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November 23, 1936

Following a meeting in the office of the Secretary of the Treasury, attended by, Chairman Eccles and members of his staff, and Chairman Landis and members of his staff, and Treasury representatives, the following had luncheon with the Secretary of the Treasury at one o'clock:

Chairman Eccles of the Federal Reserve Board.

Chairman Landis of the Security Exchange Commission.

Governor Ransom of the Federal Reserve Board.

Professor John H. Williams of Harvard University.

Wayne C. Taylor, Assistant Secretary of the Treasury.

Professor Jacob Viner of the University of Chicago.

C. B. Upham, Assistant to the Secretary.

There was a rather continuous but somewhat disjointed discussion of the problems involved in any regulation or control of the flow of foreign funds into the United States, particularly that which is brought in and used in stock market speculation. All seemed agreed that the problem is one which merits consideration and attention but no one claimed to know what the solution is. It was pointed out that it would be much more difficult to control the dealings in American securities abroad than to curb the use of foreign funds in our own markets.

There was some discussion of the possibility of using the tax method for regulation of this kind, but doubts were generally expressed as to the practicability of carrying out effective measures. It was mentioned that since the passage of the Revenue Act of 1936, which granted certain leniencies to non-resident

aliens, it appears that such individuals have some preference over American citizens in connection with the payment of taxes on stock market gains.

Mr. Taylor was definitely of the opinion that the administrative difficulties in taxing foreigners are so great as to make that method of approach almost futile.

Discussion centered for a time around the situation which would result in case of a general European war.

Dr. Viner was inclined to think that the situation might be handled as it was in 1914 by the stock exchange closing for a short period. That did not meet with general favor.

It was pointed out that probably foreign governments will appropriate American securities held by their Nationals and exchange them in this country for war materials. It was agreed that this would raise important questions with respect to our neutrality.

The Secretary told the group that he plans to announce his December 15th financing on December 7th. He further made known that he is going to refund on December 15th, the notes which mature next February. He also said that in this financing he is going to try the idea of giving no preferences in allotments to those who subscribe for \$5,000 and less. There was some discussion of the abuses which had developed in connection with these small allotments. It appears that there are very few for less than \$5,000 and there is considerable evidence that the volume of \$5,000 subscriptions comes in from banks and business

houses who put in subscriptions in the names of a number of employees, the bonds allotted finding their way very shortly into the open market.

Upm.

November 20, 1936
3:40 P.M.

Operator: Mr. Lochhead.
H.M.Jr: Archie?
Lochhead: Yes, sir.
H.M.Jr: Call up New York and ask them if the October 13 statement wasn't sent to Italy and if not why not.
L: October 13. Right?
H.M.Jr: Yes
L: Right away.
H.M.Jr: You know, they sent it out to about twelve or thirteen different governments.
L: Right. They sent out to the Central Banks.
H.M.Jr: To the Central Banks?
L: I'll check right away.
H.M.Jr: And why didn't they send it to the Central Bank of Italy?
L: I'll check immediately.
H.M.Jr: And - will you find out?
L: Right, sir.
H.M.Jr: And then let me know.
L: Right, sir.
H.M.Jr: Please.

November 20, 1936.
3:49 p.m.

H.M.Jr: Hello.

Operator: Mr. Lochhead.

H.M.Jr: Yes

Operator: Go ahead.

H.M.Jr: Hello?

Lochhead: Mr. Morgenthau, Lochhead speaking.

H.M.Jr: Yes, Archie.

L: The Federal Reserve Bank of New York sent them the notification of the October 13 release.

H.M.Jr: They did?

L: They sent it by mail.

H.M.Jr: Oh

L: They sent most of those banks by mail.

H.M.Jr: Oh

L: They're looking up to find out whether they have an acknowledgment from them. And for your information the Bank of Italy only has a nominal balance of about a thousand dollars; they never hear from them or practically have any correspondence with them.

H.M.Jr: O.K.

L: Right, sir.

LMS

GRUY

London

Dated November 20, 1936

Rec'd 3:37 p. m.

Secretary of State,
Washington.

551, November 20, 7 p. m.

FOR TREASURY.

In a conversation with British Treasury today Waley said that they were glad everything had gone so well and that the arrangements for Monday were entirely satisfactory. He added that now that these reciprocal purchase arrangements had been concluded, he assumed that that phase of endeavor was for the time being terminated and that it was not our intention to make similar arrangements with the Scandinavian countries which naturally pivoted on London.

In regard to the German situation, Waley said that Pinsent, British Financial Attache at Berlin, had recently pointed out that with the issuance of the decree compelling owners of international securities to deposit them with foreign exchange banks, one could at least be sure that Germany would not devalue until these securities had been taken over from their present owners. However, Waley felt that devaluation would not be of any appreciable assistance

LMS 2-No. 551, November 20, 7 p. m., from London.

assistance to Germany; it might simplify the system in that it would eliminate the labor of fixing export subsidies, et cetera, but it would not under the German closed economic system change matters appreciably. Waley in general agreed with a Foreign Office opinion, namely, that there was no desire on the part of Germany to change the direction of her economic movement; that her present position was not so much forced on her by economic and financial events as of her own making which, because of its military value, she in any case would be unwilling to change.

BINGHAM

GW:CSB

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L: They're looking up to find out whether they have an acknowledgment from them. And, for your information, the Bank of Italy only has a nominal balance of about a thousand dollars; they never hear from them or practically have any correspondence with them.

H.M.Jr: O.K.

L: Right, sir.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, The Hague, Netherlands

DATE: November 20, 1936, 5 p.m.

NO.: 63

FROM COCHRAN.

FOR THE SECRETARY OF THE TREASURY.

In accordance with the schedule which I telegraphed to you from Brussels yesterday, this noon I was received by Trip and Beaufort at the Netherlands Bank at Amsterdam. I was accompanied by Trip to The Hague, where Premier Colijn and Minister of Finance Oud received us at three p.m. The technical declaration in exactly the terms quoted in my telegram No. 1075 of November 4, 10 a.m., was signed and delivered to me by Oud and Trip.

An official of the Ministry of Foreign Affairs was then called to Prime Minister Colijn's office, and Colijn instructed him to send telegraphic instructions immediately to the diplomatic representatives of the Netherlands at Washington, London and Paris, to deliver the following message to the respective Foreign Offices not later than Sunday forenoon:

"The Government of the Netherlands has cognizance of the declarations by which the Governments of France, of Great Britain and of the United States of America have seen fit to express their intentions with regard to their

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monetary policy and adheres to the general principles stated in their tripartite declaration of September 25".

I made a request for a long distance telephone connection with you from the Legation at The Hague, and if the connection is received before my train leaves for Switzerland I shall endeavor to give you any information.

I understand that the Dutch will not until Monday give publicity to their adherence to the tripartite agreement. The Dutch anticipate that the above-mentioned statement of adherence will meet your requirements and that in your declarations of Monday night or Tuesday morning you will therefore include the Netherlands. I gave the Dutch officials copies of your proposed declarations, as I did at Brussels. I am to telephone summary from Paris giving them any available texts of communiques of the British and French. If any communique is given to the press by the Dutch, it will not be long.

I have fully informed Minister Emmet of the proceedings.

EMMET.

EA:LWW

November 20, 1936.

Monsieur Vincent Auriol,
Ministere Des Finances,
Paris, France.

My dear Monsieur Auriol:

I was very much pleased and encouraged by your very fine letter to me of October 5th and I must ask your pardon for not having acknowledged it sooner. It gave me great satisfaction to learn that the French Parliament had given its approval to the steps which you and your colleagues had planned so wisely.

I appreciate very greatly your kind expression of the thanks of Mr. Blum, your colleagues and yourself for the part we were able to play in the satisfactory result. I am very much encouraged by the smooth course of events since our understanding was reached and I share your hope that our nations may continue to work together effectively for better world relations in the economic sphere.

Your personal expression of friendship touches me deeply and it is a feeling which I reciprocate most fully.

Sincerely,

/s/ HENRY MORGENTHAU, JR.

November 13, 1936.

MEMORANDUM

TO: Mrs. Klotz
FROM: Mr. Gaston 

The letter from Vincent Auriol to the Secretary is, I notice, entirely hand written, which was no doubt intended as a high compliment and a mark of Monsieur Auriol's sincere regard for the Secretary. If there has been no acknowledgment, I think there should be one. I am attaching a proposed draft of letter.

Attachment.

14

TRANSLATION

Finance Ministry
October 5, 1936.

The Minister

Dear Mr. Morgenthau:

The French Parliament has enacted our proposal for the realignment of the franc.

It is delighted with the agreement of the three great democracies, the United States, Great Britain and France.

In turn, I congratulate myself on the adherence of almost all the nations of the world to our common declaration which puts a definite end to the monetary war and opens the road toward the "economic Peace" -- so essential to peace among nations.

I was deeply moved, the other day, by hearing your voice on the telephone and by receiving your good wishes for France and for the success of our endeavor, wishes which Mr. Cochran had already transmitted to us in the course of his mission which he performed so splendidly.

I do not know how to find words sufficiently expressive to convey to you the thanks of President Leon Blum and his Government, and of myself, for the energetic, enthusiastic and wholehearted collaboration which you have given us.

I hope that this collaboration will continue in the work toward world economic peace which must be achieved if peace among peoples is to be attained.

Your eminent President, Mr. Roosevelt, has sounded the call for human prosperity and for international accord.

We will not be far behind on this road.

And, giving you this assurance, I beg you to accept, my dear Mr. Morgenthau, with my heartiest wishes for your great nation and for its President, the expression of my sincere friendship.

(signed) Vincent Auriol

Ministère des Finances.
Cabinet du Ministre.

Morgan Morgan
secrétaire d'Etat au Trésor

Washington

MINISTÈRE DES FINANCES

50 Octobre 1937

LE MINISTRE

Cher Monsieur Morgenthau,

Le Parlement français a voté
notre projet relatif à l'alignement
du franc.

Il s'est réjoui de l'entente des
trois grands démocrates des
Etats Unis, de la grande Bretagne,
de la France.

Je me félicite, à mon tour, de
l'adhésion ^{formelle} de toutes les nations
du monde à notre déclaration
commune qui met un terme

effectif à la guerre monétaire
et ouvre la voie à la paix
économique, condition essentielle
de la paix humaine.

Je'ai été profondément ému,
l'autre soir, en entendant
votre voix au téléphone et en
recueillant les vœux de succès
pour notre entreprise et pour la

France, ^{vous} que M. Colbeau nous avait déjà
travertis, au cours de sa mission, si magnifiquement remplie.
Je ne saurais trouver de mots

assez expressifs pour vous transmettre
les remerciements de M. L. Prescher
Jean Blum et de ses fervents,
et les ~~nombreux~~ personnes, pour la

collaborations ardentes, et enthousiastes
et confiantes que vos bons arts ont données.

J'espère qu'elle nous sera
maintenue dans l'œuvre de paix
économique mondiale qu'il convient
de mener à bonne fin, en vue de la
paix des hommes.

Votre illustre Président, M. Roosevelt,
a donné le signal de la prospérité
humaine et de la concorde internationale.

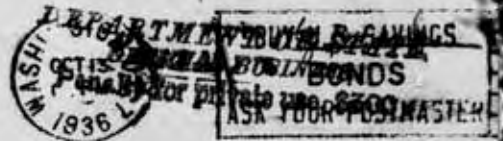
Nous nous joignons en retard sur ce
chemin.

Et c'est en son digne ^{cette} assurance
que je vous prie d'agréer, Monsieur
M. Magenthau, avec mes vœux
affectionnés pour votre grande Nation et
pour son Président, l'expression de
mes sentiments ^{de} ~~amicaux~~ ^{de} ~~fraternité~~ ^{de} ~~fraternité~~.

Veuillez agréer
Veuillez agréer

Don't Mr. Secretary:
M. Ruyol handed me this
Horace Merle Cochran
 Premier Secrétaire de l'Ambassade
 des Etats-Unis d'Amérique
Today for transmission
to you. *B.M.S.*
OCT. 6th

B.M.S.
 2 Av. Gabriel, Paris.



The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D. C.

Present

November 20, 1936.

17

INDEBTEDNESS OF ITALY TO THE UNITED STATES

I. CASH ADVANCES:

Pre-armistice- - - - -	\$1,031,000,000.00
Post-armistice - - - - -	<u>617,034,050.90</u>
	1,648,034,050.90
Interest accrued and unpaid at 4 1/2 per annum to December 15, 1922 - - - - -	<u>251,846,654.79</u>
	1,899,880,705.69
Interest accrued and unpaid at 3% per annum from December 15, 1922 to June 15, 1925 - - - - -	<u>142,491,052.93</u>
	2,042,371,758.62
Less:	
Payments made on account of principal from December 15, 1922 to June 15, 1925 - - - - -	\$164,852.94
Interest at 3% allowed on principal payments to June 15, 1925 - - - - -	7,439.34
Payment made upon execution of funding agreement of November 14, 1925 - - - - -	<u>199,466.34</u>
	<u>201,357,348.62</u>
Total indebtedness funded into bonds as of June 15, 1925 - - - - -	\$2,042,000,000.00

INDEBTEDNESS OF ITALY TO THE UNITED STATESII. FUNDED INDEBTEDNESS:

Principal amount of debt as funded- - - - -	\$2,042,000,000.00
Less:	
Principal payments - - - - -	<u>37,100,000.00</u>
Principal amount of bonds now held- - - - -	\$2,004,900,000.00

Interest due and unpaid:

Semiannual installments postponed under the moratorium agreement - -	\$2,506,125.00
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Balances of semiannual installments due June 15 and December 15, 1933, and installments due June 15, 1934 to June 15, 1936 - - - - -	6,718,041.74
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Amount of interest in- cluded in moratorium annuities due December 15, 1933 to June 15, 1936 - - - - -	<u>1,428,363.44</u>	<u>10,652,530.18</u>
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Total indebtedness June 15, 1936 - - - - -	\$2,015,552,530.18
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INDEBTEDNESS OF ITALY TO THE UNITED STATES

III. TOTAL PAYMENTS RECEIVED:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Payments made prior to June 15, 1925, (date as of which the debt was funded) - - - - -	\$164,852.94	\$57,598,852.62	\$57,763,705.56
Payments made upon exe- cution of funding agreement - - - - -	199,466.34	---	199,466.34
Payments made under funding agreements- - -	37,100,000.00	5,766,708.26	42,866,708.26
	<u>37,100,000.00</u>	<u>5,766,708.26</u>	<u>42,866,708.26</u>
Total	\$37,464,319.28	\$63,365,560.88	\$100,829,880.16
	<u><u>37,464,319.28</u></u>	<u><u>63,365,560.88</u></u>	<u><u>100,829,880.16</u></u>

INDEBTEDNESS OF ITALY TO THE UNITED STATES

IV. AMOUNTS DUE AND UNPAID UNDER FUNDING AND MORATORIUM AGREEMENTS:

<u>Date due</u>	<u>Funding Agreement</u>		<u>Moratorium Agreement Annuities</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
June 15, 1933 ^{1/}	\$12,300,000	\$245,416.74	--	
December 15, 1933 ^{1/}	--	245,437.50	\$896,155.88	
June 15, 1934	12,600,000	1,245,437.50	896,155.88	
December 15, 1934	--	1,245,437.50	896,155.88	
June 15, 1935	13,000,000	1,245,437.50	896,155.88	
December 15, 1935	--	1,245,437.50	896,155.88	
June 15, 1936	13,500,000	1,245,437.50	896,155.88	
 TOTAL	 <u>\$51,400,000</u>	 <u>\$6,718,041.74</u>	 <u>\$5,376,935.28</u>	 <u>\$63,494,977.02</u>

^{1/} Partial payments made on account of interest due on these dates.

INDEBTEDNESS OF ITALY TO THE UNITED STATESV. Payments received under funding agreement:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 15, 1926	\$5,000,000	\$ -	\$ 5,000,000
June 15, 1927	5,000,000	-	5,000,000
June 15, 1928	5,000,000	-	5,000,000
June 15, 1929	5,000,000	-	5,000,000
June 15, 1930	5,000,000	-	5,000,000
Dec. 15, 1930	-	1,260,625.00	1,260,625
June 15, 1931	12,100,000	1,260,625.00	13,360,625
Dec. 15, 1931) (a)			
June 15, 1932)			
Dec. 15, 1932	-	1,245,437.50	1,245,437.50
June 15, 1933	-	(b) 1,000,020.76	1,000,020.76
Dec. 15, 1933	-	(c) 1,000,000.00	1,000,000.00
Total:	<u>\$37,100,000</u>	<u>\$ 5,766,708.26</u>	<u>\$42,866,708.26</u>

(a) Amounts due postponed under moratorium agreement, principal \$12,200,000; interest, \$2,506,125.

(b) Partial payment. (Received silver for this payment).

(c) Token payment.

November 20, 1936.

PAYMENTS DUE DECEMBER 15, 1936

The following statement shows the amounts due under the funding and moratorium agreements on December 15, 1936:

	<u>Funding Agreements</u>		<u>Moratorium Agreements</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
Belgium.....	---	\$4,158,000.00	\$484,453.88	\$4,642,453.88
Czechoslovakia.....	\$1,500,000	---	182,812.78	1,682,812.78
Estonia.....	126,000	286,265.00	36,585.29	448,850.29
Finland.....	67,000	145,285.00	19,030.50	231,315.50
France.....	---	19,261,432.50	3,046,879.72	22,308,312.22
Great Britain.....	32,000,000	75,950,000.00	9,720,765.05	117,670,765.05
Hungary.....	13,820	33,185.08	4,225.58	51,230.66
Italy.....	---	1,245,437.50	896,155.88	2,141,593.38
Latvia.....	52,500	119,609.00	15,274.26	187,383.26
Lithuania.....	---	107,783.67	13,683.26	121,466.93
Poland.....	1,520,000	3,582,810.00	456,229.71	5,559,039.71
Rumania.....	---	---	48,750.08	48,750.08
Yugoslavia.....	---	---	---	---
TOTAL.....	<u>\$35,279,320</u>	<u>\$104,889,807.75</u>	<u>\$14,924,845.99</u>	<u>\$155,093,973.74</u>

Accounts and Deposits
October 21, 1936

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 20, 1936

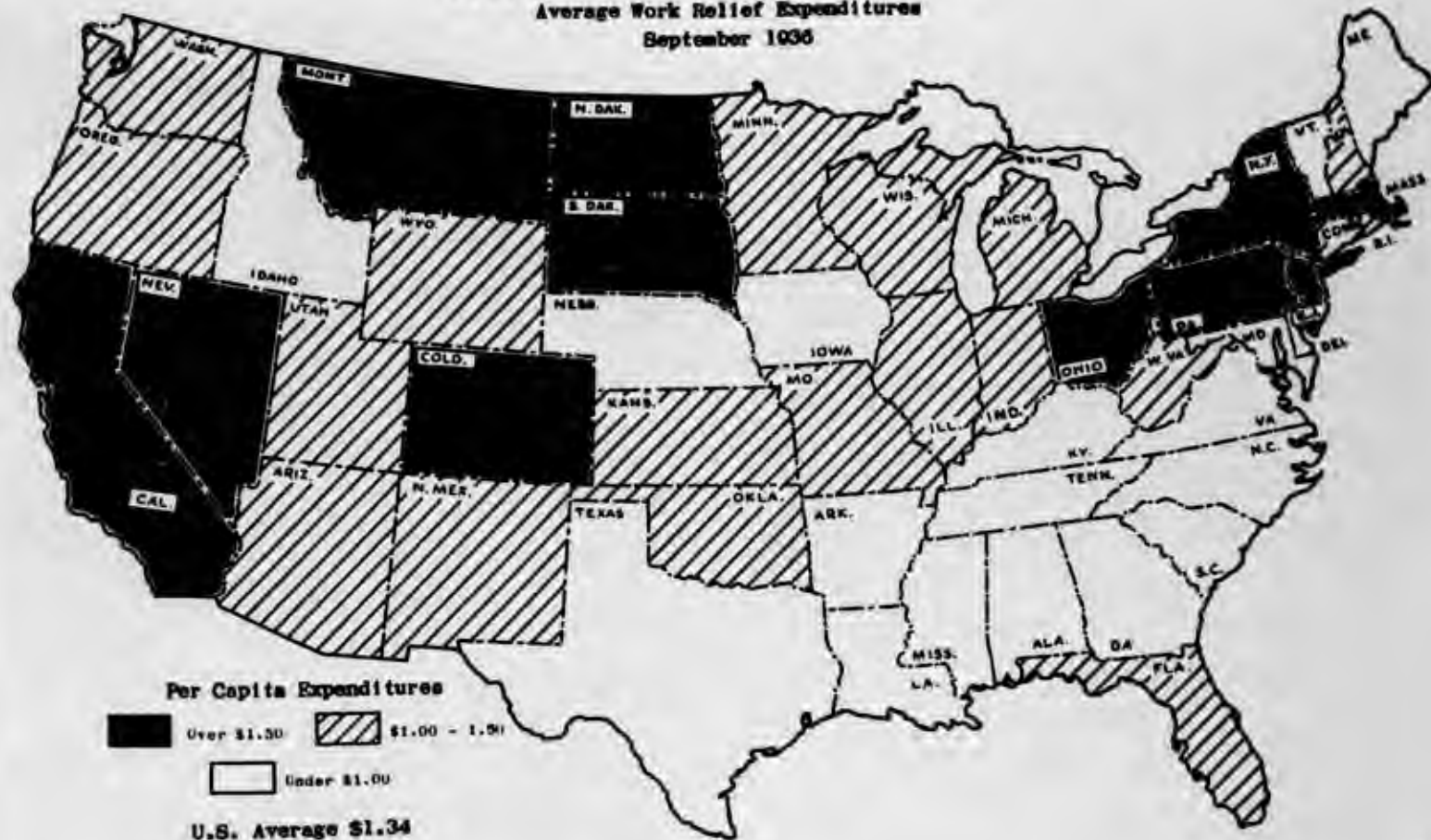
TO The Secretary
FROM Miss Lonigan

The attached map shows which States had highest per capita expenditures from WPA funds in September.

