1, 1928	(a)
Belgium	Aug. 18, 1925	June 15, 1925	171
Czechoslovakia ..	Oct. 13, 1925	June 15, 1925	195
Estonia	Oct. 28, 1925	Dec. 15, 1922	208
Finland	May 1, 1923	Dec. 15, 1922	120
France	Apr. 29, 1926	June 15, 1925	257
Great Britain ..	June 18, 1923	Dec. 15, 1922	106
Greece	May 10, 1929	Jan. 1, 1928	(b)
Hungary	Apr. 25, 1924	Dec. 15, 1923	132
Italy	Nov. 14, 1925	June 15, 1925	222
Latvia	Sept. 24, 1925	Dec. 15, 1922	184
Lithuania	Sept. 22, 1924	June 15, 1924	144
Poland	Nov. 14, 1924	Dec. 15, 1922	156
Rumania	Dec. 4, 1925	June 15, 1925	244
Yugoslavia	May 3, 1926	June 15, 1925	280

(a) Annual Report of the Secretary of the Treasury for the fiscal year 1930, page 316.

(b) Annual Report of the Secretary of the Treasury for the fiscal year 1929, page 308.

The following shows for each government the amount of the debt as funded, the interest funded under the debt agreements, the amount that the United States will receive over the funding period on account of interest (exclusive of interest to be received under the Moratorium Agreements), and the total amount to be received under the original funding agreements:

STATEMENT SHOWING PRINCIPAL OF DEBT AS FUNDED, INTEREST FUNDED UNDER AGREEMENTS,
AND AMOUNT TO BE RECEIVED OVER FUNDING PERIOD ON ACCOUNT OF PRINCIPAL AND INTEREST

Country	Principal of debt as funded	Interest funded under debt agreements	Total principal payable	Interest payable over funding period exclusive of amount funded (See Column 2)	Total amount (prin- cipal and interest) to be received over funding period.
Austria.....	\$ 24,614,885	\$ -----	\$ 24,614,885.00	\$ -----	\$ 24,614,885.00
Belgium	417,780,000	-----	417,780,000.00	310,550,500.00	727,330,500.00
Czechoslovakia..	115,000,000	1/ 70,071,023.07	185,071,023.07	127,740,410.81	312,811,433.88
Estonia	13,830,000	2,636,012.87	16,466,012.87	21,241,632.89	37,707,645.76
Finland	9,000,000	-----	9,000,000.00	12,695,055.00	21,695,055.00
France.....	4,025,000,000	-----	4,025,000,000.00	2,822,674,104.17	6,847,674,104.17
Great Britain..	4,600,000,000	-----	4,600,000,000.00	6,505,965,000.00	11,105,965,000.00
Greece.....	30,292,000	2,205,000.00	32,497,000.00	5,623,750.00	38,120,750.00
Hungary	1,939,000	43,555.50	1,982,555.50	2,771,875.92	4,754,431.42
Italy	2,042,000,000	-----	2,042,000,000.00	365,677,500.00	2,407,677,500.00
Latvia	5,775,000	1,113,664.20	6,888,664.20	8,901,858.93	15,790,523.13
Lithuania	6,030,000	402,465.00	6,432,465.00	3,637,076.57	15,069,541.57
Poland	178,560,000	28,784,297.37	207,344,297.37	274,330,483.92	481,674,781.29
Rumania	44,590,000	1/ 21,970,560.43	66,560,560.43	55,945,699.62	122,506,260.05
Yugoslavia	62,850,000	-----	62,850,000.00	32,327,635.00	95,177,635.00
	\$11,577,260.885	\$ 127,226,578.44	\$11,704,487,463.44	\$10,554,582,592.83	2/\$22,259,070,056.27

1/ Represents difference between funded principal and total face amount of bonds delivered or to be delivered under the funding agreements, which difference arises through permitting the governments to fund a part of the interest accruing over the periods specified in the agreements (Czechoslovakia, first 18 years; Rumania, first 14 years).

2/ Exclusive of \$53,870,533.27 interest on payments postponed during the fiscal year 1932 under moratorium agreements (See page 39.); exclusive of interest on principal amounts postponed in accordance with terms of funding agreements in certain instances (See page 32), and exclusive of interest on principal amounts not paid when due (See page 35).

A summary of the data included in the foregoing statements relating to the indebtedness of foreign Governments to the United States is given below, with page references to the detailed statements:

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SUMMARY OF DATA INCLUDED IN ACCOMPANYING TABLES RELATING TO THE
INDEBTEDNESS OF FOREIGN GOVERNMENTS TO THE UNITED STATES

See
Page

Prearmistice debt:			
Cash advances	16	\$7,077,114,750.00	
Postarmistice debt:			
Cash advances	16	<u>2,533,288,825.45</u>	
Total cash advances	15	<u>9,610,403,575.45</u>	
War supplies, Act July 9, 1918	15	<u>1/ 599,122,733.21</u>	
Relief supplies, Act Feb. 25, 1919 ...	15	<u>84,093,963.55</u>	
Relief supplies, Act Mar. 30, 1920 ...	15	<u>56,858,802.49</u>	
Total War and Relief supplies	16	<u>740,075,499.25</u>	
Total Postarmistice debt	16	<u>3,273,364,324.70</u>	
Total principal of obligations originally acquired	15		\$10,350,479,074.70
Less principal amount of obligations of countries which have not funded their indebtedness to the United States, after deducting principal payments (Armenia, Nicaragua, and Russia)	35		<u>204,851,113.64</u> 10,145,627,961.06
Credits:			
Repayment of principal	31	<u>2/ 281,990,395.99</u>	
Special credit allowed Estonia	22	<u>1,932,923.45</u>	283,923,320.44
Principal funded (net)	22		<u>9,861,704,640.62</u>
Accrued interest to date of settlement	22	<u>1,722,582,624.63</u>	
Less cash received upon execution of agreements and applied on interest.	22	<u>4,167,966.31</u>	
		<u>1,718,414,658.32</u>	
Less amount allowed in compromise settlement with Czechoslovakia	20&22	<u>2,858,413.94</u>	<u>1,715,556,244.38</u>
Total principal debt as funded ..	22		<u>11,577,260,885.00</u>
Interest funded under debt agreements ...	24		<u>127,226,578.44</u> 11,704,487,463.44
Interest to be received over funding periods	24		<u>3/ 10,554,582,592.83</u>
Total principal and interest to be received over funding periods	24		<u>3/ 22,259,070,056.27</u>
1/ Includes \$3,736,628.42 acquired by United States Shipping Board Emergency Fleet Corporation for services rendered.			
2/ Includes \$600,639.93 cash received upon execution of agreements and applied on principal.			
3/ Exclusive of \$53,870,533.27 additional interest to be received under moratorium (1932) agreements. (See page 39.)			

Concessions in Debt Settlements. - Much confusion prevails as to the concessions made by the United States in the debt settlements concluded with its foreign debtors. It should be recognized at the outset that the United States in its settlements with its various debtors did not, with one exception, directly cancel any of the principal of the debt. This sole exception arose in the settlement concluded with the Government of Estonia, under which the United States agreed to a reduction of \$1,932,923.45 in the principal of the Estonian debt because of the loss of a cargo of surplus war material sold by the United States to Estonia and destroyed when the steamship JOHN RUSS was sunk by a mine in the Baltic Sea in September, 1919. With this exception the only reductions under the debt settlements were reflected entirely in a reduction in the interest rate, as indicated below.