There is no evidence of unemployment or other need to explain expenditures west of the Mississippi at a rate much higher than those in the South where rural overcrowding and poverty are extreme.

The rate of expenditure in the Eastern and Midwestern States is far higher than that required in 1935 when unemployment was more severe.

WORKS PROGRESS ADMINISTRATION
Average Work Relief Expenditures
September 1935



FEDERAL EMERGENCY RELIEF ADMINISTRATION - WORKS PROGRESS ADMINISTRATION

September 1936

Average Expenditures Per Inhabitant

<u>Highest</u>	Expenditures Per Inhabitant
South Dakota	\$2.72
North Dakota	2.59
Montana	2.57
New York	2.24
Pennsylvania	1.96
Colorado	1.91
Massachusetts	1.79
Nevada	1.75
Ohio	1.70
New Jersey	1.58
California	1.53
<u>Lowest</u>	
Idaho	.99
Nebraska	.88
Kentucky	.86
Louisiana	.85
South Carolina	.78
Maryland	.75
Maine	.74
Arkansas	.73
Alabama	.72
Mississippi	.72
Tennessee	.70
Delaware	.69
Georgia	.61
Vermont	.58
Iowa	.58
Texas	.52
Virginia	.49
North Carolina	.36
United States Average	\$1.34

Source: WPA Checks Issued - Treasury Department

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 20, 1936

TO The Secretary
FROM Miss Lonigan ^{el}

Attached are four charts showing the present status of the relief and welfare programs.

Expenditure of Federal funds by FERA-WPA was \$60,000,000 higher in October 1936 than it was in October 1935.

The FERA-WPA program is taking care of fewer families than a year ago. This reduction takes the form chiefly of a decline in relief for the most needy. The number employed on FERA-WPA works programs is higher by more than a million than the workers employed in October 1935.

* * * * *

In order to compare full relief and welfare expenditures this year with those of a year ago, it is necessary to include the relief grants to farmers made by the Resettlement Administration, and grants to the aged, the blind, and dependent children by the Social Security Board. These figures are shown in the third and fourth graphs.

Expenditures of all relief and welfare agencies were \$85,000,000 higher in September 1936 than in September a year ago.

The combined relief programs were taking care of over half a million more families than a year ago. This is contrary to the conclusion reached by Mr. Hopkins on the trend of relief.

* * * * *

Employment supplied by Federal emergency employment programs other than WPA is still rising.

FEDERAL EMERGENCY RELIEF ADMINISTRATION - WORKS PROGRESS ADMINISTRATION

Expenditures

United States

27

	All FERA-WPA Programs			Works Programs			Direct Relief
	Federal Funds	State and Local Funds	Total All Funds	FERA	WPA	Total	Total
<u>1935</u>							
July	\$123,604,000	\$36,942,000	\$160,545,000	\$66,427,000	-	\$66,427,000	\$160,545,000
August	117,630,000	36,092,000	153,772,000	49,589,000	\$5,975,000	55,564,000	147,797,000
September	106,188,000	31,870,000	138,058,000	27,959,000	16,960,000	44,919,000	121,098,000
October	120,979,000	35,241,000	156,220,000	23,181,000	35,696,000	58,877,000	120,524,000
November	124,478,000	31,800,000	156,278,000	11,016,000	61,068,000	72,084,000	95,210,000
December	167,266,000	39,641,000	206,907,000	3,053,000	136,955,000	140,008,000	69,952,000
<u>1936</u>							
January	178,320,000*	49,200,000*	227,520,000*	-	167,920,000	167,920,000	59,600,000*
February	168,924,000*	51,400,000*	220,324,000*	-	164,324,000	164,324,000	56,000,000*
March	194,630,000*	49,800,000*	244,430,000*	-	191,530,000	191,530,000	52,900,000*
April	185,670,000*	44,700,000*	230,370,000*	-	182,570,000	182,570,000	47,800,000*
May	176,102,000*	39,400,000*	215,502,000*	-	173,702,000	173,702,000	41,800,000*
June	170,804,000*	38,100,000*	208,904,000*	-	169,104,000	169,104,000	39,800,000*
July	163,806,000	35,500,000*	199,770,000*	-	162,870,000	162,870,000	36,900,000*
August	158,362,000	34,800,000*	193,322,000*	-	157,422,000	157,422,000	35,900,000*
September	165,324,000			-	165,039,000	165,039,000	
October	181,125,000			-	180,897,000	180,897,000	

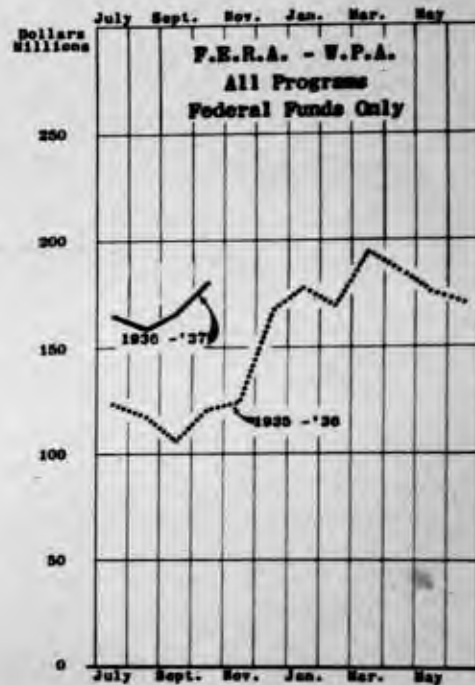
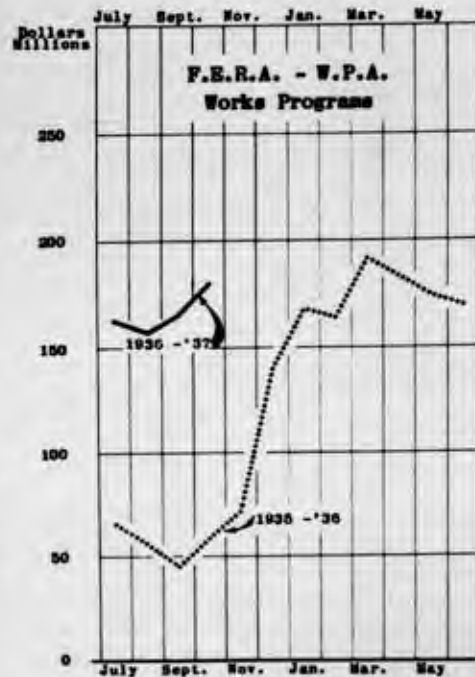
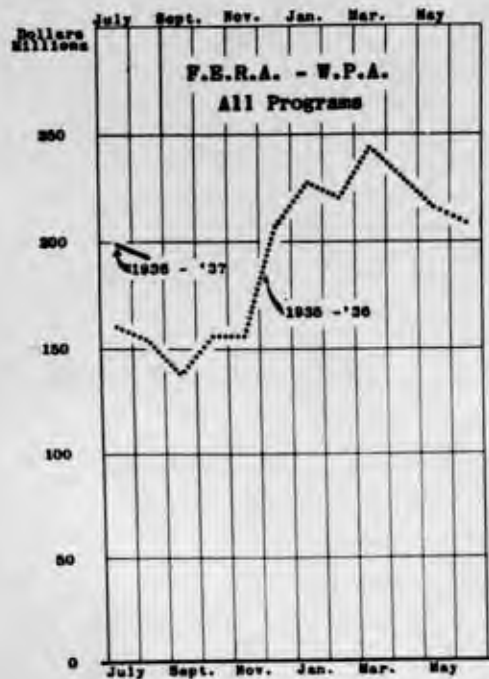
Source: FERA Obligations Incurred 1935 - 1936 - FERA
FERA-WPA Checks Issued - Treasury Department
State and Local Funds - FERA

*Direct relief expenditures estimated by FERA.

Reports on direct relief are incomplete in 14 or more States after November 1935.

FEDERAL EMERGENCY RELIEF ADMINISTRATION - WORKS PROGRESS ADMINISTRATION
Expenditures

United States



Sources: F.E.R.A. Obligations Incurred-F.E.R.A.
W.P.A. Checks Issued - Treasury Department
Reports on Direct Relief are incomplete in 14 or more
states after November, 1935.

FEDERAL EMERGENCY RELIEF ADMINISTRATION - WORKS PROGRESS ADMINISTRATION

Number of Families or Workers Receiving Aid

United States

	All Programs	Works Programs			ERA Direct Relief
		FERA	WPA	Total	
<u>1935</u>					
July	4,459,000	1,929,000	70,000	1,999,000	3,063,000
August	4,495,000	1,411,000	253,000	1,664,000	3,286,000
September	4,381,000	889,000	456,000	1,345,000	3,342,000
October	4,502,000	645,000	777,000	1,422,000	3,289,000
November	5,958,000	346,000	2,484,000	2,830,000	3,260,000
December	5,349,000	60,000	2,740,000	2,800,000	2,563,000
<u>1936</u>					
January	5,137,000*	-	2,927,000	2,927,000	2,210,000*
February	5,169,000*	-	3,039,000	3,039,000	2,130,000*
March	4,862,000*	-	2,877,000	2,877,000	1,985,000*
April	4,416,000*	-	2,586,000	2,586,000	1,830,000*
May	4,000,000*	-	2,340,000	2,340,000	1,660,000*
June	3,806,000*	-	2,256,000	2,256,000	1,550,000*
July	3,714,000*	-	2,248,000	2,248,000	1,466,000*
August	3,823,000*	-	2,371,000	2,371,000	1,452,000*
September		-	2,477,000	2,477,000	
October		-	2,539,000	2,539,000	

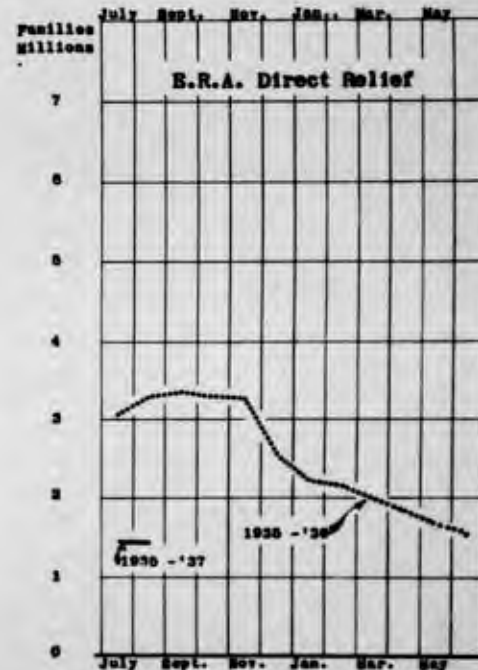
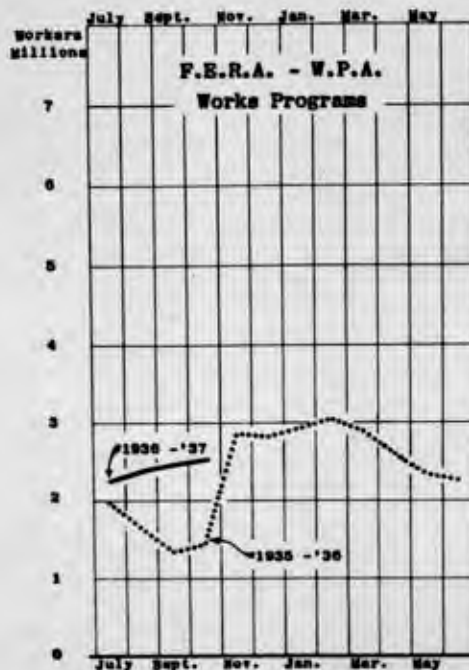
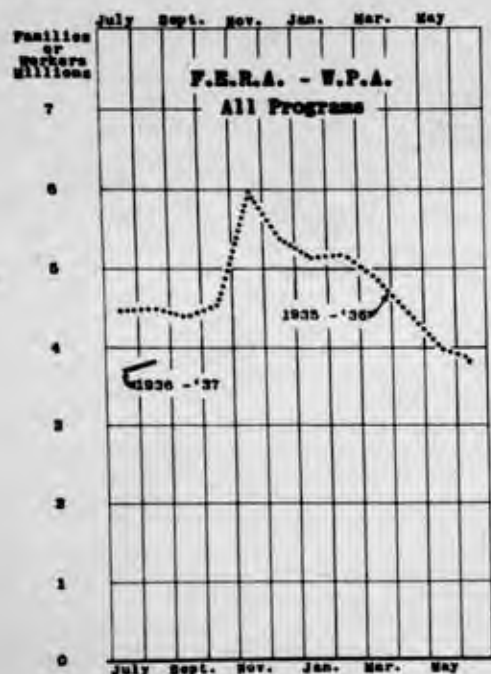
Source: Direct relief and FERA works programs - FERA
WPA works programs - WPA

*Figures for direct relief estimated by FERA.

Reports on direct relief are incomplete in 14 or more States after November 1935.

FEDERAL EMERGENCY RELIEF ADMINISTRATION - WORKS PROGRESS ADMINISTRATION
Number of Families or Workers Receiving Aid

United States



Source: Direct Relief - F.E.R.A.
W.P.A. Work Programs - W.P.A.

Reports on Direct Relief are incomplete in 14 or more States after Nov. 1935.

ALL WORK AND WELFARE PROGRAMS

Number of Families or Workers Receiving Aid

United States

	Relief and Welfare	All Emergency Employment Excluding FERA-WPA	Total Work and Welfare Programs
<u>1935</u>			
July	4,461,000	901,000	5,387,000
August	4,545,000	1,027,000	5,609,000
September	4,427,000	964,000	5,437,000
October	4,560,000	998,000	5,616,000
November	6,000,000	993,000	7,057,000
December	5,505,000	963,000	6,525,000
<u>1936</u>			
January	5,316,000*	933,000	6,296,000*
February	5,624,000*	938,000	6,605,000*
March	5,418,000*	892,000	6,357,000*
April	5,129,000*	1,041,000	6,231,000*
May	4,740,000*	1,135,000	5,955,000*
June	4,609,000*	1,194,000	5,906,000*
July	4,615,000*	1,213,000	5,954,000*
August	4,881,000*	1,188,000	6,216,000*
September	4,965,000*	1,094,000	6,205,000*

Source: Number of workers - U. S. Bureau of Labor Statistics and WPA
Number of families aided - direct from the agency

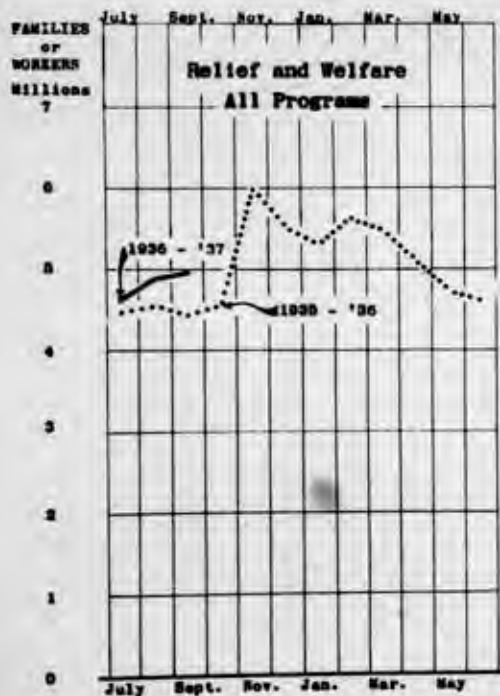
*Direct relief estimated.

Relief and welfare includes all programs replacing FERA programs for 1933 - 1935 - FERA-WPA, Resettlement loans and grants, and Social Security programs.
Emergency employment includes - PWA under the 1933 and 1935 Acts, Federal projects under the 1935 Act, CCC, and RFC.

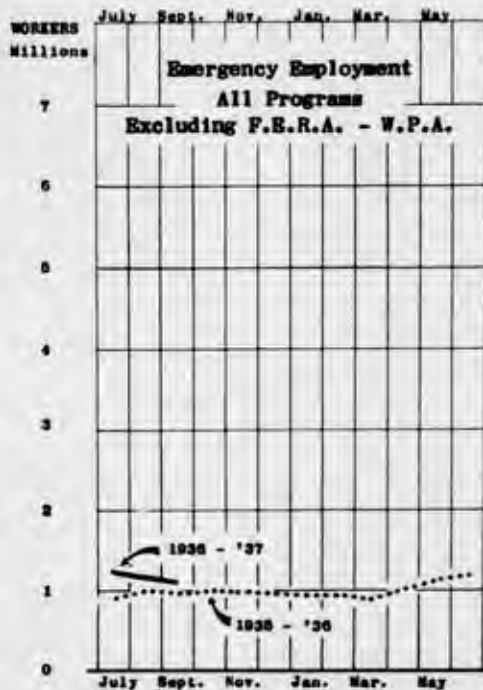
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ALL WORK AND WELFARE PROGRAMS
Number of Families or Workers Receiving Aid

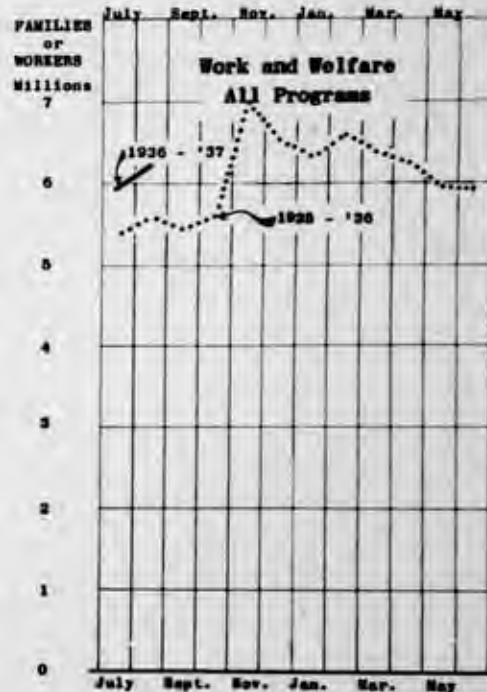
United States



Including F.E.R.A. - W.P.A., Resettlement - Loans and Grants, and Social Security Programs



Including F.W.A., Federal Projects (E.R.A.A.), C.C.C., and R.F.C.



Including Relief and Welfare, Emergency Employment, and Governmental Construction

Source: Number of Workers - U.S. Bureau of Labor Statistics and W.P.A.
Number of Families Aided - direct from the agency

ALL WORK AND WELFARE PROGRAMS

Expenditures

United States ,

33

	Relief and Welfare	All Emergency Employment Pay Rolls Excluding WPA	Agricultural Payments
<u>1935</u>			
July	\$160,558,000	\$48,318,000	\$30,878,000
August	154,843,000	53,765,000	46,940,000
September	138,935,000	51,890,000	63,766,000
October	157,729,000	53,719,000	65,738,000
November	158,343,000	52,864,000	62,500,000
December	211,821,000	49,331,000	62,537,000
<u>1936</u>			
January	234,249,000*	47,856,000	3,637,000
February	236,483,000*	46,140,000	5,631,000
March	268,036,000*	46,581,000	24,248,000
April	262,499,000*	54,672,000	38,934,000
May	237,441,000*	61,324,000	53,582,000
June	228,020,000*	67,388,000	48,164,000
July	215,811,000*	68,150,000	18,173,000
August	214,113,000*	67,605,000	12,193,000
September	224,048,000*	64,803,000	

Source: FERA - WPA Checks Issued - Treasury Department
 Emergency employment pay rolls - U. S. Bureau of Labor Statistics
 All others - direct from the agency

*Direct relief estimated.

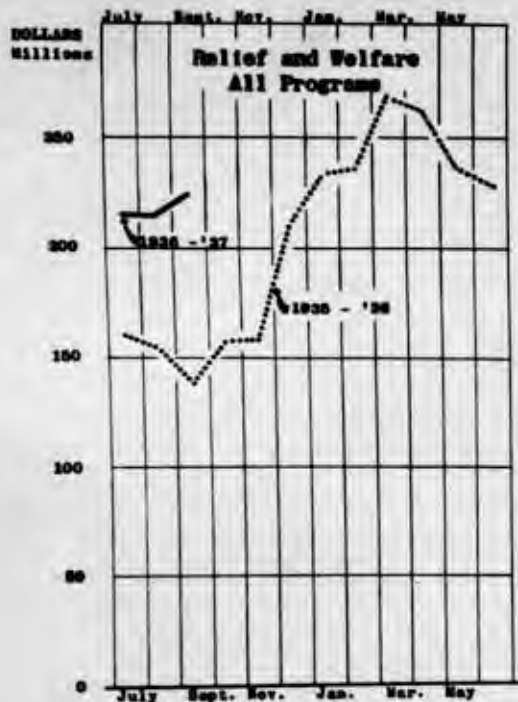
Relief and welfare includes all programs replacing FERA program for 1933 - 1935 - FERA-WPA,
 Resettlement loans and grants, Social Security programs.

All emergency employment programs includes PWA under the 1933 and 1935 Acts, Federal projects under
 the 1935 Act, CCC, and WPA.

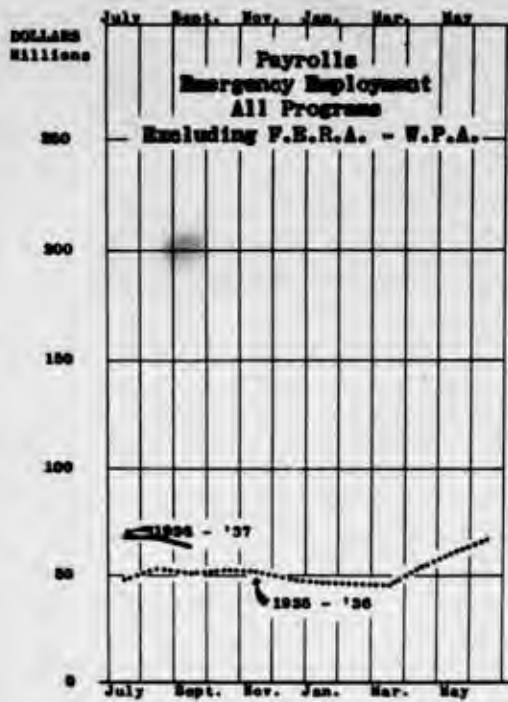
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ALL WORK AND WELFARE PROGRAMS Expenditures

United States



Including F.E.R.A. - W.P.A., Resettlement - Loans and Grants, and Social Security Programs.



Including P.W.A., Federal Projects (R.R.A.A.), C.C.C., and R.F.C.



Source: W.P.A. Checks Issued - Treasury Department
Emergency Employment Payrolls - U. S. Bureau of Labor Statistics
All others - direct from the agency.

SUPPLEMENTARY TABLES

Relief
Welfare
Emergency Employment

RELIEF AND WELFARE PROGRAMS

Number of Families or Workers Receiving Aid

United States

	FERA	WPA	Total FERA-WPA	Resettlement Loans and Grants	Social Security Programs	Total Relief and Welfare
<u>1935</u>						
July	4,389,000	70,000	4,459,000	1,000	-	4,461,000
August	4,242,000	253,000	4,495,000	51,000	-	4,545,000
September	3,925,000	456,000	4,381,000	46,000	-	4,427,000
October	3,725,000	777,000	4,502,000	58,000	-	4,560,000
November	3,474,000	2,484,000	5,958,000	43,000	-	6,000,000
December	2,609,000	2,740,000	5,349,000	156,000	-	5,505,000
<u>1936</u>						
January	2,210,000*	2,927,000	5,137,000*	180,000	-	5,316,000*
February	2,130,000*	3,039,000	5,169,000*	180,000	275,000	5,624,000*
March	1,985,000*	2,877,000	4,862,000*	232,000	324,000	5,418,000*
April	1,830,000*	2,586,000	4,416,000*	210,000	503,000	5,129,000*
May	1,660,000*	2,340,000	4,000,000*	177,000	563,000	4,740,000*
June	1,550,000*	2,256,000	3,806,000*	159,000	644,000	4,609,000*
July	1,466,000*	2,248,000	3,714,000*	91,000	809,000	4,615,000*
August	1,452,000*	2,371,000	3,823,000*	96,000	962,000	4,881,000*
September	1,430,000*	2,477,000	3,907,000*	81,000	978,000	4,965,000*
October		2,539,000			1,094,000	
November					1,174,000	

Source: Number of workers - WPA

Number of families aided - direct from the agency

*Direct relief estimated.

Regraded Unclassified

November 13, 1936

ALL EMERGENCY EMPLOYMENT PROGRAMS - EXCLUDING FERA-WPA

Number of Workers

United States

	CCC	PWA 1935 Act	Works Program, Other Federal Projects	PWA 1933 Act	RFC	Total Emergency Employment	Regular Governmental Construction
<u>1935</u>							
July	481,000	-	5,000	405,000	10,000	901,000	26,000
August	590,000	-	33,000	395,000	9,000	1,027,000	36,000
September	534,000	-	77,000	345,000	9,000	964,000	46,000
October	551,000	1,000	129,000	307,000	9,000	998,000	59,000
November	544,000	3,000	168,000	268,000	10,000	993,000	64,000
December	507,000	7,000	217,000	224,000	8,000	963,000	57,000
<u>1936</u>							
January	479,000	21,000	249,000	177,000	8,000	933,000	47,000
February	454,000	35,000	299,000	141,000	8,000	938,000	44,000
March	356,000	61,000	326,000	142,000	8,000	892,000	48,000
April	391,000	108,000	376,000	157,000	10,000	1,041,000	60,000
May	408,000	144,000	401,000	172,000	11,000	1,135,000	80,000
June	383,000	169,000	453,000	180,000	9,000	1,194,000	102,000
July	404,000	181,000	452,000	167,000	10,000	1,213,000	126,000
August	384,000	184,000	452,000	159,000	9,000	1,188,000	147,000
September	321,000	176,000	440,000	147,000	10,000	1,094,000	145,000

Source: Number of workers - U. S. Bureau of Labor Statistics

November 13, 1936

RELIEF AND WELFARE PROGRAMS

Expenditures

United States

	Federal Funds				State and Local Funds		
	Total FERA-WPA	Resettlement Loans and Grants	Social Security Grants	Total Federal Funds	ERA Relief	Total Social Security	Total State and Local Funds
<u>1935</u>							
July	\$123,604,000	\$13,000	-	\$123,617,000	\$36,942,000	-	\$36,942,000
August	117,680,000	1,071,000	-	118,751,000	36,092,000	-	36,092,000
September	106,188,000	877,000	-	107,065,000	31,870,000	-	31,870,000
October	120,979,000	1,509,000	-	122,488,000	35,241,000	-	35,241,000
November	124,478,000	2,065,000	-	126,543,000	31,800,000	-	31,800,000
December	167,266,000	4,914,000	-	172,180,000	39,641,000	-	39,641,000
<u>1936</u>							
January	178,320,000*	6,729,000	-	185,049,000*	49,200,000*	-	49,200,000*
February	168,924,000*	11,611,000	\$2,176,000	182,710,000*	51,400,000*	\$2,373,000	53,773,000*
March	194,630,000*	18,387,000	2,504,000	215,520,000*	49,800,000*	2,716,000	52,516,000*
April	185,670,000*	24,222,000	3,818,000	213,710,000*	44,700,000*	4,088,000	48,788,000*
May	176,102,000*	12,969,000	4,338,000	193,410,000*	39,400,000*	4,631,000	44,031,000*
June	170,804,000*	8,730,000	4,385,000	183,919,000*	38,100,000*	6,001,000	44,101,000*
July	163,806,000	1,935,000	6,773,000	172,513,000	35,500,000*	7,333,000	42,833,000*
August	158,362,000	2,561,000	8,804,000	169,727,000	34,800,000*	9,426,000	44,226,000*
September	165,324,000	4,824,000	9,225,000	179,372,000		10,061,000	
October	181,125,000		10,250,000			11,156,000	
November			10,973,000			11,931,000	

Source: FERA - WPA Checks Issued - Treasury Department
All others - direct from the agency

*Direct relief estimated by FERA.

Division of Social Security Grants into Federal and non-Federal funds is estimated by the Treasury.

Regraded Unclassified

ALL EMERGENCY EMPLOYMENT PROGRAMS - EXCLUDING FERA-WPA

Pay Rolls

United States

	CCC	PWA 1935 Act	Works Program, Other Federal Projects	PWA 1933 Act	RFC	Total Emergency Employment	Regular Governmental Construction
<u>1935</u>							
July	\$22,071,000	-	\$277,000	\$24,969,000	\$1,002,000	\$48,318,000	\$1,890,000
August	26,236,000	-	1,216,000	25,293,000	1,020,000	53,765,000	2,695,000
September	24,405,000	-	3,755,000	22,772,000	958,000	51,890,000	3,200,000
October	24,831,000	\$54,000	6,243,000	21,638,000	953,000	53,719,000	4,193,000
November	23,958,000	145,000	8,392,000	19,368,000	1,001,000	52,864,000	4,077,000
December	21,906,000	332,000	10,196,000	16,028,000	869,000	49,331,000	3,708,000
<u>1936</u>							
January	21,427,000	974,000	11,180,000	13,425,000	850,000	47,856,000	3,991,000
February	20,484,000	1,579,000	12,529,000	10,642,000	905,000	46,140,000	3,619,000
March	17,252,000	2,864,000	14,432,000	11,117,000	916,000	46,581,000	3,675,000
April	18,058,000	6,097,000	16,564,000	12,819,000	1,134,000	54,672,000	5,205,000
May	18,610,000	8,748,000	19,161,000	13,843,000	962,000	61,324,000	6,243,000
June	17,948,000	10,866,000	22,658,000	14,975,000	942,000	67,388,000	8,631,000
July	18,418,000	11,727,000	22,700,000	14,242,000	1,064,000	68,150,000	12,425,000
August	17,846,000	12,386,000	22,795,000	13,530,000	1,048,000	67,605,000	13,000,000
September	16,371,000	12,122,000	22,585,000	12,639,000	1,085,000	64,803,000	12,659,000

Source: U. S. Bureau of Labor Statistics

November 13, 1936

November 20, 1936

The Italian Ambassador, Mr. Fulvio Suvich, called on the Secretary this afternoon at 3:30. Mr. Taylor was also present.

The following is stenographic transcript of the conversation:

Ambassador: I was with Count Volpi for some years and afterwards I turned to a diplomatic career. I am a Member of Parliament in Italy. This is just a courtesy call.

HM, Jr: Do you care to talk about the financial conditions in your country?

Ambassador: I should like to say that the newspapers here say that I am here with special tasks. I came here without any special instructions in these financial matters. The thing we like to have at the moment is a commercial agreement. Mr. Phillips is negotiating this in Rome -- the commercial treaty.

(Explanation: The Ambassador was Under-Secretary of State in Italy. He discussed the commercial trade treaties with Phillips in Italy. They agreed that the first thing the Ambassador would take up was the commercial trade treaty, but Mr. Phillips is conducting these treaties in Italy.)

I understand that in Rome they examined it with greatest interest and with the hope that it will bring a solution of our relationships.

I have a specific question to put to you because I received yesterday a telegram after I had asked for this interview. They heard that you wish to enlarge this tripartite and that you already informed other countries about your intention to extend. In Italy they know nothing about it and have asked me if I could get some information.

HM, Jr: I will be glad to explain it to you. The way we have divided the responsibility here on purely financial matters, as between the United States and other

-2-

countries, is that the President has given me that authority, including the war debts, but when it comes to the commercial treaties or private debts, I do not interest myself. The State Department does. I do in Government debts and also in this question of stabilization of currencies. When it comes to trade treaties or debts between your citizens and ours, I do not interest myself. It is something which has developed since President Roosevelt has been in.

On September 25, Great Britain, France and ourselves got out a joint statement. As I understand it, a notice went out from the Federal Reserve Bank in New York, our fiscal agent. They sent a copy of that to twelve or thirteen of the principal central banks in the world. I take it for granted that your Bank in Italy got one.

Ambassador: I do not know.

HM, Jr: I will make inquiries.

(At this point, the Secretary asked Mr. Lochhead to bring in the various declarations.)

In this statement of September 25, we welcomed the cooperation of other countries. So far, the only country that sent a statement was Belgium and they, through their Foreign Office, to the State Department sent this statement. We have not sought out any other countries, but they have sought us and without disclosing names, we are in the midst of discussions with other countries who have sought us and who want to get the understanding of exchange of gold between Governments. The point we stress, which is new, is that whatever we do we wish to do between Treasuries and not between Central Banks.

Ambassador: You wish to make agreements between Governments and Treasuries?

(Note: The statements were brought in, at this point, by Mr. Lochhead. The Secretary read aloud the September 25th announcement, the statement which went out to the Central Banks, and the statement from the Belgians.)

You see, we call them declarations and not treaties. We have signed nothing. It is purely a gentlemen's

-3-

agreement. We do not have to go to Congress to get anything confirmed. It is all on a day-to-day basis. What we are hopeful of doing is through these understandings between these countries we can gradually by adding one country after another steady the exchanges. That is about all we can do. We have taken it out of the hands of the speculators. There are no regulations about gold coming into the country; only about going out.

If, for instance, the Panama Republic should say that they wish to have the privilege of taking gold from the United States, then we would say that before we will do that we would like to have the Government of Panama say to us they will give us that privilege of receiving gold when the dollar falls and in that way we can stabilize the dollar and the Panama "coin". I am just using that as an example. Here we do business with the British Embassy. In Paris I have my own man who contacts the French. And if your Government is interested, we can do business with you.

Ambassador: They wish to be informed of the general movement.

HM, Jr: You can feel free to come in here without instructions from your Government. If I cannot answer your questions, I will say so, but feel that you can come in whenever you like. Don't feel that you have to have anything special in order to come in.

Ambassador: I thank you very much. I think it is the best way. I prefer that I say directly what I have to ask.

HM, Jr: Your people might have rumors of what we are trying to do with the other countries. Your man in Italy, Pennachio, knows Cochran. I understand he is a very capable man. That is the only contact we have had with the Bank of Italy -- through Pennachio. We have received information and given information.

Ambassador: Now, I will not take any more of your time.

November 21, 1938

The Secretary talked to Cochran from his home today at about 9:45. Lochhead was present.

Following is a stenographic report of Mr. Morgenthau's remarks to Cochran:

"Hello, Cochran.

You saw President Bachman this morning? You see, I am at home and I am repeating it.

Yes.

Good.

Let me see if I understand this. I will repeat. You met Mr. Bachmann this morning and Mr. Myers, who is the Minister of Finance and who is also President of the Swiss Council. You submitted to him a proposed draft of a cable.

Bachmann and you drew up the draft and you submitted it to Myers. I am just giving it roughly. You will confirm this in a cable?

As I understand it, the draft has been submitted to the Foreign Office?

Yes, and it's going to come through.

When are they going to send it?

You mean it is to be delivered before Sunday?

Fine.

I will. And I am going to tell them to tell both of those Legations that we expect something so that they won't be closed up.

That's fine. That finishes it, doesn't it? You had no trouble? I think that's fine.

And then they give it out for Monday morning's papers?

-2-

That's all right.

About noon Monday.

Well, noon there is, of course five hours earlier here. What we will do -- you tell the French we will give it out (our statement) at four o'clock Monday afternoon and I am telling the British the same. That will be 9 o'clock Paris.

Yes.

That's right.

Well, I am simply delighted. And I think you have done a grand job.

I didn't get that.

Yes. Yes. I wish you would.

Well, if he has that, cable that.

(To Mr. Lochhead: Have we got what the British are going to give out? Mr. Lochhead: No. The way they spoke, it was not going to be a formal statement.)

Well, whatever you get from the French and British, send it along.

Yes. Yes. All right.

I will. I tell you what you had better do. Just to make sure that everything is all right, supposing you call me at 12:30, Washington time, tomorrow. That will be 5:30 your time. Call me at home. North 8898.

That's right.

How are you standing all this jumping around?

Good. Well, we are making monetary history now.

Fine.

I know.

-3-

Tell me, how worried are you on the political thing?

I see. But would that affect the French?

Yes. Fine. Now Cochran, can you file a cable still from Switzerland?

No. To State. Because Mr. Moore reads every cable very carefully. I mean he likes to get them.

Good. Now, when are the Swedes coming to see you?

Good. Good. Well, I am simply delighted.

Good-bye.