The obligations originally acquired by the United States from its foreign debtors generally bore interest at the rate of 5% per annum. In a very few cases the rate was 6%. The funding agreements made with the foreign debtor nations provide for payments over a period of 62 years (except in the case of the Austrian settlement, which provides for a period of 40 years), with interest at varying rates, all considerably under 5%. If, therefore, the payments to be received over the funding period under the various debt settlements are discounted on a basis of a rate of 5% per annum, payable semiannually, the sum of \$5,888,000,000 is arrived at as the present worth of the debt settlements on this discount basis, as of the various dates on which the settlements became effective. The total amount due as of the date on which each settlement became effective, including accrued and unpaid interest up to such date at the original rates of interest, was about \$12,090,000,000. The difference, therefore, between this figure

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and the present worth, or about \$6,200,000,000, represents, in effect, the concessions granted under the funding agreements as compared with the original contracts.

This difference, or concession, is due entirely to a reduction in the rate of interest. It does not represent an actual loss to the United States and should not be so interpreted. The loss to the United States Government will be represented by the difference between the total amount of interest the United States pays on account of its public debt incurred for the purpose of raising funds to loan to foreign governments and the total amount of interest received by the United States from foreign governments on account of their indebtedness. It is not possible at this time to compute such loss.

The subject of cancellation is discussed in the copies of letters appearing on pages 302 and 306 of the Combined Annual Reports.

Present Value of Each Settlement. - The following statement shows the approximate amount due from each government as of the effective date of settlement, including accrued and unpaid interest at the rates borne by the original obligations prior to funding; the present worth of the payments to be received over the funding periods on the basis of discount rates of 3%, 4-1/4%, and 5%, payable semiannually, (the difference between present worth on 5% basis and total amount due represents reduction or concession); the percentages such present worth computations bear to the total indebtedness due; the approximate average interest rates on the indebtedness of each country as funded; and the approximate average interest rates on the original principal from the average approximate date to which interest was last paid prior to funding to the end of the funding period:

STATEMENT SHOWING (1) TOTAL AMOUNT OF INDEBTEDNESS OF EACH FOREIGN GOVERNMENT AS OF DATE OF FUNDING; (2) PRESENT VALUE OF PAYMENTS TO BE RECEIVED ON BASIS OF SPECIFIED DISCOUNT RATES, AND PERCENTAGE THAT SUCH PRESENT VALUE BEARS TO TOTAL INDEBTEDNESS, INCLUDING ACCRUED AND UNPAID INTEREST COMPUTED AT RATES BORNE BY OBLIGATIONS PRIOR TO FUNDING; AND (3) APPROXIMATE AVERAGE INTEREST RATES ON (a) INDEBTEDNESS OF EACH COUNTRY AS FUNDED AND (b) ORIGINAL PRINCIPAL FROM DATE TO WHICH INTEREST WAS LAST PAID PRIOR TO FUNDING.

Country	(1) Total amount due as of date funding agreements became effective, including accrued and unpaid interest at original rates (5% and 6%)	(2) Present value on basis of discount rates specified and percentage that present value bears to total amount due at time of funding.						(3) Average rates of interest (approximate)	
		3 per cent	Per cent	4 1/2 per cent	Per cent	5 per cent	Per cent	(a)	(b)
								On debt as funded %	On original principal %
Austria	34,631,000	12,951,000	37.4	10,238,000	29.5	8,971,000	25.9		.100
Belgium	483,426,000	302,239,000	62.5	225,000,000	46.5	191,766,000	39.7	1.790	1.840
Czechoslovakia..	123,854,000	124,995,000	100.9	91,964,000	74.3	77,985,000	63.0	3.327	3.433
Estonia	14,143,000	14,798,000	104.6	11,392,000	80.5	9,915,000	70.1	3.306	3.404
Finland	9,190,000	9,630,000	104.8	7,413,000	80.7	6,452,000	70.2	3.306	3.402
France	4,230,777,000	2,734,250,000	64.6	1,996,509,000	47.2	1,681,359,000	39.7	1.640	1.955
Great Britain..	4,715,310,000	4,922,702,000	104.4	3,788,470,000	80.3	3,296,943,000	69.9	3.306	3.415
Greece	1/19,660,000	8,577,000	43.6	6,425,000	32.7	5,495,000	27.9	.250	.950
Hungary	1,984,000	2,076,000	104.6	1,596,000	80.4	1,338,000	70.0	3.306	3.407
Italy	2,150,150,000	782,321,000	36.4	528,192,000	24.6	426,287,000	19.8	.405	.815
Latvia	5,893,000	6,181,000	104.9	4,755,000	80.7	4,137,000	70.2	3.306	3.426
Lithuania	6,216,000	6,452,000	103.8	4,967,000	79.9	4,322,000	69.5	3.306	3.420
Poland	182,324,000	191,283,000	104.9	146,825,000	80.5	127,843,000	70.0	3.306	3.408
Rumania	46,945,000	48,442,000	103.2	35,172,000	74.9	29,507,000	62.9	3.321	3.358
Yugoslavia	66,164,000	30,286,000	45.8	20,030,000	30.3	15,919,000	24.1	1.030	1.356
	12,090,667,000	9,197,183,000	76.1	6,878,948,000	56.9	5,888,104,000	48.7	2.135	2.402

1/ Excludes 4% twenty-year loan of \$12,167,000 authorized under act of February 14, 1929.

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Amounts Paid. The United States has received up to January 10, 1936 under these original settlements and the moratorium agreements (see pages 37-39) the sum of \$475,409,176.49 on account of principal and \$1,318,913,038.79 on account of interest. There has been received on unfunded debts, including payments received on the unfunded debts prior to the conclusion of the debt agreements of the respective governments, the sum of \$281,990,396.99 on account of principal and \$571,354,430.62 on account of interest. The following statement (on page 31) shows in detail the amounts received from each government.

Status on January 10, 1936. The statement on page 35 shows the status of the debts on January 10, 1936, after deducting the foregoing payments (page 31) received on account.

PAYMENTS POSTPONED

Included in the indebtedness on account of principal unpaid are the following amounts representing payments postponed in accordance with the terms of the funding and moratorium agreements with the Government of Austria:

<u>Amounts</u>	<u>Date Payable</u>	<u>Postponed to</u>
\$287,556.00	January 1, 1933	1944-1968
460,093.00	January 1, 1934	1944-1968
34,767.23	January 1, 1934	1944-1968
460,093.00	January 1, 1935	1944-1968
34,767.23	January 1, 1935	1944-1968
<u>Total 1,277,276.46</u>		