* * * *

Upon the completion of this telephone conversation, the Secretary called Mr. Taylor and said to him: "Good morning. I have just heard from Cochran. I am at home. And everything is sewed up. I think it's pretty fine. Now, will you do two things for me. Will you call up Mr. Moore and tell them we have just heard and would he designate somebody to be at the State Department tomorrow who can be available so that he can receive the messages. There will be messages coming in tomorrow from Holland and Switzerland. I wish that he would have whoever this person is that he designates call up the Swiss Legation and the Dutch and tell them that we expect messages tomorrow and that they are urgent, so that as soon as they come Mr. "X" will be at the State Department waiting to receive them; otherwise, the Swiss and Dutch may be out shooting quail or something like that and I think it's perfectly proper and if he would say that whoever Mr. Moore designates, Mr. "X", will be here; we have received word that there will be messages for the Treasury Department and we are very anxious to get them, or have Mr. "X" contact me direct. I am going out for a ride and I will be back here at noon and when I get back I will call you. I have Archie here. I sent for him.

Then I am going to draft a cable for the President which I will send.

-4-

I think that's about all.

Oh, yes. Will you notify the British. And have we got anything from the British which shows what they are going to say? You might be looking it up. You might ask Moore whether there is any change in that and tell him it is all set for the French, British and ourselves to give out the announcement at four o'clock, Washington time, Monday; nine o'clock, Paris and London. And that the Dutch and Swiss are going to release it to their papers for Monday morning. But the various Foreign Offices will get these messages Sunday, so you contact Moore.

And then the other thing. Marriner Eccles read a statement to me that he is releasing, notifying the public that there is a chance that they are doing something. He called me up at 8:30 this morning. He is going to do it today.

So I will call up around noon. You will still be there? All right. Thank you.

* * * * *

The Secretary then dictated the message to the President, which is attached hereto.

November 21, 1936

MESSAGE FOR THE PRESIDENT:

DELIGHTED TO BE ABLE TO INFORM YOU THAT THE PLAN WHICH I SUBMITTED TO YOU AND WHICH YOU APPROVED ON TUESDAY NOVEMBER SEVENTEENTH FOR THE UNITED STATES TO GIVE BELGIUM HOLLAND AND SWITZERLAND RECIPROCAL GOLD FACILITIES HAS BEEN SUCCESSFULLY CULMINATED STOP THESE COUNTRIES ARE GOING TO NOTIFY US ON SUNDAY OF THEIR ADHERENCE TO THE PRINCIPLES EXPRESSED IN THE TRIPARTITE DECLARATION OF SEPTEMBER TWENTY FIFTH STOP THIS DECLARATION ON THEIR PART WILL BE MADE PUBLIC BY THEM ON MONDAY MORNING STOP FRANCE MR CHAMBERLAIN AND YOUR SECRETARY OF THE TREASURY WILL MAKE A SIMULTANEOUS ANNOUNCEMENT MONDAY FOUR OCLOCK WASHINGTON TIME WELCOMING BELGIUM HOLLAND AND SWITZERLAND AND AT THE SAME TIME ANNOUNCING THAT WE HAVE EXTENDED TO THEM RECIPROCAL GOLD PRIVILEGES STOP BEST REGARDS

MORGENTHAU

Department of State

BUR
DIVISION

EA

ENCLOSURE

TO

Letter drafted

ADDRESSED TO

TREASURY

Transmitted by
State Department
(see Nov. 30, 1936.)

48

Sir:

I acknowledge the receipt of your note of November 21, 1936, informing me of the Swiss Government's policy with respect to international monetary and economic relations.

The Secretary of the Treasury associates himself with me in expressing this Government's appreciation of your communication and our gratification concerning this declaration.

Accept, Sir, the renewed assurances of my highest consideration.

H. Walton Moore

Acting Secretary of State.

The Honorable

Marc Peter,

Minister of Switzerland.

(Nov. 21, 1936)

November 30 1936

Sir:

I acknowledge the receipt of your note of November 21, 1936, informing me of the Netherland Government's policy with respect to international monetary and economic relations.

The Secretary of the Treasury associates himself with me in expressing this Government's appreciation of your communication and our gratification concerning this declaration.

Accept, Sir, the renewed assurances of my highest consideration.

R. Walton Moore
Acting Secretary of State.

The Honorable

Baron van Bungeel Douglas,

Chancé d'Affaires ad interim of the Netherlands.

661.5152/1133

RECEIVED

11-30

A true copy of
the signed original.

Regraded Unclassified

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Zurich,
Switzerland

DATE: November 21, noon

RUSH. FOR THE SECRETARY OF THE TREASURY FROM COCHRAN.

President Bachmann and Pfenniger, his assistant, received me at the Zurich office of the Swiss National Bank early this morning. I gave them copies of such draft announcements as I had left with the Dutch and Belgian officials and explained to them our plans for further statements.

A telegram to the Swiss Ministry of Foreign Affairs was then drafted, directing that Ministry to send telegraphic instructions immediately to the Swiss diplomatic representatives at Washington, London and Paris to deliver to the respective foreign offices not later than Sunday forenoon a message of adherence to the general principles of the tripartite monetary declaration of September 25th. In terms, this message is identical with the Dutch message which was cabled to you yesterday from The Hague, except that instead of beginning "The Government of the Netherlands", it begins "the Government of Switzerland".

Meyer, the President of the Swiss Federal Council and also Chief of the Swiss Federal Department of Finance and Customs, came to the bank at nine o'clock this morning and ordered the sending of the above-mentioned instruction

to

-2-

to the Swiss Ministry of Foreign Affairs at Bern.

We understand that the Swiss will not give publicity to their adherence to the tripartite agreement until Monday. The Swiss anticipate that the above-mentioned statement of adherence will meet with your requirements and that you will, through the proper channels therefore, include Switzerland in the list of countries to be announced Tuesday morning as eligible for reciprocal gold dealings with the United States. Any available texts of French and British communiques will be telephoned to Bachman from Paris on Monday. Probably, the Swiss Government will give very little comment to the press accompanying its official declaration of adherence.

This morning at 11 o'clock, I telephoned the substance of the above to Minister Wilson at Bern.

I shall return to Paris by night train and shall see Baumgartner at eleven o'clock Sunday morning.

EA:DJW

November 21, 1936.

52

October 30, 1936

Mr. Mallet said to the Secretary, "We have got an answer for you, Mr. Secretary, to the question you put to the Chancellor. The Chancellor wishes to thank you for the further information regarding the present position and he says that when you make the announcement about any countries named acceding to the reciprocal arrangement about sales of gold, he would certainly consider making simultaneous declaration in London, but the wording of the declaration will require consideration in the light of the actual circumstances."

"The Chancellor thinks he would be in position to say, if you so desire, that he welcomes the extension by the United States Treasury of their arrangements to the countries named, which is in harmony with the arrangements already made between United States and Great Britain and United States and France. The extension of this arrangement is also in harmony with the general basis of mutual cooperation which exists between British monetary authorities and the monetary authorities named in the United States announcement. Perhaps you may need an amplification of this and I will ask Mr. Bewley to amplify certain technical points."

* * * * *

November 5, 1936

The Secretary gave to Mr. Mallett a copy of proposed statement by the Treasury which was intended to cover the release of gold for export to France and England in addition to Holland, Switzerland and Belgium. (Superceding the announcement made by him on January 31, 1934 and October 13, 1936, etc.)

* * * * *

November 10, 1936

Mr. Bewley's meeting with Mr. Taylor while the Secretary was at Sea Island:

"Mr. Bewley: Well, the first thing was that the Chancellor wants to tell Mr. Morgenthau that he had no suggestion to make on the new draft announcement which seems fully to meet the case. If Mr. Morgenthau will tell Mr. Chamberlain when he is going to issue his announcement, Mr. Chamberlain will issue a statement at the same time in the terms which he has already told you. I think you have got more or less a draft of it. And Mr. Chamberlain is telling the French Government the same thing."

-2-

November 16, 1936

Cable to Cochran giving draft of proposed statement by Secretary Morgenthau. ("Supplementing the announcement made by him on October 13, 1936, etc.")

* * * * *

November 18, 1936

Mallet's letter to the Secretary as follows:

"My dear Mr. Secretary,

In confirmation of my telephone message of this morning I am writing to tell you that we have had a telegram from the Chancellor of the Exchequer in which he asks us to inform you that he notes that your object in revising the draft agreement announcement is to adapt it to the case of Belgium. Provided that the new draft is satisfactory to the Belgian Government Mr. Chamberlain concurs in its terms. He also agrees to the procedure and time table suggested by you.

Believe me,

My dear Mr. Secretary,
Very sincerely yours,

(Signed) Victor Mallet."

11/2 3/3/6

MONEY

GOVERNMENT'S NEW ANTI-INFLATIONARY POLICY.

Washington advices indicate that an imminent change is about to take place in Government's monetary policy. Fundamental as this change will probably prove to be, it is certain to impose no readjustments upon finance or industry but, on the contrary, by injecting into the situation an element of stability, will provide ample justification for greater confidence in the future.

Government has recognized that there are inflationary forces in the making which, if permitted to gather momentum, would without doubt ultimately so alter our price structure as to enforce severe readjustments throughout the entire economy. Government realizes that a violent rise in the price level, like a violent drop, tends to set in motion a series of forces which, as they feed on one another, gain strength and velocity until, like the tornado, they sweep everything before them. That is precisely what Government wants to prevent and what it is in a very fair way of preventing.

The difference between the American and the British money systems may seem to lie in the fact that while the Dollar is rigidly linked to gold, the Pound Sterling is not; yet if, owing to the recent tri-power pact, approximate stability is maintained in the Sterling-Dollar rate of exchange, then it may truly be said that the Pound, because it is linked to the Dollar, is in effect also linked to gold. Our stabilizing mechanisms also differ. America operates through a Fund which has actual money in it, while the British function through an Account which was started without a farthing. Whereas London pays for incoming gold with the cash proceeds of short Treasury bills which take out of the money market funds in amounts which exactly correspond to the cash paid for the gold, we, on the other hand, issue \$35 additional currency for every ounce of yellow metal that enters our borders, and thus inflate the currency as fast as gold comes in. When, as and if alien gold is returned to points of origin, we shall be forced to deflate the currency in proportions equal to the outflow of metal. Thus it will be seen that both the inflow and outflow of gold, by altering our reserves, unnecessarily disturb our financial and price structures and expose our economy to forces outside our jurisdiction, but over which we happily have a good measure of control the very moment they cross our borders.

2.

In seeking the proper corrective, our approach via the security markets was patently erroneous; we could not, without placing ourselves in an awkward position, pursue a tariff reduction policy on goods and, at the same time, erect tariffs against capital movements. To attempt so to act was incongruous, especially in view of the fact that there was always available another method, the effectiveness of which was obvious. Apparently this very method is about to be adopted:

The Treasury will very likely issue short bills (90-120 days) in amounts corresponding to the volume of incoming gold, and will keep renewing them as long as the metal stays in America. The Treasury will thus be taking out of the money markets exactly as much money as it issues when it purchases incoming gold. When the metal flows out, the bills will be permitted to run out and will be paid at maturity. In the present and prospective state of the money market these bills can be sold at not more than 1% per annum, which means that if one billion of gold comes in, we would pay ten million dollars per annum premium for the privilege of controlling the situation, avoiding unnecessary disturbances to our financial and price structures, and undoubtedly saving the nation many times that amount by neutralizing the inflationary and deflationary force of gold movements which originate outside our borders.

The raising or lowering of reserve requirements, while a useful device, is not as effective as the procedure above described because it is, of itself, highly disturbing to the banking mechanism, whereas the complete neutralization of undesired gold imports renders the money market impervious to their influence without requiring sudden readjustments by the banking mechanism. This new orientation in the Treasury's monetary policy should not be construed as deflationary; it is merely anti-inflationary and, as such, it is sound, conservative and far-sighted and will prove to be another stabilizing factor in both the national and international situations.

RENE LEON

November 23, 1936.

November 22, 1936

From his home, the Secretary called Cochran at 12:45.

Following is transcript of Secretary's remarks to Cochran:

What is new?

They were not as smart as we were. We sent them a notice, but it was unnecessary because the Swiss and Dutch notes were delivered to the State Department at noon Saturday. We arranged and asked them to have somebody there Saturday and Sunday and at noon they walked in and handed it to Moore at the State Department.

The Swiss in Paris are not on the job.

We have both.

I am sorry that it does not appear until Monday noon. I think I will wait until tomorrow now. I will give it out about 10 o'clock tomorrow morning. Supposing I say that you can tell them that we will give it out at the Treasury 10 o'clock tomorrow note. That is the note of Switzerland and Holland to us.

We will not give out the tripartite one until 4 o'clock Monday night for Tuesday morning papers.

Can you sound out Baumgarten before he takes his new position as to whether he would not like to come over to America for a week? My thought is I expect from now on to ask some of these countries to send somebody from their Treasuries just to come over and give me information casually.

Has he not the confidence of Blum?

Then he would not be so good.

What about Professor Riaz?

Well, I mean, if Baumgarten came he would not have the confidence of Blum. I have something in my mind

-2-

which I do not want to say over the 'phone, but I may be able to talk to you about it in a day or two. What I want to find out is -- and I am not prepared to talk yet myself -- whether they are ready. If things quiet down there for a couple of weeks, I would like you to come over for a week.

Butterworth sees the British Treasury, Waley, over there and Waley dropped a hint that they felt that Sweden was their baby, but I am just going to act as though I never heard it. It will have to come more officially than that and if it does, I do not know whether I will pay any attention to it. I do not think they control and own Sweden. This information is just for you. I want to go after the Scandinavian countries. I am very anxious to.

I will call you again Tuesday and let you know how it went on this side.

EXPLANATION: In substance, the important thing that Cochran conveyed to the Secretary is the following: Blum, while he is getting a promotion, is being put out of his present position by political pressure due to the fact that his wife is a member of the 200 families that rule France. Cochran questions the advisability of Baumgarten's coming over here. In any event, there is no use taking up war debts with France until after they get their budget through in December.

ML

GRAY

Paris

Dated November 22, 1936

Rec'd 10:35 a.m.

Secretary of State

Washington

RUSE

1138, November 22, 1 p.m. SECTION ONE

FOR THE SECRETARY OF THE TREASURY FROM COCHRAN.

Baumgartner of the French Ministry of Finance came to my office at 11 o'clock this morning. I told him of the results of my trip to Belgium, the Netherlands and Switzerland. Baumgartner telephoned the French Ministry for Foreign Affairs and learned that the Dutch declaration of adherence to the tripartite agreement had been received through the Dutch Legation in Paris. The French Ministry for Foreign Affairs is asking the Swiss Legation in Paris to watch for and expedite a similar message.

Since the Dutch and the Swiss will not be able to have their declarations published in their own countries until afternoon on Monday, the French will not have any statement in regard thereto appear in the French press until after noon on Monday.

Baumgartner submitted to me the text of the communique which

L. -2- 1138, November 22, 1 p.m., from Paris
which the French plan to give to the press at 15
o'clock Monday night for publication Tuesday morning.
Here follows my English translation of the French
communiqué

"On the day after the Franco-Anglo-American
declaration of September 25th last the Belgian Government
announced that it was according its adherence thereto.
The Dutch Government and the Swiss Government have just
now made known their decisions likewise to join in.

The Governments of France, of the United States
(END SECTION ONE)

BULLITT

KLP

GRAY

MA

Paris

Dated November 22, 1936

Rec'd 10:50 a.m.

Secretary of State
Washington

RUS

1138, November 22, 1 p.m. (SECTION TWO)

of America and of Great Britain welcome the declarations by which the Governments of Belgium, Switzerland and the Netherlands thus express their adherence to the principles stated in the tripartite declaration of September 25th.

Following these adhesions provisions have been made to extend to these three countries the arrangements which assure exchange relations between the markets of Paris, London and New York which were the subject of a communique dated October 12, and to establish collaboration between the interested exchange equalization or stabilization funds and institutions of issue.

These provisions are the subject of the two following communiques of the American and British treasuries".

(Then follow translations of the declaration which the American Treasury will make to supplement its earlier declarations on gold, and of the declaration
in

ML. -2- 1138, November 22, 1 p.m., from Paris
in regard to the addition of the new countries to the
Department's list. Next will follow a translation of
the British communique which has not yesterday been
received by the French Ministry of Finance.)

"As far as it is concerned the French Government
has taken the necessary measures in order that the
technical cooperation instituted between the French
exchange stabilization fund and the American and British
equalization funds is extended to the institutions of
issue ^{of} stabilization funds of Belgium, the Netherlands
and Switzerland. The monetary authorities of these
countries will from now on enjoy the same facilities
insofar as the delivery of gold against exchange is
concerned, and they assure analogous treatment to the
French stabilization fund". (END MESSAGE)

BULLITT

KLP

November 23, 1936
9:20 A.M.

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

H.M. Jr: I have here two documents from the Secretary of State dated November 21; one from the Swiss government, which reads as follows: "The government of Switzerland has cognizance of the declaration by which the governments of France, Great Britain, and the United States of America have seen fit to express their intentions with regard to monetary policy, and adheres to the general principles stated in the tripartite declaration of September 25."

And then on the same date there is exactly the same thing from the Dutch. Now, we already received one from the Belgians on September 26, see?

And then this comes over the ticker this morning: "A dispatch from Bern says Switzerland's adhesion to the monetary convention between Great Britain, France, and the United States has been brought a step nearer today by a communication by the Swiss government to London, Paris, and Washington. This communication notifies the three governments that the Swiss Federal Council has taken cognizance of the declaration of September 25 concerning their intentions on monetary policy, adding that it approves the general principles contained in the convention. The Council adds that it is carrying on negotiations already announced which are aimed at bringing about cooperation with other States in adherence by Switzerland with the three-power gold movements."

Then this one: "Holland Has Joined Tri-power Agreement. Amsterdam - The Dutch government

- 2 -

today decided to join the monetary agreement recently framed by the governments of France, Great Britain, and the United States. (Statement of Dutch government:) The Dutch government has knowledge of the statement of September 25 in which the governments of France, England, and the United States explain their intentions regarding monetary management, to which the Dutch government agrees. The Dutch government - - - for all the necessary technical cooperation with the monetary authorities of the countries mentioned above."

Now, I - originally these statements were supposed to be given out Sunday night, but they weren't for - I don't know, they said in Holland and Switzerland the Monday morning papers weren't any good, so they wanted to do it for their Monday afternoon paper. I said that I would give out these things here which the State Department has given us this morning; but I'm beginning to think I'll change it, give it all at 4 o'clock. That's what I want your advice on (to Gaston). They've got this thing; if they - I don't want two press conferences today because my agreement with the French and the British is that I will do it at 4 o'clock. What do you think?

Gaston: I don't see how we lose anything by waiting and I think -

H.M.Jr: All right, then we'll wait. Then if you will make notes for this afternoon. . . In the first place, I want the January 31, 1934, a copy of that. I want that. I want whatever we do on September 25.

Gaston: September 25 and October 13.

H.M.Jr: Wait a minute - and I want the Belgian thing.

Gaston: Yes, yes.

H.M.Jr: What they sent to us. And I want the October 13 declaration, including the little statement about - the one when we added a couple countries, you see?

Gaston: Yes.

- 3 -

H.M.Jr: Now then, for this afternoon I think we ought to give out what the Swiss and the Belgians have sent us, you see. We did that in the case - I mean what the Swiss and the Dutch, officially -

Gaston: Yes

H.M.Jr: We did that in the case of Belgium.

Gaston: Yes, yes, yes.

H.M.Jr: What do you mean yes?

Gaston: Yes, that's what I mean. I first thought we'd just have a release, but I think we might just as well give out that text and then have another release modifying it.

Viner: Those are communications to the Secretary of State?

H.M.Jr: No, but in the case of Belgium the Secretary of State asked to - they say it's a monetary matter so they asked me to release it.

We'll release that at 4 o'clock. Please note that those go back to Mrs. Klotz. I'd like to have them back at noon, because I want to have everything.

Gaston: Yes, I'll copy them and give them back.

H.M.Jr: In addition to that, there is a new declaration of the President's, which is approved by the President, which is dated November 17, but is for release for tomorrow morning's papers, and in which he withdraws. Will you give him -

Mrs. Klotz: I think we'll have to make a copy. You know, I can make photostats.

H.M.Jr: I'd have it photostated.

Now, in that thing we withdraw -

Gaston: The January 31.

- 4 -

H.M.Jr: - '34 and supplement the October 13, see?

Gaston: Yes.

H.M.Jr: Now, we want to have that.

Lochhead: May I make one question on that? You say that was dated. It was approved; didn't have any date. I was wondering whether you should put on any date of November 17. In other words, that was done before we got those letters. I don't think you have to put the date on.

H.M.Jr: But it should be dated, because the President can't sign it when he's on the Atlantic Ocean.

Lochhead: No, but he could have approved of something that -

H.M.Jr: Just a second.

Lochhead: That date doesn't go on.

H.M.Jr: I think it is dated, but the proclamation is for release for tomorrow morning's papers.

Viner: What about this official bulletin?

H.M.Jr: That's what we're talking about.

Viner: No, but I meant it goes into that. What's the name of that register?

Gaston: The Register.

Upham: Does not. The other one did not. The other one was signed by the President several days in advance of its release, and you will find a disparity of dates.

H.M.Jr: He can sign it for a week in advance, because he went away before.

Gaston: Doesn't seem to me the difference in dates makes any difference anyway, because the President's declaration clears the way for the admission of these nations, which occurred later.

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H.M.Jr: Now, I want to get you all - And then I think the thing, Herbert, you've got to do is draft this and then bring it in to me; that's why I'm doing this thing now. I have to acknowledge receipt publicly, welcoming Holland and Switzerland. I've got to say something. Make a note of that, will you; that's important.

Gaston: Yes, just what I was thinking. The mere fact that they send you this note - that doesn't conclude things. You have to announce that they have been accepted into membership.

Lochhead: You've made a form of that; I think it should be changed slightly.

H.M.Jr: Just as soon as this is over I want to personally give it all to Gaston, and I thought you fellows could go in the other room, work it out, and then submit it to me. Huh? And then - I think we've got it all. You've got all the - I haven't overlooked anything, have I (to Lochhead)?

Lochhead: You haven't overlooked anything that I know of. I've checked pretty carefully.

H.M.Jr: Now, there is only one thing, unless we've already done that. In talking about it, I say that I am giving out a statement here which is also being given out simultaneously in England and France. Now, this is that Holland, Switzerland, and Belgium have been given a reciprocal - we've got an agreement on reciprocal exchange of gold. But I want to word it so - I mean have it so - so that they haven't been admitted to the tripartite agreement. I don't know just how to say that, you see. Jake?

Viner: (Nods affirmatively)

H.M.Jr: I mean they've got this privilege but still they're not a member. I've gone - I'd rather have that written out than to try - than to fumble it.

Gaston: It seems to me it ought to be a formal release.

H.M.Jr: Well, I don't want to fumble it if - we've got plenty of time. So I think we'll do - what I

- 6 -

think we might as well do is get that thing cleared up, and if you fellows can go into the other room and let's have the thing done.

Now, the only thing they need from you, Mrs. Klotz, is that - the President's of November 17, and so that - I think -

Mrs. Klotz: We get quick service on photostating.

H.M.Jr: Why don't you start it now, photostating, say, about a half dozen copies, and tell them to rush it. And then come back.

(Mrs. Klotz goes out)

H.M.Jr: Well, I had something else, but I think we better let that something else wait and get this thing lined up for me. What do you think, Herbert?

Gaston: All right.

H.M.Jr: And do it all at 4 o'clock, not do it piecemeal.

Gaston: No. I think so, yes.

Lochhead: Did Livesey send over those cables to you yesterday or did he just read them? I think that's the last we had - those cables.

(Secretary hands Lochhead cables)

H.M.Jr: I think the thing to do is to get it all fixed up. Now, does the Federal Reserve of New York begin talking today to these fellows, or do they only begin talking -

Lochhead: After you announce it, they will start sending cables. They can't do much talking on the phone; they have to go by cable. They're working on that now.

H.M.Jr: I hope - I got another meeting at 11:30 on Associated Gas. You fellows have got two hours. Can't you fellows -

Gaston: Two hours? I should think so.

- 7 -

H.M.Jr: What?

Gaston: I should think so. I'll get it cleaned up in an hour, I should think.

H.M.Jr: I mean so that it is written.

Gaston: Yes, I think so.

H.M.Jr: You sit in, Clarence, will you?

Oppen: O.K.

H.M.Jr: What have I overlooked? Anything? Wayne?

Taylor: (Nods negatively)

H.M.Jr: Have I overlooked anything?

Haas: You're still going to keep that 12 o'clock meeting?

H.M.Jr: No, I better change that, for another reason. Let me just think a minute. Now, what I was going to do - to make the Associated gas 11:45. Wouldn't 15 minutes be enough on it?

Oppen: I think so, yes, sir.

H.M.Jr: What?

Oppen: I think so.

H.M.Jr: All right, Associated Gas - - Then at 12 o'clock let Landis come. And then at 12:30 Eccles. After all, a half hour, wouldn't that be time enough on -

Haas: On the tax?

H.M.Jr: Yes

Haas: It will be if you just want to get the consideration started; in other words, what is the status.

H.M.Jr: That's enough, I think.

Haas: That's about all you should do.

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Opper: It occurs to me that it would only - would be better to have only 15 minutes with Landis on Associated Gas.

H.M.Jr: Well, but - I mean I might want to take a breath of fresh air; I don't want to crowd myself. I mean if you people came in at 11:45 and I had Landis here at 12, and then someone - Eccles - I wouldn't take this thing up till 12:30. Then you be here (White and Haas).

Haas: And the other boys in the Bureau that are working - there is one King.

H.M.Jr: That's all right. But you tell Eccles I've postponed this until 12:30 (to Upham).

Haas: What time is that?

H.M.Jr: 12:30 - and Landis will be here too.

What they are going to do at 12:30 is present the Treasury's tax figures - a study on foreign securities. See, Jake?

Viner: All right.

H.M.Jr: All right, if you will go to work on this thing now. . . .

OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

November 21, 1936.

The Acting Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information a copy of a note (No. 3775 of November 21, 1936) from the Netherland Legation in Washington, transmitting upon instruction of the Minister of Foreign Affairs of the Netherlands, the text of a declaration made by the Netherland Government with regard to adherence to the general principles stated in the tripartite declaration of September 25.

Enclosure:
From Netherland Legation,
November 21, 1936.

SL

ROYAL NETHERLAND LEGATION

71
Washington, D.C.

November 21, 1936.

No.3775.

Sir:-

Acting upon instructions of the Minister of Foreign Affairs of the Netherlands I have the honor to inform Your Excellency of the following declaration made by my Government:

"The Government of the Netherlands has cognizance of the declarations by which the Governments of France, Great Britain and the United States have seen fit to express their intention with regard to their monetary policy and adheres to the general principles stated in their tripartite declaration of September 25, 1936."

I avail myself of this opportunity to renew to you, Sir, the assurances of my highest consideration.

B.

w.s. C. van Breugel Douglas.

Chargé d'Affaires a.i.
of the Netherlands.

The Honorable R. Walton Moore

Acting Secretary of State

Washington D.C.



DEPARTMENT OF STATE
WASHINGTON

November 21, 1936.

The Acting Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information a copy of a note dated November 21, 1936, from the Swiss Legation in Washington, transmitting, upon instruction of the Swiss Government, the text of a declaration made by the Swiss Government with regard to adherence to the general principles stated in the tripartite declaration of September 25.

Enclosure:
From Swiss Legation,
November 21, 1936.

Coburn

November 21, 1934.

Sir :

I have the honor to inform you that I have
been instructed by my Government to convey to you the
following :

" The Government of Switzerland has cognizance
of the declarations by which the Governments of
France, Great Britain and the United States of
America have seen fit to express their intentions
with regard to their monetary policy and adheres
to the general principles stated in their tri-
partite declaration of September 25."

Accept, Sir, the assurances of my highest con-
sideration.

(sig) Marcel Pétin

Minister of Switzerland.

Honorable
Mr. Walton Moore,
Acting Secretary of State,
Washington.

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November 23, 1936
10:13 A.M.

H.M.Jr: Hello.

W.R.
Burgess: Hello, sir.

H.M.Jr: Hello, Burgess.

B: Well, we've got - got a little flash on the opening here, and it looks as though it was just a little bit off, about a thirty-second or two off.

H.M.Jr: Good.

B: A little bit nervous. But I've talked to several of the dealers; they don't anticipate any considerable selling. They say there are no great offerings around.

H.M.Jr: Uh huh.

B: Now, it's a little early to tell; it may slack off a little during the day, but - but it doesn't look like anything very vigorous.

H.M.Jr: Yes. Well, what do you think - what do you think our program should be for today?

B: Well, I think we ought to - ought to let it find its level if we can.

H.M.Jr: Yes

B: But if the selling gets - well, in the first place, we ought to see to it that the market is orderly, -

H.M.Jr: Yes

B: - and that there are bids in on every issue -

H.M.Jr: Yes

B: - at all times.

H.M.Jr: Well, now - how would this be? Let's say that we - we - we take - oh, about two hundred thousand on every thirty-second down. That wouldn't be too big, would it?

- 2 -

B: No - something like that. But I wouldn't start until it had gone off - oh, two or three thirty-seconds from Saturday's bid.

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

B: Yes, yes.

H.M.Jr: I mean I - I really - my reason for pressing Eccles so to do this was to - was to have the market find its level.

B: Exactly, yes.

H.M.Jr: See?

B: Yes.

H.M.Jr: Let's keep in touch with each other today, and if there's any really sharp thing call me, will you?

B: I will, yes.

H.M.Jr: And then - you and Bell made up your mind yet?

B: Well, I think reasonably well. I - I'm about prepared to see you - see you give up the preferred allotment altogether this time.

H.M.Jr: But you haven't talked with Bell yet?

B: Yes - well, I talked to him Saturday and a little bit this morning.

H.M.Jr: But -

B: We'll make a final recommendation to you by noon.

H.M.Jr: O.K.

B: Fine.

H.M.Jr: Thank you.

B: Good.

- 3 -

10:55 A.M.

H.M.Jr: New York.

Operator: All right.

H.M.Jr: Hello.

Operator: Mr. Burgess.

H.M.Jr: Hello.

B: Yes, sir.

H.M.Jr: Hello, Burgess.

B: It's just a little bit more off.

H.M.Jr: Yes

B: But there - there are bids in on everything; there's no volume of selling. They're from one to three thirty-seconds off from Saturday's close.

H.M.Jr: Well, that's not bad.

B: But things are doing very nicely, I think.

H.M.Jr: Have you bought anything?

B: No.

H.M.Jr: Uh huh.

B: I think not. Now, we've instructed one of the dealers, in case any issue doesn't have bids -

H.M.Jr: Yes

B: - to put in some bids, small bids, at two or three thirty-seconds under Saturday's market.

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

B: Under Saturday's bid price.

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

B: And we haven't heard from him of any executions. I

- 4 -

don't think he's made any.

H.M.Jr: Fine.

Now, I have Mr. Bell, Mr. Broughton, and Mr. Kilby.

B: Well, that's a very important galaxy of gentlemen.

H.M.Jr: And Mrs. Klotz.

B: Yes.

H.M.Jr: Now, they've come to the decision that, for once, for one issue we'll eliminate all preferences.

B: O.K. by me.

H.M.Jr: O.K. by you.

B: Yes

H.M.Jr: And - that's number one - and, number two, the people here have a preference for December 7.

B: For December 7?

H.M.Jr: Yes.

B: Well, darn them.

H.M.Jr: Yes. Well, you're quite - quite a ways away.

B: (Laughs) Well, of course, one always has a preference for a weekend if he can - if he can do it easily.

H.M.Jr: Yes, - well, we've gone English here.

B: But you're going to discourage your boys that - that do your work for you.

H.M.Jr: Well, it's a question of tightening it right. It - it's - you know, I get very temperamental before these -

B: (Laughs)

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H.M.Jr: I - I - I - I just feel that I'd be - that I'd be rushed a little bit too much on December 3. I'm serious about it.

B: Yes

H.M.Jr: I just couldn't quite get my house in order.

B: Of course, I thought with this early announcement that there wouldn't be much difficulty about that.

H.M.Jr: Well, I - I just can't quite get ready for it, Burgess.

B: Uh huh, uh huh.

H.M.Jr: I'd like to be here next week and sit back here and see a few people from New York and talk it over and get the feel of the thing. After all, you know, even if we - without asking for any new money, I mean, it's a billion one eighty-seven.

B: Yes, but I think you wouldn't know any more with the extra two or three days.

H.M.Jr: Well, maybe not, but I'd feel better about it.

B: I really feel very badly about - about the - the kind of job that is done on these things -

H.M.Jr: Yes

B: - and I think it's very important to the reputation of the Treasury -

H.M.Jr: Yes

B: - that its business affairs should be handled properly, and I don't think this is being handled properly.

H.M.Jr: Well, it's -

B: I don't think it was last time.

H.M.Jr: No. Well, of course, there's one way we could do it, but everybody doesn't - seems to be opposed to

- 6 -

it, and that's make a register.

B: Oh, these five thousand dollar things.

H.M.Jr: No. That's out now.

B: Yes.

H.M.Jr: No, make everybody register for their bonds.
No, I mean everybody.

B: Well, I think that's a mess, because that
hinders normal trading in them.

H.M.Jr: Yes. Well, this is the way I - I mean, you know,
I - I've got to do these things on my feelings.

B: Yes

H.M.Jr: And my feeling is that I want a full week, -

B: Yes

H.M.Jr: - to sit back here and do this thing calmly.
The other way I'd be rushed.

B: Yes, yes. Well -

H.M.Jr: Now, if the Treasury people all here said, "No -
they definitely prefer the seventh.

B: Oh well, as far as abstract - abstract preference,
I prefer the seventh; but there's a job to be
done. There are all these subscriptions coming
in, and -

H.M.Jr: Yes

B: - and -

H.M.Jr: Well, it gives you, it gives you -

B: - and going on here.

H.M.Jr: Well, it gives you a full seven days.

- 7 -

B: Well, that's - that's not adequate.

H.M.Jr: What?

B: That's not adequate to do the job right.

H.M.Jr: Yes. Well, I'm in entire sympathy with you that you want to do it right, but I also wanted to have it priced right.

B: Yes, yes. Well, I agree to the pricing right, and it doesn't seem to me really that those two or three days would make a difference in being able to price it right.

H.M.Jr: Yes. Well, I - I - I've talked it over here, Burgess, and I - I think unless there's some new reason - I think we'll make it the seventh.

B: Well, sir, I'm - I'm sorry for that. I - I don't like it a bit.

H.M.Jr: No.

B: I think it's - I think it's crowding people too close. It isn't just a question of working nights and all that; they're glad to do that. But a man's judgment isn't as good when he's doing that and - and there's certain things you have to do in business hours: be checking up people and so on.

H.M.Jr: Yes, yes.

B: And these other banks just haven't been doing the job as they should.

H.M.Jr: Yes

B: Now, what I'd like to see is a -

H.M.Jr: Well, what about bringing down these various fiscal officers in advance - bringing them down here about the - the third, and let's have a talk to them?

B: Well, I think there's merit in that -

H.M.Jr: Well - well -

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B: - so that we standardize the -

H.M.Jr: Yes

B: - the method of dealing with these things a bit.

H.M.Jr: Well, now, we'd have a - an Open Market Committee meeting on Wednesday, the second.

B: Yes

H.M.Jr: Now - and that doesn't ever last very long.

B: Yes

H.M.Jr: And why don't I tell Bell, who's sitting here, listening, that we ask these various fiscal officers to come in here on Wednesday, the second, and get -

B: All right.

H.M.Jr: - and meet with you and Bell and Broughton and Kilby.

B: Yes, yes.

H.M.Jr: See?

B: Yes.

H.M.Jr: And -

B: I'm for that.

H.M.Jr: All right. Bell's making a note.

B: Yes

H.M.Jr: See? Let me ask him. (To Bell) What do you think, Bell? Huh? (Back to Burgess) All right, well let's do that. That's time -

B: Well, I think that's very desirable.

H.M.Jr: That's time enough, isn't it?

B: And have an understanding just what we're going to

- 9 -

in each district.

H.M.Jr: Righto.

B: And - and then we'll just have to cut our coats to fit our cloth, -

H.M.Jr: That's right.

B: - that's all.

H.M.Jr: Let me ask you this. This afternoon at my four o'clock conference I'm going to announce the date; I said I would, you see?

B: Yes

H.M.Jr: Do you think I ought to say anything that we're going to start on December 2 to sell fifty million bills into March 15, or just do it and not say anything about it?

B: Now, let me think about that.

H.M.Jr: Well, we won't announce that till Wednesday, you see.

B: Yes. That would normally be announced -

H.M.Jr: Wednesday.

B: - next Wednesday.

H.M.Jr: This Wednesday. It'd be announced this Wednesday for next Monday, wouldn't it?

B: Yes

H.M.Jr: Well, then -

B: Uh -

H.M.Jr: (Aside) - that there - it'll be on when?

B: There's some merit in telling them in advance.

H.M.Jr: Yes

- 10 -

B: On the other hand, if this market were very weak -
I don't think it would affect this market any.

H.M.Jr: Well why not let's just - let it come out normally,
which the boys here say would be - come out Thursday,
this Thursday.

B: That's all right.

H.M.Jr: Because -

B: Maybe that's better.

H.M.Jr: Just sort of do it normally, then -

B: Don't throw too many new things at them all at
once.

H.M.Jr: All right.

B: Yes.

H.M.Jr: Then it'd come out Thursday, be in Friday morning's
papers -

B: Yes

H.M.Jr: - and that's notice to them that we're going to
pick up some new money through bills.

B: Yes, yes.

H.M.Jr: What?

B: I think that's all right.

H.M.Jr: All right.

B: Yes.

H.M.Jr: Thank you.

B: All right, sir.

H.M.Jr: Goodbye.

LMS

SPECIAL GRAY and GRAY

Paris

Dated November 23, 1936

Rec'd 2:55 p. m.

Secretary of State,
Washington.

1140, November 23, 5 p. m.

FOR THE SECRETARY OF THE TREASURY FROM COCHRAN.

This forenoon I telephoned to Baudewyns at Brussels, Trip at Amsterdam and Bachmann at Zurich the text of the French communique quoted in my November 22, 1 p. m., and confirmed a schedule for press releases.

JOURNAL OFFICIAL of November 22 announces appointment of Baumgartner as general manager of the "Credit National". He will take office December 8. While no official announcement has yet been made the press reports that Rueff will succeed Baumgartner as Director of the General Movement of Funds. This is not yet confirmed.

On Paris exchange market today dollars were offered. French franc was strong also against belga and Swiss franc, but weak against sterling and florin. Bourse bad. French rentes down about two francs and international securities similarly lower because of rumors about Russian and German difficulties.

This

LMS 2-No. 1140, November 23, 5 p. m., from Paris.