TOTAL PAYMENTS RECEIVED ON ACCOUNT
OF INDEBTEDNESS OF FOREIGN GOVERNMENTS
TO THE UNITED STATES
AS OF JANUARY 10, 1938

Country	Total payments received	On funded debts		On debts prior to funding ^{1/}	
		Principal	Interest	Principal	Interest
Austria	\$ 862,668.00	\$ 862,668.00	\$ ---	\$ 2,057,630.37	\$ 18,543,642.87
Belgium	52,191,273.24	17,100,000.00	14,490,000.00	10,000,000.00	2,286,751.58
Cuba	12,236,751.58	---	---	---	304,178.09
Czechoslovakia..	20,134,092.26	19,829,914.17	---	---	1,441.88
Estonia	1,248,432.07	---	1,246,990.19	---	309,315.27
Finland	4,310,117.77	655,318.45	3,345,484.05	---	221,386,302.82
France	486,075,891.30	161,330,000.00	38,650,000.00	64,689,388.18	357,896,657.11
Great Britain ..	2,024,548,817.09	232,000,000.00	1,232,770,518.42	202,181,641.56	1,159,153.34
Greece	3,429,712.01	981,000.00	1,286,636.00	2,922.67	753.04
Hungary	468,466.32	73,995.50	393,717.78	---	57,598,852.62
Italy	100,829,887.16	37,100,000.00	5,766,708.26	354,319.28	130,828.95
Latvia	761,549.07	9,200.00	621,520.12	---	10,471.56
Liberia	36,471.56	---	---	26,000.00	1,546.97
Lithuania	1,237,956.58	234,785.00	1,001,626.61	---	26,625.48
Nicaragua	168,575.84	---	---	141,950.36	5,048,224.28
Poland	22,646,297.55	1,287,297.37	19,310,775.90	---	263,313.74
Rumania	4,791,007.22	2,730,000.00	29,614.46	1,798,632.02	8,750,311.88
Russia	8,750,311.88	---	---	---	636,059.14
Yugoslavia	2,586,771.69	1,235,000.00	---	727,712.55	---
	<u>\$2,747,667,042.89</u>	<u>\$475,409,176.49</u>	<u>\$1,018,913,038.79</u>	<u>\$281,990,396.99</u>	<u>\$671,354,430.62</u>

^{1/} Includes cash received upon execution of debt funding agreements amounting to \$4,768,606.14, of which amount \$600,639.83 was applied on principal and \$4,167,966.31 on interest. (See page 22.)

PAYMENTS MADE DURING PERIOD FROM JULY 1, 1932 TO JANUARY 10, 1936

	<u>Funding Agreements</u>		<u>Moratorium Agreements</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Annuities</u>	<u>Total</u>
<u>Czechoslovakia</u>				
December 15, 1932	\$1,500,000.00	-	-	\$1,500,000.00(a)
June 15, 1933	179,914.17	-	-	179,914.17
December 15, 1933	150,000.00	-	-	150,000.00
<u>Finland</u>				
December 15, 1932	58,000.00	\$128,235.00	-	186,235.00(a)
June 15, 1933	-	148,592.50	-	148,592.50(a)
December 15, 1933	62,000.00	148,592.50	\$19,030.50	229,623.00(a)
June 15, 1934	-	147,507.50	19,030.50	166,538.00(a)
December 15, 1934	62,000.00	147,507.50	19,030.50	228,538.00(a)
June 15, 1935	-	146,422.50	19,030.50	165,453.00(a)
December 15, 1935	65,000.00	146,422.50	19,030.50	230,453.00(a)
<u>Great Britain</u>				
December 15, 1932	30,000,000.00	65,550,000.00	-	95,550,000.00(a)
June 15, 1933	-	10,000,518.42	-	10,000,518.42
December 15, 1933	-	7,500,000.00	-	7,500,000.00
<u>Greece</u>				
November 10, 1932	-	65,376.00	-	65,376.00(b)
May 10, 1933	-	59,928.00	-	59,928.00(c)
November 10, 1933	-	59,928.00	-	59,928.00(c)
May 10, 1934	-	76,272.00	-	76,272.00(c)
November 10, 1934	-	76,272.00	-	76,272.00
<u>Italy</u>				
December 15, 1932	-	1,245,437.50	-	1,245,437.50(a)
June 15, 1933	-	1,000,020.76	-	1,000,020.76
December 15, 1933	-	1,000,000.00	-	1,000,000.00
<u>Latvia</u>				
December 15, 1932	9,200.00	102,652.12	-	111,852.12(a)
June 15, 1933	-	6,000.00	-	6,000.00
December 15, 1933	-	9,530.16	-	9,530.16
<u>Lithuania</u>				
December 15, 1932	-	92,386.01	-	92,386.01(a)
June 15, 1933	-	9,990.35	-	9,990.35
December 15, 1933	-	7,000.00	-	7,000.00
<u>Rumania</u>				
<u>Yugoslavia</u>				
June 15, 1933	-	29,061.46	-	29,061.46

(a) Total amounts payable on dates indicated.

(b) Received January 7, 1933.

(c) Received July 6, 1934.

AMOUNTS NOT PAID ACCORDING TO TERMS OF AGREEMENTS

The total indebtedness of foreign governments to the United States as of January 10, 1936 (page 35) includes the following amounts previously due under the funding and moratorium agreements and not paid as of that date according to the terms of such agreements.

	<u>Funding Agreements</u>		<u>Moratorium Agreements</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Annuities</u>	<u>Total</u>
<u>Austria</u>				
January 1, 1936	\$460,093.00	-	\$34,767.23	\$494,860.23
<u>Belgium</u>				
December 15, 1932	-	\$2,125,000.00	-	
June 15, 1933	4,200,000.00	2,125,000.00	-	
December 15, 1933	-	2,375,000.00	484,453.88	
June 15, 1934	4,300,000.00	2,375,000.00	484,453.88	
December 15, 1934	-	2,625,000.00	484,453.88	
June 15, 1935	4,300,000.00	2,625,000.00	484,453.88	
December 15, 1935	-	4,158,000.00	484,453.88	33,630,260.40
<u>Czechoslovakia</u>				
June 15, 1933	1,320,085.83	-	-	
December 15, 1933	1,350,000.00	-	182,812.78	
June 15, 1934	1,500,000.00	-	182,812.78	
December 15, 1934	1,500,000.00	-	182,812.78	
June 15, 1935	1,500,000.00	-	182,812.78	
December 15, 1935	1,000,000.00	-	182,812.78	9,584,149.73
<u>Estonia</u>				
December 15, 1932	21,000.00	245,370.00	-	
June 15, 1933	-	286,265.00	-	
December 15, 1933	114,500.00	286,265.00	36,585.29	
June 15, 1934	-	286,265.00	36,585.29	
December 15, 1934	208,500.00	286,265.00	36,585.29	
June 15, 1935	-	286,265.00	36,585.29	
December 15, 1935	122,000.00	286,265.00	36,585.29	2,611,886.45
<u>France</u>				
December 15, 1932	-	19,261,432.50	-	
June 15, 1933	21,477,135.00	19,261,432.50	-	
December 15, 1933	-	19,261,432.50	3,046,879.72	
June 15, 1934	36,661,906.35	19,261,432.50	3,046,879.72	
December 15, 1934	-	19,261,432.50	3,046,879.72	
June 15, 1935	42,058,825.41	19,261,432.50	3,046,879.72	
December 15, 1935	-	19,261,432.50	3,046,879.72	250,292,292.86