This evening's Paris press carries correct reports from Amsterdam and Bern of the official adherence of the Dutch and Swiss Governments to the general principles of the tripartite agreement of September 25.

BULLITT

KLP

Monday, November 23, 1936

Sterling opened in the London market this morning at 4.89-1/16 and steadily improved in our market to 4.89-3/4 at about 1 P. M. Between 1 and 2 P. M. the market was distinctly nervous, with buyers for sterling in the market without any apparent offers to meet this demand. The buying apparently came in great part from stock exchange houses covering sales of stocks in this market by foreigners, but there was a good commercial demand, mainly from rubber, tin and silk importers. It was evident that unless sterling was supplied to the market there might be a sharp run-up in price, which would give rise to criticism as to the working of the Stabilization Funds under the tripartite pact. As the price which the British Stabilization Fund, through the Bank of England, quotes us for gold each morning is their buying as well as selling price for gold, it is possible to use their buying price for gold as a means of obtaining sterling to be used to stabilize the market. After discussing this with the Secretary he immediately authorized the sale of sufficient sterling in order to hold the rates within control, which orders were transmitted to the Federal Reserve Bank. In between the time the decision was made and it was possible to reach the Federal Reserve Bank by phone, the rate had advanced to 4.90-3/4, at which price 35,000 pounds were sold, and another 30,000 pounds were sold at 4.90-3/8. The market immediately

-2-

Monday, September 23, 1935

steadied and held between 4.90 and 4.90 1/4 for the rest of the afternoon and an additional 65,000 pounds were sold, bringing the total sales up to 130,000. In confirming this transaction to the Bank of England the Federal Reserve Bank was instructed to advise them that this act on our part had been taken in order to prevent a wide fluctuation in one day and that the Federal Reserve Bank was not to give the impression that sterling had been sold because we felt that the level prevailing at the time of sale was a satisfactory one to us.*

*This transaction was discussed with Professor Viner and Assistant Secretary Taylor, who also approved of it.

(A. Lochhead)

November 23, 1936
10:13 A.M.

H.M.Jr: Hello.

W.R.
Burgess: Hello, sir.

H.M.Jr: Hello, Burgess.

B: Well, we've got - got a little flash on the opening here, and it looks as though it was just a little bit off, about a thirty-second or two off.

H.M.Jr: Good.

B: A little bit nervous. But I've talked to several of the dealers; they don't anticipate any considerable selling. They say there are no great offerings around.

H.M.Jr: Uh huh.

B: Now, it's a little early to tell; it may slack off a little during the day, but - but it doesn't look like anything very vigorous.

H.M.Jr: Yes. Well, what do you think - what do you think our program should be for today?

B: Well, I think we ought to - ought to let it find its level if we can.

H.M.Jr: Yes

B: But if the selling gets - well, in the first place, we ought to see to it that the market is orderly, -

H.M.Jr: Yes

B: - and that there are bids in on every issue -

H.M.Jr: Yes

B: - at all times.

H.M.Jr: Well, how - how would this be? Let's say that we - we - we take - oh, about two hundred thousand on every thirty-second down. That wouldn't be too big, would it?

- 2 -

B: No - something like that. But I wouldn't start until it had gone off - oh, two or three thirty-seconds from Saturday's bid.

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

B: Yes, yes.

H.M.Jr: I mean I - I really - my reason for pressing Eccles so to do this was to - was to have the market find its level.

B: Exactly, yes.

H.M.Jr: See?

B: Yes.

H.M.Jr: Let's keep in touch with each other today, and if there's any really sharp thing call me, will you?

B: I will, yes.

H.M.Jr: And then - you and Bell made up your mind yet?

B: Well, I think reasonably well. I - I'm about prepared to see you - see you give up the preferred allotment altogether this time.

H.M.Jr: But you haven't talked with Bell yet?

B: Yes - well, I talked to him Saturday and a little bit this morning.

H.M.Jr: But -

B: We'll make a final recommendation to you by noon.

H.M.Jr: O.K.

B: Fine.

H.M.Jr: Thank you.

B: Good.

- 3 -

10:55 A.M.

H.M.Jr: New York.

Operator: All right.

H.M.Jr: Hello.

Operator: Mr. Burgess.

H.M.Jr: Hello.

B: Yes, sir.

H.M.Jr: Hello, Burgess.

B: It's just a little bit more off.

H.M.Jr: Yes

B: But there - there are bids in on everything; there's no volume of selling. They're from one to three thirty-seconds off from Saturday's close.

H.M.Jr: Well, that's not bad.

B: But things are doing very nicely, I think.

H.M.Jr: Have you bought anything?

B: No.

H.M.Jr: Uh huh.

B: I think not. Now, we've instructed one of the dealers, in case any issue doesn't have bids -

H.M.Jr: Yes

B: - to put in some bids, small bids, at two or three thirty-seconds under Saturday's market.

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

B: Under Saturday's bid price.

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

B: And we haven't heard from him of any executions. I

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don't think he's made any.

H.M.Jr: Fine.

Now, I have Mr. Bell, Mr. Broughton, and Mr. Kilby.

B: Well, that's a very important galaxy of gentlemen.

H.M.Jr: And Mrs. Klotz.

B: Yes.

H.M.Jr: Now, they've come to the decision that, for once, for one issue we'll eliminate all preferences.

B: O.K. by me.

H.M.Jr: O.K. by you.

B: Yes

H.M.Jr: And - that's number one - and, number two, the people here have a preference for December 7.

B: For December 7?

H.M.Jr: Yes.

B: Well, darn them.

H.M.Jr: Yes. Well, you're quite - quite a ways away.

B: (Laughs) Well, of course, one always has a preference for a weekend if he can - if he can do it easily.

H.M.Jr: Yes, - well, we've gone English here.

B: But you're going to discourage your boys that - that do your work for you.

H.M.Jr: Well, it's a question of tightening it right. It - it's - you know, I get very temperamental before these -

B: (Laughs)

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H.M.Jr: I - I - I - I just feel that I'd be - that I'd be rushed a little bit too much on December 3. I'm serious about it.

B: Yes

H.M.Jr: I just couldn't quite get my house in order.

B: Of course, I thought with this early announcement that there wouldn't be much difficulty about that.

H.M.Jr: Well, I - I just can't quite get ready for it, Burgess.

B: Uh huh, uh huh.

H.M.Jr: I'd like to be here next week and sit back here and see a few people from New York and talk it over and get the feel of the thing. After all, you know, even if we - without asking for any new money, I mean, it's a billion one eighty-seven.

B: Yes, but I think you wouldn't know any more with the extra two or three days.

H.M.Jr: Well, maybe not, but I'd feel better about it.

B: I really feel very badly about - about the - the kind of job that is done on these things -

H.M.Jr: Yes

B: - and I think it's very important to the reputation of the Treasury -

H.M.Jr: Yes

B: - that its business affairs should be handled properly, and I don't think this is being handled properly.

H.M.Jr: Well, it's -

B: I don't think it was last time.

H.M.Jr: No. Well, of course, there's one way we could do it, but everybody doesn't - seems to be opposed to

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it, and that's make a register.

B: Oh, these five thousand dollar things.

H.M.Jr: No. That's out now.

B: Yes.

H.M.Jr: No, make everybody register for their bonds.
No, I mean everybody.

B: Well, I think that's a mess, because that
hinders normal trading in them.

H.M.Jr: Yes. Well, this is the way I - I mean, you know,
I - I've got to do these things on my feelings.

B: Yes

H.M.Jr: And my feeling is that I want a full week, -

B: Yes

H.M.Jr: - to sit back here and do this thing calmly.
The other way I'd be rushed.

B: Yes, yes. Well -

H.M.Jr: Now, if the Treasury people all here said, "No -
they definitely prefer the seventh.

B: Oh well, as far as abstract - abstract preference,
I prefer the seventh; but there's a job to be
done. There are all these subscriptions coming
in, and -

H.M.Jr: Yes

B: - and -

H.M.Jr: Well, it gives you, it gives you -

B: - and going on here.

H.M.Jr: Well, it gives you a full seven days.

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B: Well, that's - that's not adequate.

H.M.Jr: What?

B: That's not adequate to do the job right.

H.M.Jr: Yes. Well, I'm in entire sympathy with you that you want to do it right, but I also wanted to have it priced right.

B: Yes, yes. Well, I agree to the pricing right, and it doesn't seem to me really that those two or three days would make a difference in being able to price it right.

H.M.Jr: Yes. Well, I - I - I've talked it over here, Burgess, and I - I think unless there's some new reason - I think we'll make it the seventh.

B: Well, sir, I'm - I'm sorry for that. I - I don't like it a bit.

H.M.Jr: No.

B: I think it's - I think it's crowding people too close. It isn't just a question of working nights and all that; they're glad to do that. But a man's judgment isn't as good when he's doing that and - and there's certain things you have to do in business hours: be checking up people and so on.

H.M.Jr: Yes, yes.

B: And these other banks just haven't been doing the job as they should.

H.M.Jr: Yes

B: Now, what I'd like to see is a -

H.M.Jr: Well, what about bringing down these various fiscal officers in advance - bringing them down here about the - the third, and let's have a talk to them?

B: Well, I think there's merit in that -

H.M.Jr: Well - well -

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B: - so that we standardize the -

H.M.Jr: Yes

B: - the method of dealing with these things a bit.

H.M.Jr: Well, now, we'd have a - an Open Market Committee meeting on Wednesday, the second.

B: Yes

H.M.Jr: Now - and that doesn't ever last very long.

B: Yes

H.M.Jr: And why don't I tell Bell, who's sitting here listening, that we ask these various fiscal officers to come in here on Wednesday, the second, and get -

B: All right.

H.M.Jr: - and meet with you and Bell and Broughton and Kilby.

B: Yes, yes.

H.M.Jr: See?

B: Yes.

H.M.Jr: And -

B: I'm for that.

H.M.Jr: All right. Bell's making a note.

B: Yes

H.M.Jr: See? Let me ask him. (To Bell) What do you think, Bell? Huh? (Back to Burgess) All right, well let's do that. That's time -

B: Well, I think that's very desirable.

H.M.Jr: That's time enough, isn't it?

B: And have an understanding just what we're going to

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in each district.

H.M.Jr: Righto.

B: And - and then we'll just have to cut our coats to fit our cloth, -

H.M.Jr: That's right.

B: - that's all.

H.M.Jr: Let me ask you this. This afternoon at my four o'clock conference I'm going to announce the date; I said I would, you see?

B: Yes

H.M.Jr: Do you think I ought to say anything that we're going to start on December 2 to sell fifty million bills into March 15, or just do it and not say anything about it?

B: Now, let me think about that.

H.M.Jr: Well, we won't announce that till Wednesday, you see.

B: Yes. ' That would normally be announced -

H.M.Jr: Wednesday.

B: - next Wednesday.

H.M.Jr: This Wednesday. It'd be announced this Wednesday for next Monday, wouldn't it?

B: Yes

H.M.Jr: Well, then -

B: Uh -

H.M.Jr: (Aside) - that there - it'll be on when?

B: There's some merit in telling them in advance.

H.M.Jr: Yes

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B: On the other hand, if this market were very weak -
I don't think it would affect this market any.

H.M.Jr: Well why not let's just - let it come out normally,
which the boys here say would be - come out Thursday,
this Thursday.

B: That's all right.

H.M.Jr: Because -

B: Maybe that's better.

H.M.Jr: Just sort of do it normally, then -

B: Don't throw too many new things at them all at
once.

H.M.Jr: All right.

B: Yes.

H.M.Jr: Then it'd come out Thursday, be in Friday morning's
papers -

B: Yes

H.M.Jr: - and that's notice to them that we're going to
pick up some new money through bills.

B: Yes, yes.

H.M.Jr: What?

B: I think that's all right.

H.M.Jr: All right.

B: Yes.

H.M.Jr: Thank you.

B: All right, sir.

H.M.Jr: Goodbye.

November 23, 1936..
12:35 P.M.

Present: Mr. Oppen
Mr. Upham
Mr. Gaston
Mr. Taylor
Mr. Haas
Dr. Lauchlin Currie
Dr. Goldschmidt
Dr. Paul P. Goussich
Mr. Walter Gardner
Mr. James M. Landis
Dr. E. A. Goldenweiser
Mr. Allan Sproul
Mr. Ronald Ransom
Mr. Marriner Eccles
Mr. Kent
Mr. Zucker
Mr. King
Dr. Williams
Dr. Viner

H.M.Jr: May I say that we are having this meeting - in the first place, it is confidential, whatever we discuss here. What we say here is confidential. In the second place, it is the result of the request of the President of Mr. Landis, Mr. Eccles, and myself that we study this question of foreign capital seeking investment in the United States. I asked our statistical and legal staff to make this study from two angles: one, from the question of the matter of the taxes which the foreign investor has to pay at present; and also the second question, the possibility of American citizens seeking means of evasion by going abroad and investing their money abroad - I mean using, say, London or Paris as a base to operate and invest their money in the United States as a matter of tax evasion. Now, that's our angle of approaching this. I don't think we have any recommendation. We just studied the situation as it is today. And George, are you ready to -

Haas: We have a - it is rather an involved question.

H.M.Jr: Well, you stand up and do your duty.

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Haas: I think I'll let Dr. Zucker do it. He wrote this statement.

H.M.Jr: All right, where's Dr. Zucker?

Haas: Right here.

Zucker: This is addressed to the Tax Aspects of International Security Transactions; first, from the viewpoint of the American taxation of foreigners under existing and previous legislation on capital gains and on income.

(Reads entire statement entitled
"Tax Aspects of International
Security Transactions," copy of
which follows)

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**Tax Aspects of
International Security Transactions**

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A. American taxation of foreigners under existing and previous legislation on capital gains and on income.

- 1. The income tax provisions of the 1936 law affecting foreign individuals and corporations exempt them from taxation of capital gains to which Americans are subject and fix a flat withholding tax on income received consisting of dividends, etc.**

Decided innovations affecting the treatment of income for tax purposes have been incorporated into the Revenue Act of 1936. Under its provisions, nonresident aliens and foreign corporations having income in the United States, are treated under two categories: (1) Those not engaged in trade or business in the United States and not having an office or place of business therein, and (2) those engaged in trade or business within the United States.

With respect to the nonresident alien falling into the first group, Section 211 (a) provides for a 10 percent tax on interest, dividends, rents, royalties, and other fixed income from sources within the United States, without the allowance of any deductions for expenses or the granting of credits for dependents or any amount for personal exemption. It is, in effect, a 10 percent tax on gross income from the above-stated sources. From this it is clear that the nonresident alien not engaged in trade or business in the United States is not subject to any tax whatsoever on profits arising from sale of securities. In other words, he is free from the capital gains tax. Correspondingly, the foreign corporation having income in the United States and not classified as

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one engaged in trade or business within the United States, designated under the law as a nonresident foreign corporation, is subject to a 15 percent tax on its ~~gross~~ income consisting of interest, rents, or such other fixed income. On dividends, the tax rate for the nonresident corporation is 10 percent. On capital gains it is nothing.

For the relatively small group of nonresident aliens and foreign corporations who classify under the statute in the second category, i.e., those doing business in the United States, the tax provisions in the 1938 law, Sections 211 (b) and 212 (b), are substantially similar to those in the prior tax laws. This type of nonresident alien is allowed a personal exemption of \$1,000 and also, if a resident of either Mexico or Canada, the regular credit for dependents. The net income within the United States of a nonresident alien of this type after such credits is subject to the regular normal tax and surtax.

For the resident foreign corporation, i.e., the foreign corporation doing business in the United States, the income which it earns here is subject to a flat tax of 22 percent. It is not subject to the undistributed profits tax.

Opportunity to file returns in the same manner as is allowed our own Nationals and domestic corporations, is given to this type of nonresident alien and resident foreign corporations. Should these foreigners fail to have filed with the Collector a true and accurate return of net income, the Commissioner is empowered to collect a tax on the basis of the gross income without allowance for business deductions and credits. It may be observed that foreign individuals and corporations doing

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business in the United States are subject to the capital gains tax on any profit arising from security transactions in the United States in like fashion as our own citizens or domestic corporations.

2. The tax on income is a withholding tax of 10 percent for individuals and 15 percent for corporations (dividends 10 percent), paid by the American making the disbursement and applies only to foreigners who do not transact business in the United States.

To assure collection, so far as possible the 1936 Revenue Act and the prior acts contain provisions which permit the employment of the mechanism of withholding, better designated as "the payment of tax at source." This applies to nonresident aliens whether doing business in the United States or not but only to foreign corporations not engaged in business in the United States, designated as nonresident foreign corporations. For the former, the withholding is on a 10 percent rate basis, constituting the entire tax presumably due on the nonresident alien's taxable income items. For the latter, withholding is at the rate of 10 percent on dividends and 15 percent on all other taxable income amounts.

In general, the withholding agent corresponds to the paying agent or whoever is responsible for turning over the income to the nonresident alien or to the nonresident foreign corporation. To make the withholding effective, the statute provides for a penalty of \$10,000 and possible imprisonment in cases of wilful failure to arrange for the payment of the tax.

3. The capital gains tax, although applying to Americans, has no application to a nonresident foreigner whose only business in the United States is the buying and selling of securities and commodities on an exchange.

In pointing out the differences in treatment accorded the American citizen and the foreigner with respect to income taxation, it is significant to note that while profits from security sales made by the nonresident alien not doing business in the United States and by the nonresident foreign corporation are not subject to the capital gains tax, the graduated percentage five-step system for taxing a proportion of the capital gains from security transactions does apply against the United States seller of securities. Thus, in a sense, there appears to be discrimination in favor of the foreign investor in connection with security dealings. This is partially offset, however, by the relatively high withholding rates now applicable to the fixed income items of these same nonresident aliens and nonresident foreign corporations. It can be readily appreciated, in view of our tax law providing for a 10 percent tax on practically all income going out of the country to nonresident aliens, that in the case of some of them the amount thus withheld is decidedly in excess of what would be the tax liability determined by the application of the regular normal tax and surtax after due allowances for personal credits and exemptions and business deductions.

4. This treatment is radically different from that of provisions tax law which provided for taxation of capital gains and income substantially on the same basis as Americans.

Under the prior revenue acts, nonresident aliens and foreign corporations were subject to tax upon their respective net incomes from sources within the United States at substantially the same rates

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applicable in the case of aliens or domestic corporations. Such alien individuals and foreign corporations were required to file returns disclosing therein the same information with respect to gross income and deductions as was required of aliens and domestic corporations, whether or not such aliens were engaged in business in the United States. Thus, under prior laws they were subject to the capital gains tax.

The withholding rates were substantially less under all prior acts than under the 1936 Act. The rates under the 1934 Act were 4 percent for individuals and 15-3/4 percent for corporations. In general, in all prior acts the withholding rates paralleled the normal tax on our Nationals and the flat tax on domestic corporations. In view of the fact that for years prior to 1936 dividends were free from normal tax, no withholding was required in the case of dividends received by non-resident aliens from domestic corporations.

5. The change made by the 1936 Act was due largely to the feeling that adequate collection of taxes from foreigners under the previous acts had been unobtainably impossible.

In the administration of the tax provisions, covering principally the tax on profits by foreigners arising from security transactions, the Bureau of Internal Revenue has encountered difficulties with the plan of permitting the income to move first to the nonresident alien with no withholding and then requiring the filing of a return to cover the transactions. Such difficulties were: (1) Having no jurisdiction over the person of the nonresident alien there existed no way to compel the filing of a return, (2) the means for verifying the returns

were wholly inadequate in view of the lack of book records in this country covering the nonresident aliens' security market activities, and (3) assuming that in particular instances adequate information was available from which profit determination arising from security transactions could be made, there were not in this country in any definite place known to the Bureau either property or bank accounts of the nonresident alien against which distraint could be made.

From time to time, efforts were made in the Internal Revenue Bureau to follow more intensively the transactions of the nonresident aliens through abstracting from brokers' regular information reports such data as were submitted dealing with security transactions where the indicated customer was a foreigner.

This was not very productive of results in view of the easy method of avoidance accomplished by nonresident aliens buying securities in the name of a foreign broker and the reluctance of such foreign broker to disclose to the Bureau the names of his clients. This reluctance is explainable by the existing foreign customs, and in some countries by regulations prohibiting the disclosing of the principals for whom brokers sell securities. In addition, frequent dealings in bearer certificates afforded no knowledge of the actual owners of the stocks even to the foreign brokers themselves.

While the extent of failure to report profits from stock transactions by foreigners cannot be determined with any degree of precision, it becomes apparent that such failure was substantial from the fact

that, as per the latest available information covering the year 1938, only 10,910 returns were filed by nonresident aliens, reflecting an aggregate net income of approximately \$30 million dollars and a tax liability of not quite \$3 million dollars. Included in such tax returns were profits from sales of real estate, stocks and bonds in an amount approximating \$5-1/4 million dollars, which figure covers capital asset sales held less than two years as well as sales of capital assets held more than two years. To better appreciate the picture thus presented it is pertinent to note that of the nonresident aliens who filed returns, many did so because the 4 percent withholding tax was in excess of the true tax liability when determined by applying the regular normal tax and surtax rates. These nonresident aliens, therefore, filed returns accompanied by claims for refund.

B. Americans may use the device of trading in American securities abroad in order to evade taxation.

1. While the revenue acts require that they file a return and pay a tax upon such transactions, it is obviously much more difficult to discover such evasions.

Another aspect of the subject worthy of consideration is, are there being created under the United States tax system conditions pertaining to security transactions which might motivate an American to conduct his security transactions abroad. To be sure, the American is taxable in the United States on all income which he earns in other countries. However, assuming that the capital gains tax is considered by certain Americans to be too drastic to warrant engaging in security

transactions in the United States and reporting the profits thereon, they may attempt to evade the tax for which they are liable by having transactions consummated abroad and failing to report them. How persuasive the desire might become can be gleaned by analyzing what the withholding rates, as well as other taxes, are against nonresident aliens in some of the principal foreign countries.

2. Taxation of Americans by foreign countries tends to encourage such evasions since, in general, Americans dealing in American securities abroad are not subject to any foreign taxation.

(a) Great Britain

Nonresident aliens under British laws are subject to an income tax collected at the source at the rate of $25\frac{3}{4}$ percent upon all items of annual or recurring income such as dividends, interest, rents, royalties, and the like. Hence, a United States citizen owning British securities is taxed at $25\frac{3}{4}$ percent on dividends and interest from these securities. In addition, he is subject to a graduated surtax on amounts in excess of 2,000 pounds. With respect to capital gains Great Britain does not tax casual capital gains, such as, gains realized incident to transactions upon the securities exchanges. The American citizen, nonresident in Great Britain, but trading there, provided he trades through bona fide brokers, is not subject to any capital gains tax, nor obviously is there any British withholding tax on income paid from the United States.

(b) France

Like Great Britain, France imposes a tax collected at the source on dividends and interest arising within its borders. The rates of tax may be 12, 15, or 24 percent, dependent on the type of securities.

In general, the rates are higher for "bearer" shares than for "registered" shares, and higher when the life of the corporation is under ten years than when it is over ten years. If an American citizen carries on transactions in securities on the French Bourse or other French Exchanges through a bona fide commission agent, he is not taxable upon the resulting profits. If, however, such American citizen has a "permanent establishment" in France he is subject to a tax upon this class of profits at the rate of 12 percent.

(c) Canada

An American citizen, as a nonresident alien, is subject to 8 percent tax upon income in excess of \$1,000 from sources within Canada. Such tax is not withheld by deduction at the source. In addition, a special surtax of 5 percent which is deducted at the source is imposed upon certain items of dividends, interest, and royalties.

A further withholding tax of 12-1/2 percent is operative against rentals and "industrial" royalties coming from patents, oil leases, etc. If, however, the nonresident alien has income from sources other than those subject to this 12-1/2 percent withholding tax, the 8 percent tax applies to his aggregate income, and he is allowed to take a tax credit for the 12-1/2 percent tax previously withheld.

(d) Netherlands

An American citizen receiving dividends from a corporation domiciled in Holland sustains a tax which approximates 10 percent, such tax being chargeable against the corporation upon distribution of the dividend. An American citizen, whether executing casual transactions in stocks and securities, or trading therein through a broker, is not subject to tax upon the resulting profits.

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H.M.Jr: Very good.

Zucker: Thanks.

H.M.Jr: Well, what is your pleasure, gentlemen?

Kent: I may say, Mr. Secretary, that the particular changes in the act were probably - next to the surtax on undistributed corporate income, probably the most discussed in the sessions of the committees up there in Congress of anything in the 1936 act; and the statement is correct in saying that the reasons for these changes were because of the administrative impossibility of getting any appreciable revenue out of the laws as they were then and the upsetting consequences of the attempts that have been made from time to time to enforce the capital gains provisions. In other words, they were felt to be theoretical sanctions only, which had little or no value in actual operation.

H.M.Jr: How would this be? This is a pretty important subject and I don't think we can do it justice. If the Federal Reserve and the Securities Exchange were each given at least one copy of this, or as many copies as they want, and then each of you gentlemen would designate somebody from your staffs to meet with our staff and then they could sort of mull this thing over and when they were ready they could tell their respective chiefs that they are ready. Then we could have another meeting and they might bring in some kind of recommendation. How would that be?

Reeles: I think that would be fine. It's a complex subject and the -

H.M.Jr: I mean I can't get it with just one reading.

Reeles: No.

H.M.Jr: How does that strike you?

Landis: I was wondering if, in addition to that, you might get both the Federal Reserve Board and us to consider the tax problem from our particular

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standpoints. Now, the administrative measures taken in order to collect a tax, of course, are not our business; but the effect of the absence of capital gains tax on the flow of European money in this country to buy American securities at a competitive advantage over our residents here who buy exactly the same thing: that is a matter of our concern. You see?

H.M.Jr: True. Well, all we had to do here was to simply present the picture as it is, with no recommendations of any kind. We're very careful.

Landis: Naturally.

H.M.Jr: Now, I have been told repeatedly that American citizens have found a method of operating from abroad as a base in order to evade these taxes. I have been told the only reason - they've been going over to England and bought up defunct companies, corporations, and used those to operate as an English corporation in our stock market. There's all that sort of thing which we can't - which would come under your organization more than ours.

Landis: But -

H.M.Jr: Well, as far as I'm concerned - I mean if the various staffs would explore this thing to the limit, and whenever they've got something we'd like them to come back and present it. But from this particular standpoint: that a man who operates abroad, whether American or alien, has a distinct advantage over the American citizen. Huh? And it must be quite a lure to go abroad and operate from there.

Landis: Of course, there are certain counterbalancing considerations that are present in many of these cases. But I quite agree with you that it is a situation that deserves exploration, and I think we, for example, have a few slants on the thing that we'd like to present from our side, and I think the Federal Reserve Board also is concerned.

H.M.Jr: Well, do you want to do it now?

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Landis: No, not now. Just whether or not those different slants will be considered.

H.M.Jr: Well, I sincerely hope so, and I want to again repeat that we have been very careful to stay within our own backyard on this thing. I mean there is nothing in this where we have slopped over anybody's -

Eccles: Well, I think, Mr. Secretary, that after all, your interest in this whole question of excess reserves and all ties in with your stabilization problem. It is a pretty difficult thing to say just where our own backyard may be in this. I think that we have such a community of interests here that, as far as I'm concerned I - I don't speak with the Board of any phase of the problem but that, even though we may be charged with certain responsibilities, they are very closely related to our own problems.

H.M.Jr: We realize that. Well, isn't it agreeable to you two gentlemen? As I say, we'll turn this over to our staffs and when they get something let them knock on the door and -

Eccles: I think that's an excellent plan.

King: I might suggest this, Mr. Secretary: from reading that, I don't believe the other side of the picture is brought out as clearly as it might be. If we could furnish, along with this, some rather convenient material which goes into it much more fully than this, I think it might be helpful.

Haas: Mr. King - he's Special Deputy over in Internal Revenue - he'll be in at the discussions.

H.M.Jr: King?

Haas: Yes.

H.M.Jr: Fine.

King: For example, I believe Mr. Kent has an - I believe, the Columbia Law Review there, and there is quite an article on various phases.

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- Kent: Yes, I was just going to suggest - This is the June number of the Columbia Law Review for 1936; there is an article in there which is valuable because it brings together a number of the devices, concrete devices, that are being used by various persons at the present time for the purpose of gaining tax advantages, and points out the difficulties to be encountered from a legal as well as other points of view in coping with those situations. It is a very illuminating article.
- Viner: I'd suggest that the State Department has an interest in this. As that was read over, I think I detected a treaty violation there, -
- H.M.Jr: Well, in the absence of Dr. Feis why not ask Mr. Livesey to sit in, or at least send them this abstract of the legislation?
- Viner: - because this "contiguous countries" violates our most favored nation obligations with respect to taxation.
- Kent: That arose out of a parliamentary situation. The State Department was fully informed of what was going on, and some disquietude was expressed, and there have been some protests from foreign countries; but the Committees themselves were aware of the situation. But they got into a parliamentary tangle and their choice was to risk a violation of a treaty or deny this treatment to Canada and Mexico, and they preferred to do the latter - preferred to do the former.
- H.M.Jr: Are there any other suggestions? Well then, I think it's up to - -

Nov. 23, 1934

Written by Joseph S. Zucker, Division of Research and Statistics,
assisted by Clarence V. Oppen and P. J. Mitchell of the Office of the General Counsel,
and Eldon P. King and D. L. Siegrist of the Bureau of Internal Revenue, and
George C. Haas.

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Tax Aspects of
International Security Transactions

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Tax Aspects of
International Security Transactions

A. American taxation of foreigners under existing and previous legislation on capital gains and on income.

1. The income tax provisions of the 1936 law affecting foreign individuals and corporations exempt them from taxation of capital gains to which Americans are subject and fix a flat withholding tax on income received consisting of dividends, etc.

Decided innovations affecting the treatment of income for tax purposes have been incorporated into the Revenue Act of 1936. Under its provisions, nonresident aliens and foreign corporations having income in the United States, are treated under two categories: (1) Those not engaged in trade or business in the United States and not having an office or place of business therein, and (2) those engaged in trade or business within the United States.

With respect to the nonresident alien falling into the first group, Section 211 (a) provides for a 10 percent tax on interest, dividends, rents, royalties, and other fixed income from sources within the United States, without the allowance of any deductions for expenses or the granting of credits for dependents or any amount for personal exemption. It is, in effect, a 10 percent tax on gross income from the above-stated sources. From this it is clear that the nonresident alien not engaged in trade or business in the United States is not subject to any tax whatsoever on profits arising from sale of securities. In other words, he is free from the capital gains tax. Correspondingly, the foreign corporation having income in the United States and not classified as

one engaged in trade or business within the United States, designated under the law as a nonresident foreign corporation, is subject to a 15 percent tax on its gross income consisting of interest, rents, or such other fixed income. On dividends, the tax rate for the nonresident corporation is 10 percent. On capital gains it is nothing.

For the relatively small group of nonresident aliens and foreign corporations who classify under the statute in the second category, i.e., those doing business in the United States, the tax provisions in the 1936 law, Sections 211 (b) and 231 (b), are substantially similar to those in the prior tax laws. This type of nonresident alien is allowed a personal exemption of \$1,000 and also, if a resident of either Mexico or Canada, the regular credit for dependents. The net income within the United States of a nonresident alien of this type after such credits is subject to the regular normal tax and surtax.

For the resident foreign corporation, i.e., the foreign corporation doing business in the United States, the income which it earns here is subject to a flat tax of 22 percent. It is not subject to the undistributed profits tax.

Opportunity to file returns in the same manner as is allowed our own Nationals and domestic corporations, is given to this type of nonresident alien and resident foreign corporation. Should these foreigners fail to have filed with the Collector a true and accurate return of net income, the Commissioner is empowered to collect a tax on the basis of the gross income without allowance for business deductions and credits. It may be observed that foreign individuals and corporations doing

business in the United States are subject to the capital gains tax on any profit arising from security transactions in the United States in like fashion as our own citizens or domestic corporations.

2. The tax on income is a withholding tax of 10 percent for individuals and 15 percent for corporations (dividends 10 percent), paid by the American making the disbursement and applies only to foreigners who do not transact business in the United States.

To assure collection, so far as possible the 1936 Revenue Act and the prior acts contain provisions which permit the employment of the mechanism of withholding, better designated as "the payment of tax at source." This applies to nonresident aliens whether doing business in the United States or not but only to foreign corporations not engaged in business in the United States, denominated as nonresident foreign corporations. For the former, the withholding is on a 10 percent rate basis, constituting the entire tax presumably due on the nonresident alien's taxable income items. For the latter, withholding is at the rate of 10 percent on dividends and 15 percent on all other taxable income amounts.

In general, the withholding agent corresponds to the paying agent or whoever is responsible for turning over the income to the nonresident alien or to the nonresident foreign corporation. To make the withholding effective, the statute provides for a penalty of \$10,000 and possible imprisonment in cases of wilful failure to arrange for the payment of the tax.

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3. The capital gains tax, although applying to Americans, has no application to a nonresident foreigner whose only business in the United States is the buying and selling of securities and commodities on an exchange.

In pointing out the differences in treatment accorded the American citizen and the foreigner with respect to income taxation, it is significant to note that while profits from security sales made by the nonresident alien not doing business in the United States and by the nonresident foreign corporation are not subject to the capital gains tax, the graduated percentage five-step system for taxing a proportion of the capital gains from security transactions does apply against the United States seller of securities. Thus, in a sense, there appears to be discrimination in favor of the foreign investor in connection with security dealings. This is partially offset, however, by the relatively high withholding rates now applicable to the fixed income items of these same nonresident aliens and nonresident foreign corporations. It can be readily appreciated, in view of our tax law providing for a 10 percent tax on practically all income going out of the country to nonresident aliens, that in the case of some of them the amount thus withheld is decidedly in excess of what would be the tax liability determined by the application of the regular normal tax and surtax after due allowance for personal credits and exemptions and business deductions.

4. This treatment is radically different from that of previous tax law which provided for taxation of capital gains and income substantially on the same basis as Americans.

Under the prior revenue acts, nonresident aliens and foreign corporations were subject to tax upon their respective net incomes from sources within the United States at substantially the same rates

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applicable in the cases of citizens or domestic corporations. Such alien individuals and foreign corporations were required to file returns disclosing therein the same information with respect to gross income and deductions as was required of citizens and domestic corporations, whether or not such aliens were engaged in business in the United States. Thus, under prior laws they were subject to the capital gains tax.

The withholding rates were substantially less under all prior acts than under the 1936 Act. The rates under the 1934 Act were 4 percent for individuals and 13-3/4 percent for corporations. In general, in all prior acts the withholding rates paralleled the normal tax on our Nationals and the flat tax on domestic corporations. In view of the fact that for years prior to 1936 dividends were free from normal tax, no withholding was required in the case of dividends received by non-resident aliens from domestic corporations.

5. The change made by the 1936 Act was due largely to the feeling that adequate collection of taxes from foreigners under the previous acts had been administratively impossible.

In the administration of the tax provisions, covering principally the tax on profits by foreigners arising from security transactions, the Bureau of Internal Revenue has encountered difficulties with the plan of permitting the income to move first to the nonresident alien with no withholding and then requiring the filing of a return to cover the transactions. Such difficulties were: (1) Having no jurisdiction over the person of the nonresident alien there existed no way to compel the filing of a return, (2) the means for verifying the returns

were wholly inadequate in view of the lack of book records in this country covering the nonresident aliens' security market activities, and (3) assuming that in particular instances adequate information was available from which profit determination arising from security transactions could be made, there were not in this country in any definite place known to the Bureau either property or bank accounts of the nonresident alien against which distraint could be made.

From time to time, efforts were made in the Internal Revenue Bureau to follow more intensively the transactions of the nonresident aliens through abstracting from brokers' regular information reports such data as were submitted dealing with security transactions where the indicated customer was a foreigner.

This was not very productive of results in view of the easy method of avoidance accomplished by nonresident aliens buying securities in the name of a foreign broker and the reluctance of such foreign broker to disclose to the Bureau the names of his clients. This reluctance is explainable by the existing foreign customs, and in some countries by regulations prohibiting the disclosing of the principals for whom brokers sell securities. In addition, frequent dealings in bearer certificates afforded no knowledge of the actual owners of the stocks even to the foreign brokers themselves.

While the extent of failure to report profits from stock transactions by foreigners cannot be determined with any degree of precision, it becomes apparent that such failure was substantial from the fact

that, as per the latest available information covering the year 1933, only 10,910 returns were filed by nonresident aliens, reflecting an aggregate net income of approximately \$20 million dollars and a tax liability of not quite \$3 million dollars. Included in such tax returns were profits from sales of real estate, stocks and bonds in an amount approximating \$5-1/4 million dollars, which figure covers capital asset sales held less than two years as well as sales of capital assets held more than two years. To better appreciate the picture thus presented it is pertinent to note that of the nonresident aliens who filed returns, many did so because the 4 percent withholding tax was in excess of the true tax liability when determined by applying the regular normal tax and surtax rates. These nonresident aliens, therefore, filed returns accompanied by claims for refund.

B. Americans may use the device of trading in American securities abroad in order to evade taxation.

1. While the revenue acts require that they file a return and pay a tax upon such transactions, it is obviously much more difficult to discover such evasions.

Another aspect of the subject worthy of consideration is, are there being created under the United States tax system conditions pertaining to security transactions which might motivate an American to conduct his security transactions abroad. To be sure, the American is taxable in the United States on all income which he earns in other countries. However, assuming that the capital gains tax is considered by certain Americans to be too drastic to warrant engaging in security

transactions in the United States and reporting the profits thereon, they may attempt to evade the tax for which they are liable by having transactions consummated abroad and failing to report them. How persuasive the desire might become can be gleaned by analyzing what the withholding rates, as well as other taxes, are against nonresident aliens in some of the principal foreign countries.

2. Taxation of Americans by foreign countries tends to encourage such evasions since, in general, Americans dealing in American securities abroad are not subject to any foreign taxation.

(a) Great Britain

Nonresident aliens under British laws are subject to an income tax collected at the source at the rate of $23\frac{3}{4}$ percent upon all items of annual or recurring income such as dividends, interest, rents, royalties, and the like. Hence, a United States citizen owning British securities is taxed at $23\frac{3}{4}$ percent on dividends and interest from these securities. In addition, he is subject to a graduated surtax on amounts in excess of 2,000 pounds. With respect to capital gains Great Britain does not tax casual capital gains, such as, gains realized incident to transactions upon the securities exchanges. The American citizen, nonresident in Great Britain, but trading there, provided he trades through bona fide brokers, is not subject to any capital gains tax, nor obviously is there any British withholding tax on income paid from the United States.

(b) France

Like Great Britain, France imposes a tax collected at the source on dividends and interest arising within its borders. The rates of tax may be 12, 18, or 24 percent, dependent on the type of securities.