	<u>Funding Agreements</u>		<u>Moratorium Agreements</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Annuities</u>	<u>Total</u>
<u>Great Britain</u>				
June 15, 1933	-	65,949,481.58	-	
December 15, 1933	32,000,000.00	68,450,000.00	9,720,765.05	
June 15, 1934	-	75,950,000.00	9,720,765.05	
December 15, 1934	32,000,000.00	75,950,000.00	9,720,765.05	
June 15, 1935	-	75,950,000.00	9,720,765.05	
December 15, 1935	32,000,000.00	75,950,000.00	9,720,765.05	582,803,305.83
<u>Greece</u>				
November 10, 1932	227,000.00	152,544.00	-	
January 1, 1933	-	2,762.50	-	
May 10, 1933	231,000.00	137,952.00	-	
July 1, 1933	-	5,525.00	13,169.45	
November 10, 1933	238,000.00	137,952.00	53,967.93	
January 1, 1934	-	8,712.50	13,169.45	
May 10, 1934	240,000.00	141,648.00	53,967.93	
July 1, 1934	-	11,900.00	13,169.45	
November 10, 1934	245,000.00	141,648.00	53,967.93	
January 1, 1935	860,000.00	16,087.50	13,169.45	
May 10, 1935	251,000.00	217,920.00	53,967.93	
July 1, 1935	150,000.00	-	13,169.45	
November 10, 1935	256,000.00	217,920.00	53,967.93	
January 1, 1936	150,000.00	-	13,169.45	4,426,507.65
<u>Hungary 1/</u>				
December 15, 1932	12,235.00	28,444.35	-	
June 15, 1933	-	28,444.35	-	
December 15, 1933	12,785.00	28,444.35	4,225.58	
June 15, 1934	-	33,185.08	4,225.58	
December 15, 1934	12,800.00	33,185.07	4,225.58	
June 15, 1935	-	33,185.08	4,225.58	
December 15, 1935	13,310.00	33,185.08	4,225.58	290,381.27
<u>Italy</u>				
June 15, 1933	12,500,000.00	245,437.50	-	
December 15, 1933	-	245,437.50	896,155.88	
June 15, 1934	12,000,000.00	1,245,437.50	896,155.88	
December 15, 1934	-	1,245,437.50	896,155.88	
June 15, 1935	13,000,000.00	1,245,437.50	896,155.88	
December 15, 1935	-	1,245,437.50	896,155.88	47,853,383.64
<u>Latvia</u>				
June 15, 1933	-	113,609.00	-	
December 15, 1933	47,500.00	110,078.94	15,274.26	
June 15, 1934	-	119,609.00	15,274.26	
December 15, 1934	85,800.00	119,609.00	15,274.26	
June 15, 1935	-	119,609.00	15,274.26	
December 15, 1935	50,200.00	119,609.00	15,274.26	961,095.14

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	<u>Funding Agreements</u>		<u>Moratorium Agreements</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Annuities</u>	
<u>Lithuania</u>				
June 15, 1933	39,705.00	82,395.65	-	
December 15, 1933	-	85,386.01	13,683.26	
June 15, 1934	41,795.00	92,380.00	13,683.26	
December 15, 1934	-	107,783.67	13,683.26	
June 15, 1935	42,685.00	107,783.67	13,683.26	
December 15, 1935	-	107,783.67	13,683.26	776,319.97
<u>Poland</u>				
December 15, 1932	232,000.00	3,070,980.00	-	
June 15, 1933	-	3,582,810.00	-	
December 15, 1933	1,393,000.00	3,582,810.00	456,229.71	
June 15, 1934	-	3,582,810.00	456,229.71	
December 15, 1934	2,577,000.00	3,582,810.00	456,229.71	
June 15, 1935	-	3,582,810.00	456,229.71	
December 15, 1935	1,485,000.00	3,582,810.00	456,229.71	32,535,988.55
<u>Rumania</u>				
June 15, 1933	1,000,000.00	-	-	
January 2, 1934	-	-	48,750.08	
June 15, 1934	1,200,000.00	-	48,750.08	
December 15, 1934	-	-	48,750.08	
June 15, 1935	1,400,000.00	-	48,750.08	
December 15, 1935	-	-	48,750.08	3,843,750.40
<u>Yugoslavia</u>				
June 15, 1932	250,000.00	-	-	
June 15, 1933	275,000.00	-	-	
June 15, 1934	300,000.00	-	-	
June 15, 1935	325,000.00	-	-	1,150,000.00
Total	270,166,110.59	626,176,280.70	74,912,701.03	971,255,092.32

- 1/ The Hungarian Government has deposited with the foreign creditors' account at the Hungarian National Bank Hungarian Treasury Certificates in the aggregate amount of 994,994.98 pengos, as of June 30, 1935, plus the pengos equivalent of the amount due on December 15, 1935. The debt funding agreement with Hungary provides for payment in dollars in the United States.

STATEMENT SHOWING TOTAL INDEBTEDNESS OF FOREIGN GOVERNMENTS TO THE UNITED STATES - JANUARY 17, 1936

Country	Total Indebtedness	Principal Unpaid ^{1/}	Interest postponed and payable under moratorium agree- ments.	Interest accrued and unpaid under funding and moratorium agree- ments.
Funded debts:				
Austria.....	\$ 23,898,429.72	\$ 23,752,217.00	-	\$ 146,212.72
Belgium.....	423,479,692.37	400,680,000.00	\$ 3,750,000.00	19,049,692.37
Czechoslovakia.....	165,483,256.97	165,241,108.90	-	242,148.07
Estonia.....	18,969,792.79	16,466,012.87	492,360.19	2,011,419.73
Finland.....	8,511,349.71	8,314,681.55	199,668.16	-
France.....	4,041,152,328.53	3,863,650,000.00	38,636,500.00	138,865,828.53
Great Britain.....	4,950,595,301.20	4,368,000,000.00	131,520,000.00	451,075,301.20
Greece.....	33,281,866.01	31,516,000.00	449,080.00	1,316,786.01
Hungary.....	2,189,303.19	1,908,560.00	57,072.75	223,670.44
Italy.....	2,014,065,749.13	2,004,900,000.00	2,506,125.00	6,659,624.13
Latvia.....	7,807,809.81	6,879,464.20	205,989.96	722,355.65
Lithuania.....	6,985,255.55	6,197,682.00	185,930.46	601,643.09
Poland.....	237,390,982.53	206,057,000.00	6,161,835.00	25,172,147.53
Rumania.....	63,925,133.26	63,860,560.43	-	64,572.83
Yugoslavia...2/.....	61,625,000.00	61,625,000.00	-	-
Total.....	\$12,059,394,250.77	\$11,229,078,286.95	\$184,164,561.52	\$646,151,402.30
Unfunded debts:				
Armenia.....	21,509,408.26	11,959,917.49	-	9,549,490.77
Nicaragua.....	451,386.26	289,898.78	-	161,487.48
Russia.....	356,481,985.04	192,601,297.37	-	163,880,687.67
Total.....	378,442,779.56	204,851,113.64	-	173,591,665.92
Grand total.....	\$12,437,837,030.33	\$11,433,929,400.59	\$184,164,561.52	\$819,743,068.22

^{1/} Includes principal postponed under moratorium agreements (page 39) and principal amounts not paid according to contract terms (page 33).

^{2/} This government has not accepted the provisions of the moratorium.

Note: Indebtedness of Germany to the United States not shown in above statement, but discussed on pages 49 and 50.

Regraded Unclassified

PAYMENTS DUE JANUARY 10 TO JULY 1, 1936

The following statement shows the amounts payable under the funding and moratorium agreements during the period from January 10 to July 1, 1936:

	<u>Funding Agreements</u>		<u>Moratorium</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Agreements</u>	
Payable May 10, 1936:				
Greece	\$261,000.00	\$217,920.00	\$53,967.93	\$532,887.93
Payable June 15, 1936:				
Belgium	\$4,500,000.00	\$4,158,000.00	\$484,453.88	\$9,142,453.88
Czechoslovakia	1,500,000.00	-	182,812.78	1,682,812.78
Estonia	-	286,265.00	36,585.29	322,850.29
Finland	-	145,235.00	19,030.50	164,315.50
France	52,479,413.67	19,261,432.50	3,046,879.72	74,787,725.89
Great Britain	-	75,950,000.00	9,720,765.05	85,670,765.05
Hungary	-	33,185.08	4,225.58	37,410.66
Italy	13,500,000.00	1,245,437.50	896,155.88	15,641,593.38
Latvia	-	119,609.00	15,274.26	134,883.26
Lithuania	44,975.00	107,783.67	13,683.26	166,441.93
Poland	-	3,582,810.00	456,229.71	4,039,039.71
Rumania	1,600,000.00	-	48,750.08	1,648,750.08
Yugoslavia	350,000.00	-	-	350,000.00
	\$73,974,388.67	\$104,889,807.75	\$14,924,845.99	\$193,789,042.41
Payable <u>July 1, 1936</u>	<u>\$1,500,000.00</u>	-	<u>\$13,169.45</u>	<u>\$1,513,169.45</u>
Greece	\$261,000.00	-	\$53,967.93	\$314,967.93

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VII. MORATORIUM

In June, 1931, apprehension regarding the financial condition of Germany caused large withdrawals of funds. The drain on Germany's banking reserves reached proportions which threatened the entire German banking and credit structure. It was evident that if the economic structure of Germany was to be saved, some temporary postponement of payments due from Germany would have to be arranged. Recognizing the need for international cooperation to give the needed relief and to alley the spread of financial panic that gripped Germany, President Hoover, on June 20, 1931, after consultation with Congressional leaders of both political parties, issued a statement in which the offer was made, subject to Congressional approval, to suspend during the fiscal year 1932 all payments due the United States on account of the indebtedness of foreign governments, provided that the important creditor powers would take similar action with respect to reparation and inter-governmental debts due them. The proposal was favorably received. On July 6, 1931, it was announced that the offer had been accepted in principle by all the important creditor governments. On the convening of Congress the matter was submitted to it by President Hoover, and the authority to postpone payments due the United States was provided in a Joint Resolution of Congress approved on December 23, 1931. The Joint Resolution provided for the postponement of the amounts due during the fiscal year 1932 (July 1, 1931 to June 30, 1932), and their repayment over a period of ten years beginning July 1, 1933, with interest at the rate of four per cent per annum. It also authorized the Secretary of the Treasury to conclude agreements carrying into effect the moratorium proposal.

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All of the governments indebted to the United States under the various debt agreements concluded with them, with the exception of the Government of Yugoslavia, accepted the proposal and accorded similar treatment to their debtor governments, if any, on account of war, relief, and reparation debts.

Agreements were concluded with the various debtors, making effective the President's proposal, under authority of the Joint Resolution of Congress approved December 23, 1931. Copies of these agreements are to be found in the Annual Report of the Secretary of the Treasury for the fiscal year 1932. It is not possible to furnish copies of this report but it may be available at a local library.

The following statement shows the date of the moratorium agreement with each foreign debtor, the amount postponed, the annuities payable over a period of ten years, and the total amount to be received over that period by the United States:

STATEMENT SHOWING DATES OF MORATORIUM
AGREEMENTS, AMOUNTS POSTPONED, AND
PAYMENTS TO BE RECEIVED OVER THE TEN
YEAR PERIOD

Country	Date of Agreement	Amounts Postponed			Amount payable each year including interest at 4% per annum	Total to be received over 10 year period
		Principal	Interest	Total		
Austria	Sept. 14, 1932	\$ 287,556.00	\$ -----	287,556.00	34,767.23	347,672.30
Belgium	June 10, 1932	4,200,000.00	3,750,000.00	7,950,000.00	968,907.76	9,899,077.60
Czechoslovakia ..	June 10, 1932	3,000,000.00	-----	3,000,000.00	355,625.56	3,656,255.60
Estonia	June 11, 1932	108,012.87	492,360.19	600,373.06	73,170.58	731,705.80
Finland	May 23, 1932	55,000.00	257,295.00	312,295.00	38,061.00	380,610.00
France	June 10, 1932	11,363,500.00	38,636,500.00	50,000,000.00	6,043,759.44	60,937,594.40
Great Britain ...	June 4, 1932	28,000,000.00	131,520,000.00	159,520,000.00	19,441,530.10	194,415,301.00
Greece	May 24, 1932	660,000.00	445,080.00	1,109,080.00	135,174.72	1,342,747.60
Hungary	May 27, 1932	12,270.00	57,072.75	69,342.75	8,451.16	84,511.60
Italy	June 3, 1932	12,200,000.00	2,506,125.00	14,706,125.00	1,752,311.76	17,923,117.60
Latvia	June 11, 1932	44,664.20	205,989.96	250,654.16	30,548.52	305,485.20
Lithuania	June 9, 1932	38,615.00	185,930.46	224,545.46	27,365.52	273,665.20
Poland	June 10, 1932	1,325,000.00	6,161,835.00	7,486,835.00	912,459.42	9,124,594.20
Rumania	June 11, 1932	800,000.00	-----	800,000.00	97,500.16	975,001.60
Yugoslavia (2)						
Total.....		\$62,094,612.07	\$164,222,188.36	\$246,316,806.43	\$30,016,733.97	\$300,137,339.70
(1)						
Germany-Army costs	May 26, 1932	-----	-----	RM25,300,000.00	RM3,050,093.50	RM30,580,989.00

(1) Expressed in reichsmarks.

(2) This government has not accepted the provisions of the moratorium, and has not paid the amount due during the fiscal year 1932 amounting to \$250,000.

VIII. THE GERMAN DEBT

The Government of Germany is indebted to the United States on account of the costs of the American Army of Occupation and the awards of the Mixed Claims Commission, United States and Germany. This indebtedness is not included in the foregoing figures.

The payments received from time to time prior to the execution of the debt funding agreement of June 23, 1930, were made in accordance with arrangements effected by the United States with the governments represented on the Reparation Commission.

Army Costs, - Under the Armistice Convention of November 11, 1918, the Government of Germany agreed to reimburse the Allied and United States Governments for the upkeep of the troops of occupation in the Rhine districts (excluding Alsace-Lorraine). The Versailles Treaty under Article 249, which article is incorporated by reference in the Berlin Treaty (treaty of peace between the United States and Germany), provides that the German Government shall pay the total costs of all armies of the Allied and Associated Powers in occupied German territory from November 11, 1918.

The first arrangement made regarding the reimbursement to the United States of the costs of the American Army of Occupation was the so-called Wadsworth Agreement executed under date of May 25, 1923, under the terms of which the American army costs were to be paid in twelve equal yearly installments beginning on December 31, 1923. Under that agreement the amounts paid came from funds received from Germany by the Reparation Commission as payments on account of reparations.

In 1924 the Dawes Plan became effective. The United States was not a party to this Plan, but was represented on the committee which met in Paris in the early part of 1925 to consider the distribution of the Dawes annuities. The meetings of this committee resulted in the conclusion of the so-called Finance Ministers' Agreement of January 14, 1925, which by its terms superseded the so-called Wadsworth Agreement of May 25, 1923, and made provision whereby the United States was to receive out of the annuities paid by Germany under the Dawes Plan the sum of 55,000,000 gold marks per annum on account of the costs of the American Army of Occupation. Under this agreement the balance due on account of army costs would have been liquidated in about fifteen years.

In 1929 the Dawes Plan was superseded by the Young Plan. The United States was not represented on the committee which formulated the Young Plan. This plan attempted to establish the total amount which Germany could pay within its ability over a period of years. In order to make the Young Plan all-inclusive, the committee allocated to the United States an average annuity of 66,100,000 reichsmarks a year for thirty-seven years and a flat annuity of 40,800,000 reichsmarks a year for a period of fifteen years thereafter. The United States accepted the allocation made to it, but by this acceptance it did not become a party to the Plan. Of the total allocated to the United States, an average annuity of 25,300,000 reichsmarks a year

for thirty-seven years was fixed by the United States as the amount applicable to the costs of the American Army of Occupation. The agreement entered into under date of June 23, 1930 between Germany and the United States, pursuant to the Act of Congress approved June 5, 1930, among other provisions requires the payment of this sum each year on account of the army costs over the period mentioned.

In fixing the amount to be paid by Germany under the Young Plan, the Governments of France and Great Britain agreed to cancel the balance due on account of the costs of their armies of occupation. This amounted to approximately 10% of the original amount due. In order to facilitate the adoption of the plan and to cooperate in a general European settlement, the United States also agreed to cancel 10% of its original army costs. The amount originally due on account of army costs was \$292,663,435.79 and on September 1, 1929, the date as of which the so-called Young Plan became effective, it had been reduced to \$193,936,765.20. This sum reduced by \$29,266,343.58 as a result of the above-mentioned arrangement for cancelling 10% left a balance due of \$164,670,421.62. The amount of the annuities which the United States will receive over the thirty-seven year period aggregates 1,048,100,000 reichsmarks (approximately \$422,700,000). The difference between the balance due after deducting 10% and the amount to be received over the entire period represents, to some extent, an additional amount included in the total sum to be paid by Germany on account of this indebtedness to compensate the United States for the additional time required to liquidate the indebtedness beyond the fifteen-year period that would have been required under the agreement of January 14, 1925. ^{1/}

^{1/} The settlement was discussed in the Annual Report of the Secretary of the Treasury for the fiscal year ended June 30, 1930.

The United States holds bonds of the German Government delivered under the funding agreement of June 23, 1930, in the principal amount of 997,500,000 reichsmarks, or converted at 40.33 cents (new par) to the reichsmark, \$402,291,750. The payment of the two bonds in the principal amount of 12,650,000 reichsmarks each, due on September 30, 1931, and March 31, 1932, was postponed under the Joint Resolution of Congress approved December 23, 1931. Subsequent principal payments aggregating 71,800,000 reichsmarks, interest payments aggregating 3,351,312.50 reichsmarks, and annuities under the moratorium agreement aggregating 7,645,247.25 reichsmarks have not been paid as required by the provisions of the German-American debt agreement of June 23, 1930 and the moratorium agreement of May 26, 1932. The following statement indicates the amount now due the United States on account of army costs:

Total army cost charges (gross), including expenses of Interallied Rhine Land High Commission (American Department).....	\$292,663,435.79
---	------------------

Credits to Germany:

Armistice funds (cash requisition on German Government).....	\$37,509,605.97	
Provost fines.....	159,033.64	
Abandoned enemy war material.....	5,240,759.29	
Armistice trucks.....	1,532,088.34	
Spare parts for armistice trucks...	355,546.73	
Coal acquired by army of occupation	756.33	
		44,797,790.30
		247,865,645.49

Payments received:

Under the army cost agreement of May 25, 1923, which was superseded by agreement of January 14, 1925.	14,725,154.40	
Under Paris agreement of January 14, 1925.....	39,203,725.89	
Under debt agreement of June 23, 1930.....	12,069,631.84	65,998,512.13
Unpaid balance of original army costs.....		181,867,133.36

Note: The balance due on account of army costs is exclusive of the 10 per cent reduction allowed in the amount of the total army costs originally due, contemplated in the agreement with Germany, to accord with similar reductions accepted by the Governments of France and Great Britain under the Young Plan. The amount due during the fiscal year 1932 and postponed under the Joint Resolution of December 23, 1931, has not been deducted from balance due.

Mixed Claims. - Under the agreement of August 10, 1922, provision was made for the creation of the Mixed Claims Commission, United States and Germany, with authority to determine and adjudicate the amount of all claims of the United States and its nationals against Germany based on the terms of existing treaties. Under the provisions of the Finance Ministers' Agreement above mentioned, the United States was to receive out of the Dawes annuities for account of these awards 2-1/4% of all receipts from Germany available for reparation payments (after deducting prior charges). The agreement stipulated, however, that not more than 45,000,000 gold marks could be received in any one year. As indicated above, the Dawes Plan was superseded in 1929 by the Young Plan. Of the 66,100,000 reichsmarks allocated to the United States under the Young Plan, a flat annuity of 40,800,000 reichsmarks for fifty-two years was fixed by the United States as the amount applicable to Mixed Claims awards. The agreement entered into on June 23, 1930, between Germany and the United States also provides for the payment of this sum each year on account of these claims, in the same manner as it provides for payments on account of army costs. ^{1/}

The United States under the debt agreement of June 23, 1930 received bonds of the German Government as evidence of this indebtedness, including interest on all awards to the date of payment, in the principal amount of 2,121,600,000 reichsmarks (\$855,641,280), of which it is estimated that 1,496,600,000 reichsmarks (\$603,578,780) represent private awards and 625,000,000 reichsmarks (\$252,062,500) represent awards entered in favor of the United States Government. The bonds are not interest-bearing, but the principal amount thereof is estimated to be sufficient to pay the total amount of the awards of the Mixed Claims Commission entered in favor of the United States and its nationals, which awards bear interest by their terms at various rates, generally 5%. The Settlement

^{1/} The settlement was discussed in the Annual Report of the Secretary of the Treasury for the fiscal year 1930.

of War Claims Act, approved March 10, 1928, changed the terms of the awards so that they would bear interest according to their terms only up to January 1, 1928, and from that date until paid at the rate of 5% per annum.

The Mixed Claims Commission has entered and certified to the Treasury for payment awards in favor of American nationals in the approximate amount of \$160,000,000. In addition, the Government has received awards on its own account in the principal amount of about \$42,000,000, payment on account of which, however, has been deferred under the Settlement of War Claims Act until after all private claims are liquidated in full.

The Treasury has received from Germany on account of these awards under the various agreements above mentioned the sum of \$33,396,763.57. The balance due from Germany on account of the bonds above mentioned is to be paid in accordance with the debt agreement of June 23, 1930, in semiannual installments of 20,400,000 reichsmarks on September 30 and March 31 of each year for a period of fifty-two years beginning March 31, 1930. The principal payments aggregating 102,000,000 reichsmarks due on this account from September 30, 1931 to September 30, 1933, inclusive, which were postponed to March 31, 1934, and principal payments aggregating 81,600,000 reichsmarks and interest payments aggregating 12,750,000 reichsmarks due from March 31, 1934 to September 30, 1935, have not been paid by the German Government.

The status of the indebtedness of Germany to the United States as of March 1, 1935, is summarized in the following table:

INDEBTEDNESS OF GERMAN GOVERNMENT TO THE UNITED STATES AS OF JANUARY 10, 1936

	<u>Indebtedness as funded</u>	<u>Total indebted- ness as of January 10, 1936</u>	<u>Principal Unpaid</u>	<u>Interest accrued and unpaid</u>	<u>Interest accrued under moratorium agreement and un- paid</u>
Army Costs (Reichsmarks) . . .	1,048,100,000	1,002,668,698.11	997,500,000	3,351,312.50	1,817,385.61
Mixed Claims (Reichsmarks) . .	2,121,600,000	2,052,750,000.00	2,040,000,000	12,750,000.00	---
Total (Reichsmarks)	3,169,700,000	^{1/} 3,055,418,698.11	3,037,500,000	16,101,312.50	1,817,385.61
Equivalent in dollars (R. M. @ \$.4033)	\$1,278,340,010	\$1,232,250,360.95	\$1,225,023,750	\$6,493,659.33	\$732,951.62
	<u>Total payments received as of January 10, 1936</u>		<u>Payments of Principal</u>		<u>Payments of Interest</u>
Army Costs (Reichsmarks) . . .	51,456,406.25		50,600,000		856,406.25
Mixed Claims (Reichsmarks) . .	87,210,000.00		81,600,000		5,610,000.00
Total (Reichsmarks)	138,666,406.25		132,200,000		6,466,406.25
Amounts received in dollars	\$33,587,809.69		\$31,539,595.84		\$2,048,213.85

^{1/} Includes 4,027,611.95 reichsmarks deposited by the German Government in the Konversionskasse fur Deutsche Auslandsschulden and not paid to the United States in dollars as required by the debt fund and moratorium agreements.

REPARATIONS

Complete information showing the total amount of reparations that Germany has paid under the Treaty of Versailles to the Creditor Governments is not available as no complete accounting was made of the reparation payments made prior to the adoption of the Dawes Plan on September 1, 1924. The Dawes Plan was superseded on May 17, 1930, by a modified New Plan (Young Plan) for the payment of reparations by Germany. In the Hague Agreements of January 20, 1930, which made the Young Plan effective, there was incorporated, in accordance with a recommendation contained in the Report of the Young Committee, a provision as follows:

"The signatory Governments recognize that the accounts between the Reparation Commission and Germany relating to transactions prior to the period of the Dawes Plan, together with all accounts involving credits to Germany, either now or in the future, against the original capital debt are henceforth obsolete and without practical effect and declare them closed in their present condition."

The Young Plan as recommended by the Committee of Experts was intended to take effect, according to its terms, as of September 1, 1929; but owing to the time expended by the conferences between the interested governments, by the work of the organization committees, and by the process of ratification in the principal countries concerned, it did not become effective until May 17, 1930. During the Transition Period from September 1, 1929, to May 17, 1930, the annuities under the Young Plan falling within that period were paid and transferred under the system of administration provided by the Dawes Plan. The transactions made during the Transition Period in the funds derived from the annuities under the Dawes Plan represent, in effect, the liquidation of outstanding balances under that Plan.

The amounts paid by Germany under the Dawes Plan from September 1, 1924, to May 17, 1930, and under the Young Plan from September 1, 1929, to May 17,

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1930, will be found in detail in the reports of the Agent General for Reparation Payments. The final report of the Agent General was issued in May, 1930, and is replete with information concerning payments made by Germany under the Dawes and Young Plans from September 1, 1924, to May 17, 1930. On May 17, 1930, the administration of the annuities under the Young Plan was taken over by the Bank for International Settlements, Basle, Switzerland, in accordance with the provisions of the Young Plan, and the report of the payments made by Germany since that date under the Young Plan has been incorporated in the annual reports of that institution.

The Treasury has not available for distribution any copies of the various documents mentioned above. Copies of such documents may probably be obtained at a nominal price from the World Peace Foundation, 40 Mount Vernon Street, Boston, Massachusetts, or from the British Library of Information, 270 Madison Avenue, New York, N. Y. The May, 1924, issue of the Federal Reserve Bulletin contains a copy of the Dawes Plan, the July, 1929, issue contains a copy of the Young Plan as recommended by the Committee of Experts, and the April, 1930, issue contains copies of The Hague Agreements of January 20, 1930, which made the Young Plan effective. The supply of the Federal Reserve Bulletins has been exhausted, but such bulletins may probably be available in a local bank or public library.

The United States is not a signatory to either the Dawes Plan or the Young Plan, and did not claim and has not received any reparation payments. The amounts received by the United States, as shown in the following table, are on account of the costs of the American Army of Occupation and the awards of the Mixed Claims Commission, United States and Germany.

DISTRIBUTION AMONG CREDITOR GOVERNMENTS OF PAYMENTS MADE BY GERMANY
UNDER DAWES AND YOUNG PLANS FROM SEPTEMBER 1, 1924, TO MARCH 31, 1935

Creditor Governments receiving payments	Dawes Plan September 1, 1924, to May 17, 1930 (German Marks) (1)	Young Plan September 1, 1929, to March 31, 1935 (German Marks) (2)	Total Distributed under Dawes and Young Plans, September 1, 1924, to March 31, 1935 (German Marks)
France	3,939,182,589.10	1,429,869,426.82	5,369,052,015.92
Great Britain.....	1,554,410,293.08	465,964,080.77	2,120,374,373.85
Italy.....	555,130,021.36	232,005,684.30	787,135,705.66
Belgium.....	527,499,269.41	194,411,909.60	721,911,179.01
Yugoslavia.....	275,160,195.86	165,101,164.79	440,261,360.65
United States.....	300,430,667.80	76,950,000.00	377,380,667.80
Rumania.....	67,243,819.97	12,660,000.00	79,903,819.97
Japan.....	45,077,711.56	25,619,381.59	70,697,093.15
Portugal.....	44,894,701.61	22,082,128.97	66,976,830.58
Greece.....	23,734,396.13	5,405,919.94	29,140,316.07
Poland.....	1,417,490.26	1,124,458.33	2,541,948.59
Totals.....	7,434,161,156.14	2,631,194,155.11	10,065,375,311.25
Service on German External Loan 1924....	439,830,721.95	364,163,948.67	803,994,670.62
Service on German Government International 5½% Loan 1930.....	----	239,990,366.42	239,990,366.42
Expenses, etc.....	74,976,870.64	38,513,883.89	113,490,754.53
Loan to German Railway Company on behalf of Creditor Governments.....	----	540,335,001.76	540,335,001.76
To the German Government in accordance with the instructions of the Yugoslav Government being the share of Yugoslavia in the nonpostponable part of the annuity for the period from July 1, 1931 to June 30, 1932 (moratorium).....	----	5,379,294.12	5,379,294.12
Balance in Bank for International Settle- ments on March 31, 1935.....	----	125,633,981.96	125,633,981.96
Total payments.....	7,948,988,748.73	3,945,210,631.95	11,894,199,380.68

The foregoing statement does not include any payments received by the Creditor Governments prior to the inception of the Dawes Plan, or any of the amounts realized by Creditor Governments from sources outside the Dawes and Young Plans.
(Source of information: See next page.)

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The information shown in the foregoing statement was obtained from the reports listed below:

- (1) Report of the Agent General for Reparation Payments,
May 21, 1930, page 336;
- (2) Report of the Agent General for Reparation Payments,
May 21, 1930, pages 344 and 356;
First Annual Report of the Bank for International
Settlements, March 31, 1931, Annex VIA and Annex VIB;
Second Annual Report of the Bank for International
Settlements, March 31, 1932, Annex Va and Annex Vb;
Third Annual Report of the Bank for International
Settlements, March 31, 1933, Annex V;
Fourth Annual Report of the Bank for International
Settlements, March 31, 1934, Annex XII; and
Fifth Annual Report of the Bank for International
Settlements, March 31, 1935, Annex X.

Various supplementary agreements have been made with the German Government concerning reparation payments and other financial matters. The report of the so-called Wiggin Committee relative to the immediate further credit needs of Germany and to the possibilities of converting a portion of the short-term commercial indebtedness of Germany into long-term credits, was made in August, 1931. The Special Advisory Committee, convoked by the Bank for International Settlements at the request of the German Government, issued its report in December, 1931, relative primarily to the financial and economic condition of Germany. The reparation matter was further discussed at the Lausanne Conference in session from June 16, 1932, to July 9, 1932. Copies of such reports may probably be obtained from the World Peace Foundation or from the British Library of Information previously mentioned. The Supplement to the London Economist of January 23, 1932, entitled "Reparations and War Debts," contains considerable information regarding reparation and war debt payments and the effect of the moratorium on the budgets of the various governments concerned. Also the Supplement to the London Economist dated November 12, 1932, entitled "The War Debts," may be of interest as it contains a great deal of information concerning intergovernmental indebtedness.

The following is a bibliography of reparation publications, copies of which may no doubt be obtained from a local public library.

Economic Consequences of the Peace,
By J. M. Keynes. Macmillan and Company.

A Revision of the Treaty.
By J. M. Keynes. Macmillan and Company.

Making of the Reparation and Economic Sections
of the Treaty.
By Bernard M. Baruch. (New York) Harper and Bros.

What Germany had Paid under the Treaty of Versailles.
By Lujo Brentano. (Berlin) Walter de Gruyter and
Company. (New York) Doubleday.

Germany's Capacity to Pay.

By H. G. Moulton and Constantine McGuire.
(Washington) Brookings Institution.

The Dawes Plan in the Making.

By R. C. Dawes. (New York) Bobbs.

The Dawes Plan and the New Economics.

By G. P. Auld. (New York) Doubleday.

Germany and Her Debts.

By L. L. B. Angas. Henry J. Simmonds.

The Truth About the Treaty.

By M. Tardieu. Hodder.

The End of Reparations.

By Hjalmar Schacht. Jonathan Cape.

Reparation Reviewed.

By Andrew MacFadyen. Bonn.

War Debts and World Prosperity.

By H. G. Moulton and Leo Pasvolaky.
(Washington) Brookings Institution.

History of Reparations.

By Carl Bergmann, with a foreword
by Sir Josiah Stamp.
(London) E. Benn (1937)

The Reparation Settlement 1930.

By Derys Peter Myers.
World Peace Foundation (1930).

The Bank for International Settlements at Work.

By Eleanor Lansing Dulles.
(New York) Macmillan (1932).

1.00

DENIES DINAR DEVALUATION

OCT 14 1936

LONDON - REUTERS DISPATCH FROM BELGRADE STATES THE JUGO-SLAV FINANCE MINISTER TODAY CATEGORICALLY DENIED A RUMOR THAT THE DINAR WILL BE DEVALUED - COMMERCIAL CIRCLES HOWEVER POINT OUT THE DISCREPANCY BETWEEN GOVERNMENT THEORY AND PRACTICE THE DINAR HAVING FALLEN TO 250 DINARS TO THE POUND STERLING FROM 234 AND WOULD HAVE FALLEN FURTHER HAD NOT THE NATIONAL BANK INTERVENED SELLING 50 000 PDS AT 250 - THE PRESENT RATE SHOWS AN ACTUAL DEVALUATION OF 5 PC DESPITE ALL CLAIMS OF STABILITY

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UNLIKELY TO OBJECT TO ANGLO-CHINESE CREDIT

LONDON - REUTERS DISPATCH FROM TOKIO STATES THAT ALTHOUGH OFFICIAL COMMENT IS NOT AVAILABLE IT IS NOT EXPECTED IN INFORMED CIRCLES THAT JAPAN WILL RAISE OBJECTIONS TO BRITISH CREDITS TO CHINA SO LONG AS THE SCHEME IS NOT POLITICAL

OCT 14 1936

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1.30

(DJ 4:30 P.M., 10/14/36)

Sheffield, Eng. - UP - Capt. Anthony Eden, For. Secy., emphatically stressed the Brit. Govt.'s continued support of the principle of non-intervention in Spain's civil warfare.

Eden, referring to the 3-party U.S., Brit. and Fr. currency agreement said, "Any impartial observer of the present internatl. scene must be profoundly impressed by the potential significance of the increase of world trade upon the political problems which beset us."

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POLAND TO STUDY DEVALUATION EFFECTS
LONDON - A DISPATCH FROM WARSAW TO THE
EXCHANGE TELEGRAPH STATES THAT THE GOVERNOR OF
THE BANK OF POLAND IS GOING TO FRANCE SWITZER-
LAND AND ITALY TO STUDY THE EFFECTS OF
DEVALUATION IN THOSE COUNTRIES AND TO REPORT
HIS FINDINGS TO THE POLISH GOVERNMENT

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OCT 14 1936

FRENCH SITUATION

PARIS- THE INFLUX OF CAPITAL INTO FRANCE SINCE THE NEW FRANC HAS BEEN MADE EFFECTIVE HAS MORE THAN FULFILLED EXPECTATIONS AND HAS ENABLED THE FRENCH EXCHANGE FUND TO ACCUMULATE HANDSOM BALANCES IN STERLING AND TO A LESSER EXTENT IN DOLLARS WHICH UNDER THE NEW TECHNICAL AGREEMENT MAY BE CONVERTED INTO EARMARKED GOLD AT LONDON AND NEW YORK

OCT 14 1936

ADD FRENCH SITUATION

EVERY DAY OFFERS OF FOREIGN EXCHANGE HAVE EXCEEDED THE DEMAND- THE INDICATIONS ARE THAT NOT ONLY HAS THERE BEEN LIQUIDATION OF SPECULATIVE POSITIONS IN THE FRANC BUT ALSO THAT A REPATRIATION OF BALANCES TO RECONSTITUTE WORKING CAPITAL IS IN PROCESS

A CONTINUANCE OF THIS ONE-WAY MARKET IS EXPECTED FOR SOME TIME OWING TO SUCCESSIVE MATURITIES OF SPECULATIVE ENGAGEMENTS AND THE TENDENCY OF EXPORTERS TO BRING BACK BALANCES ACCUMULATED ABROAD

A GOVERNMENTAL COMMUNIQUE STRESSES THE GREAT CHEAPENING OF SHORT TERM MONEY RATES WHICH HAS TAKEN PLACE SINCE DEVALUATION ALONG WITH THE IMPROVEMENT IN RENTES THE YIELD ON THE PERPETUAL 3S FALLING FROM 4 21 PC ON SEPTEMBER 15 TO 3 48 PC ON OCTOBER 9 WHILE THE YIELD ON THE 4 1-2S OF 1932 HAS FALLEN FROM 6 PC TO 4 92 PC

1255
OCT 14 1936

ADD FRENCH SITUATION

PARIS- THE IMPROVEMENT IS ACTUALLY GREATER THAN THE FIGURES GIVEN IN THE COMMUNIQUE BECAUSE RENTES HAVE IMPROVED FURTHER SINCE OCT 9- THE COMMUNIQUE ADDS THAT MANUFACTURERS AND MERCHANTS WILL BE ABLE IN THE NEAR FUTURE TO REDUCE THE WEIGHT OF LONG TERM DEBTS

SIMULTANEOUSLY AN OFFICIAL DENIAL HAS BEEN GIVEN TO THE REPORT THAT THE FRENCH GOVERNMENT PLANS A CONVERSION OF THE PUBLIC DEBT- HERE EVERYTHING DEPENDS UPON THE APPROXIMATION OF RENTES TO THEIR PARITIES AND THE 4 1-2S OF 1932 ARE STILL UNDER 85 AS CONTRASTED WITH THE 3 PC SWISS RAILWAY BONDS WHICH ARE A STANDARD SWISS GOVERNMENT BOND AND ARE QUOTED AT 93 50

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