SH

In general, the rates are higher for "bearer" shares than for "registered" shares, and higher when the life of the corporation is under ten years than when it is over ten years. If an American citizen carries on transactions in securities on the French Bourse or other French Exchanges through a bona fide commission agent, he is not taxable upon the resulting profits. If, however, such American citizen has a "permanent establishment" in France he is subject to a tax upon this class of profits at the rate of 12 percent.

(c) Canada

An American citizen, as a nonresident alien, is subject to 8 percent tax upon income in excess of \$1,000 from sources within Canada. Such tax is not withheld by deduction at the source. In addition, a special surtax of 5 percent which is deducted at the source is imposed upon certain items of dividends, interest, and royalties.

A further withholding tax of 12-1/2 percent is operative against rentals and "industrial" royalties coming from patents, oil leases, etc. If, however, the nonresident alien has income from sources other than those subject to this 12-1/2 percent withholding tax, the 8 percent tax applies to his aggregate income, and he is allowed to take a tax credit for the 12-1/2 percent tax previously withheld.

(d) Netherlands

An American citizen receiving dividends from a corporation domiciled in Holland sustains a tax which approximates 10 percent, such tax being chargeable against the corporation upon distribution of the dividend. An American citizen, whether executing casual transactions in stocks and securities, or trading therein through a broker, is not subject to tax upon the resulting profits.

November 24, 1936.
10:15 a.m.

Gordon

Rentschler: Hello Mr. Secretary. Hare are you ?

H.M.Jr: Oh I'm fine and you?

R: Oh fine thanks.

H.M.Jr: Look I'd like to have a little talk with you at a time that 's mutually convenient.

R: Yes what would suit you - what time would suit you?

H.M.Jr: Well here's the thing. I'm going up to the farm tomorrow afternoon.

R: Yes.

H.M.Jr: At Fishkill. And I'll be there till Sunday.

R: Yes.

H.M.Jr: You - I don't know - I mean are you going away over.....

R: NO I'm going to be - I'll be here over the holiday.

H.M.Jr: Well I mean would either - I could - Friday or Saturday.....

R: Either Friday or Saturday would suit and I could come wherever you're going to be if - whatever is convenient to you.

H.M.Jr: Well it might be as convenient there as it would be to - ah - come down to Washington.

R: Yes. Just whatever suits your convenience.....

H.M.Jr: Well - ah

R:I'll be delighted to do.

H.M.Jr: Well Here's - you could - supposing you look this up, you see? I mean I don't - you could either drive or take a train, you see?

R: Yes.

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H.M.Jr: Whichever you preferred - its about the same time.

R: Why yes - ah...

H.M.Jr: I mean you could have your Secretary look it up.

R: Yes I'll motor - why don't I do this. Why don't I motor over to your - to the farm either on Friday or Saturday whichever suits you the better.

H.M.Jr: Well I was going to suggest if you come up - say if you wanted to come up here Friday afternoon you could have supper with us and then go back. We could have supper at 7 o'clock and go back right after or you could - or - or Saturday - either one - I've made no dates.

R: Well.....

H.M.Jr: Which would....

R:it does make a particle. Saturday would be a little more convenient to me than Friday really.

H.M.Jr: All right. Would you - would Saturday afternoon.

R: Saturday afternoon? Fine.

H.M.Jr: Well I mean would you - ah - would you rather come say at 4 o'clock and then spend a little time and then go back or would you rather come later?

R: Well suppose I drop over about 4 o'clock Saturday afternoon.

H.M.Jr: All right and then we can have a talk.

R: Yes, fine that would suit me just right.

H.M.Jr: Now I'll tell you the best way. You know there's this new East - they call it Eastern Motor Parkway, which is an extension of Bronx River?

R: Yes.

H.M.Jr: Now that's finished - hello.

R: Yes.

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H.M.Jr: And you get on that parkway and go to the end of it and then you come to what they call State Highway No. 52.

Yes, I know that road.

H.M.Jr: And you turn left.

R: Yes.

H.M.Jr: And you come to the Village - Wiccopee Village.

R: Yes.

H.M.Jr: And at the Wiccopee store you'd better inquire - we're about a mile from the Wiccopee store on a dirt road.

R: Fine, well I'll come right to the village. I think I know exactly where it is.

H.M.Jr: Well you go up on the new extension of Bronx River to route - State Highway 52 -

R: Yes.

H.M.Jr: Turn left to the little village of Wiccopee.

R: Yes.

H.M.Jr: And at the store you inquire.

R: Fine and I'll motor up Saturday afternoon.

H.M.Jr: And then we could have a little talk. I - I'd like to go over the general situation as well as the bond market.

R: Yes, very good. I'd rather go that than come down to Washington.

H.M.Jr: Good.

R: All right. It'll be very nice to see you.

H.M.Jr: Say listen.

R: Yes.

H.M.Jr: What do you mean by buying our whole bill issue and not leaving any for anybody else?

R: Well we wanted them this time. Do you mind letting us have them?

H.M.Jr: (Laughter) No, I was very much amused.

R: (Laughter) We'd rather have you give us a better rate though fellow.

H.M.Jr: Well listen, you write the ticket.

R: I know it. We write the ticket.

H.M.Jr: All I do is to print them.

R: Well you keep on printing them but let's try to get that rate up a bit.

H.M.Jr: (Laughter) All right with me.

R: All right, fine.

H.M.Jr: All right. Saturday at 4 o'clock at my farm.

R: All right, fine.

H.M.Jr: Thank you.

R: Bye-bye.

H.M.Jr: Goodbye.

November 23, 1936
3:05 P.M.

H.M.Jr: Hello.

Operator: Mr. Burgess.

W.R.
Burgess: Hello, sir.

H.M.Jr: Yes

B: Well, things are weakened a little bit. They -

H.M.Jr: Ah ha.

B: They're off about two to seven thirty-seconds.

H.M.Jr: Yes.

B: And we bought about a million and a quarter.

H.M.Jr: Since when?

B: Well, that's - I haven't had the report just at the close yet; -

H.M.Jr: Uh huh.

B: - most of it in the past two hours.

H.M.Jr: I see.

B: But the market maintained itself in pretty good condition. We bought up to two hundred and fifty thousand on some issues; on some of them, a good deal less than that.

H.M.Jr: All right.

B: I think it's been a pretty successful day. We've - we've got this market a little - a little down where it ought to be.

H.M.Jr: Yes

B: And everything's been orderly.

H.M.Jr: Yes

B: And it's been done without our spending much money.

H.M.Jr: I don't understand why the stock market's fell off so much.

B: You saw O. P. Van Sweringen's death, did you?

H.M.Jr: What?

B: Did you see about O. P. Van Sweringen's death?

H.M.Jr: No.

B: He died about 12 o'clock.

H.M.Jr: Would that put the market off?

B: Well, I don't know. I haven't seen the individual stocks yet.

H.M.Jr: Oh - two and a half points.

B: I think that probably a larger effect was the French and - and London markets, -

H.M.Jr: Yes

B: - which were quite bad at the close.

H.M.Jr: I wonder what was the matter with them.

B: Oh, I think it's this Spanish war thing and the neutrality partly.

H.M.Jr: Uh huh.

B: Question of the British blockade, you know.

H.M.Jr: I see. All right. Thank you.

B: But I don't think it means much.

H.M.Jr: All right.

B: Yes. Right.

H.M.Jr: Goodbye.

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3:18 P.M.

B: ran to two million, seven thirty-three thousand.

H.M.Jr: Good!

B: So we weren't just pikers, you know.

H.M.Jr: Who said you're pikers?

B: They - they closed at about the low; was about two to seven thirty-seconds off.

H.M.Jr: Who's accusing you of being a piker?

B: Well, you did a little while ago.

H.M.Jr: Did I?

B: Yes, sure, in one of your weak moments. (Laughs)

H.M.Jr: (Laughs) In one of the weak moments of the market.

B: That's right. Well, I - I still think my previous conclusions are right, that it did pretty well today.

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

B: Everything went all right, and everybody likes this statement, likes getting it out in the form of
It's made a good taste in everybody's mouth.

H.M.Jr: Well, I don't know who suggested that to Eccles, but it was a wonderful idea he had.

B: (Laughs) I wonder where he got it.

H.M.Jr: I haven't the slightest idea.

B: I haven't any notion either.

H.M.Jr: No - no -

B: It's a good idea, though.

H.M.Jr: Yes, good idea.

B: Yes

H.M.Jr: Well, they get those once in a while.

B: That's right, yes.

H.M.Jr: All right.

B: Yes. Goodbye.

H.M.Jr: Goodbye.

November 23, 1936
3:38 P.M.

Operator: Mr. Harrison has someone with him. He wants to know if he can call you back.

H.M.Jr: Yes

Operator: All right.

H.M.Jr: Hello. Hello.

Operator: Just a minute.

George Harrison: Hello, Henry.

H.M.Jr: Hello, George?

H: Yes, sir.

H.M.Jr: Have you got any explanation of what happened to the stock market today? It's off three and a third points.

H: It's what?

H.M.Jr: Off three and a third points.

H: No, I haven't any at all. It was -

H.M.Jr: Could you ask around or find out something?

H: All right, I'll do that. I just had George Davidson in here for half an hour and he didn't even mention it as being anything of interest. I was asking him what was going on.

H.M.Jr: Of course, you know, on account of it - I mean we had quite a flurry in sterling.

H: Well, it's up a little.

H.M.Jr: Oh yes; well, we had to step in.

H: Yes.

H.M.Jr: Would you check up? I'm going into a press conference at four and maybe a little after that you can let me know?

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H: All right, I'll check. After that?

H.M.Jr: After that.

H: Yes, all right.

H.M.Jr: I mean I - I just wondered what the gossip is, you know.

H: Yes, well, there's - there's nothing - it was pretty - it was quiet.

H.M.Jr: Well -

H: It must have been easy.

H.M.Jr: There must have been - I imagine you'll find there was a lot of selling from Europe.

H: Well, you know, I've argued all along, and these people wouldn't believe me -

H.M.Jr: Yes

H: - that a good part of this money from Europe was coming because they felt that, with all these excess reserves -

H.M.Jr: Uh huh.

H: - we couldn't stop the stock market from going up.

H.M.Jr: Yes

H: And therefore I've argued that if you sopped up the excess reserves that would be one way of stopping this money coming from Europe.

H.M.Jr: Yes.

H: If that were true I'd - I'd be glad if that is the explanation, frankly.

H.M.Jr: You mean - you mean since - they feel that the market won't go up so because we're going to stop it?

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H: Because we're going to sop up some of the excess reserves.

H.M.Jr: Yes.

H: That may be an explanation. I don't know.

H.M.Jr: Well, if you would find out and then if - if you'll call me.

H: I'll try and I'll locate it and see what I can find out.

H.M.Jr: You may not be able to find anything.

H: I may not, but if I can without being too conspicuous, I will.

H.M.Jr: And I thought the fact that the Board got out that statement was good.

H: I thought it was, and I thought it was a good statement.

H.M.Jr: And, as I said to Burgess, I don't know where they got the idea but it was an awfully good idea.

H: (Laughs)

H.M.Jr: Huh?

H: As I told you the other day, you did a great job on that.

H.M.Jr: Well, I just wanted to say that I thought it was the silliest thing, in front of twelve people, to try to bring up something that happened last July, and to try to bring it out that way.

H: Oh, I thought the whole thing was the silliest thing.

H.M.Jr: I thought it was the silliest thing.

H: That was silly, and we wasted more time on that.

H.M.Jr: And -

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H: Then I think to bring up the question of a conversation between you and me - you and I never had any misunderstanding.

H.M.Jr: No, and - and after all, when you talked to me three minutes before ten, I got - the impression that I got - the correct impression was that you hadn't been notified.

H: Well, I hadn't until nine o'clock the night before.

H.M.Jr: No.

H: But I can -

H.M.Jr: I know. Well - I mean what - at - what's that in the - and I heard Anderson said a telegram went to your night telegraph operator.

H: Did. Got a telegram about six o'clock to the telegraph operator: "Please keep a senior officer at the bank."

H.M.Jr: Well, it's over the dam.

H: Yes

H.M.Jr: I'm announcing this whole business at four, and -

H: What whole business?

H.M.Jr: Belgium and Holland and Switzerland.

H: Oh, good.

H.M.Jr: And that's - and London and Paris will announce simultaneously.

H: I see.

H.M.Jr: You - you got the thing.

H: Yes.

H.M.Jr: And I feel very, very happy because I think again it comes at - just at the time when Europe needs a little moral backing.

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H: (Laughing) Yes, it does.

H.M.Jr: What?

H: It certainly does.

H.M.Jr: Yes.

H: All right, Henry; well, I'll see what I can find out.

H.M.Jr: Thank you.

November 23, 1936

Mr. Bell, Mr. Viner, Dr. Williams, Mr. Taylor and Mr. Haas met with the Secretary at 4:45 this afternoon. Mr. Loonhead joined the group soon after the meeting started.

Following is stenographic report of the conference:

HM,Jr: What I want to do while you two gentlemen (Dr. Williams and Dr. Viner) are staying one more day -- you are staying, aren't you?

Dr. Williams: I will stay if you want me to or I will go back to the Bank.

HM,Jr: I think you will stay when you hear this. You are here as a Harvard professor. I think when you hear this, you will want to stay.

I have what I call "the germ" of an idea. I won't say anything more. I have talked it over with Bell; had a couple of minutes with Viner. And the thing that kind of stirred me up on this was this article by Mr. Warren Case Pomeroy going back to the McMillan report and this thought of isolation and sterilization of gold and separating it from our domestic stock.

Bell: Our monetary stock.

Haas: Our banking system.

HM,Jr: Monetary stock. Have you read that article?

Dr. Williams: No.

Dr. Viner: I have not read it yet.

HM,Jr: I recommend it. I think it is more clearly put than by anybody else.

Haas: It's "Bob" Warren.

HM,Jr: He used to be down here. I can't put it as well as he can, but the thought is if there could be some way found of isolating and sterilizing gold so it did not mix into our domestic economy, I think -- all I think we have is the germ of an idea. I talked with Bell this morning and I don't know whether he has had time or not

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to go into it. Have you had time, Dan?

Mr. Bell: No, I haven't had time.

HM,Jr: Could you do this, Dan? Could you take it on the very first thing in the morning with these people?

Mr Bell: First time. Nine o'clock.

HM,Jr: Jake, would you meet with Bell and these men in the Under-Secretary's office?

Viner: I will be there at five minutes to nine.

HM,Jr: I want Archie (Lochhead) in on this. I don't know whether we can do it or not, but if we can ... (Secretary sent for Lochhead and he came right in.)

Viner: That's a legal question.

HM,Jr: Archie, I want you to sit in on this thing. Then all this stuff that these fellows were talking about last week would all fall by the wayside. If there is a method of separating this gold ...

Mr. Bell: It would help out on that situation.

HM,Jr: It would help out in settling international balances.

Dr. Williams: I have a couple of ideas on how it could be done. It could be done in the British method.

HM,Jr: It isn't so easy. Dan is too tired to-night. We are all tired at this hour. Don't you think it is important enough to sit in on?

Dr. Williams: Oh, yes!

HM,Jr: Dan says he is available at nine o'clock. I would like to keep it secret as a Treasury matter, because if it leaks out that we are considering it at all it will be in all the papers. So if you (Dr. Williams) would sit in on this as a University man, I would appreciate it.

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Dr. Williams: I'll certainly be here.

HM,Jr: Because I don't know -- if we could do that it would certainly make Eccles' job easy, much easier. And George (Haas) I don't know whether you have had anybody examine this or not.

Dr. Haas: Yes, we were talking about it today and talked about it previous to that. I think it can be done and I don't think it will need any changes in the law.

HM,Jr: Have you anybody who has been working with you on this?

Haas: Yes. Seltzer and White.

HM,Jr: Will you bring them into the meeting tomorrow.

Mr. Lochhead: My thought is you could always bring gold in and keep it in as free gold.

Dr. Williams: How about excess reserves?

HM,Jr: I don't want to start it tonight, but I just wanted to whet his appetite.

Dr. Williams: I am all for staying!

HM,Jr: If Dan is through at -- you and I said we would go into Relief at 10:30.

Bell: It won't take very long for me to tell all I know about it.

HM,Jr: Oliphant would come in handy at certain stages of it. If you decide this is the only way of operating, then you have to find out from Oliphant's office if you can do it. Do you want Oppen?

Dr. Viner: Oppen or Bernstein.

Mr. Lochhead: He's in my office now.

HM,Jr: Will you tell him to sit in on the conference tomorrow morning at nine o'clock.

-4-

Mr. Lochhead: Yes, sir; I will.

Dr. Williams: That's grand! We will be here at nine o'clock tomorrow.

HM, Jr: But, as I say, if we could start this while you two men are here....

Dr. Viner: I think technically it is not difficult. One question is what are the powers under the law of manipulation and handling?

Dr. Williams: I think it involves borrowing operations. If you have authority to borrow ...

HM, Jr: I recommend to all of you that you read Warren's article in the Analyst.

Friday, November 13, 1936

THE ANNALIST

657

"Gentlemen's Agreement" Embodies Basic Tenets Of the MacMillan Report

By ROBERT B. WARREN*
Economist, Case, Powers & Co

MY remarks this evening will fall under three topics: (1) A factual interpretation of the Gentlemen's Agreement of Sept. 28, and its supplemental announcement; (2) A description of the ideological conflict which in recent years has produced a world-wide monetary anarchy; (3) A summary of the findings of the British Royal Commission of 1926, which attempted to find a rational solution of this conflict.

As you see, I am not speaking directly to the subject of stabilization, but rather attempting an objective description of contemporary monetary policy, citing the MacMillan report as a statement of its theory, and the British practice as the most completely formulated example of that theory, providing a pattern to which other systems appear to be gradually conforming. With these three topics as an introduction, I then hope to fit the agreement into its place as a significant episode in the evolutionary stream of monetary theory and practice.

Agreement Meets Three Specific Needs

The so-called agreement of Sept. 28 does not constitute a stabilization compact. It outlines a working system for international monetary intercourse. Apart from the familiar and somewhat threadbare expressions of hope for removing barriers to international trade, it sets a specific need of each of the three major parties.

1. It provided the French Government with international endorsement for a way which, however necessary, was profoundly disliked by the very groups on which that government depended.

2. It provided the British international system with a broader base, since this system, which had been based almost solely on the franc, is now able to operate on the dollar as well.

3. Our own Treasury, which had limited its gold exports to central banks on a full gold standard, would have found its position intolerable after the French devaluation, because no bank in the world, with the possible exception of the United States, met its specifications. By the new arrangement for sales in and purchases from a wide group of stabilization funds, it secured its necessary contacts abroad. Every nation got out of this agreement

something that it specifically needed: in both our case and that of England, the "something" is a detail of technical operation, and working in dramatic and emotional news value. But I would emphasize that the whole is greater than the sum of its parts, and what I have called details of technical operation carry implications of the highest monetary significance, which have been largely underemphasized if not overlooked. Under this agreement, a considerable and prospectively expanding group of nations enter into a monetary relationship which:

1. Acknowledges that the international values of their respective currencies are a matter of mutual concern.
2. Adopts gold as the international medium of exchange.
3. Provides a mechanism to act as the agency of this relationship—i. e., a stabilization or equalization fund.

Order Out of Chaos

I would emphasize the appearance of the stabilization fund not as the mechanism of an emergency, but the internationally recognized agency for handling gold for the settlement of international balances.

The net effect may or may not constitute immediate rigid stabilization. That is of secondary importance in the fact that there is order where there was disorder, a degree of international unity where there was hostility and suspicion, and a hope and an accepted mechanism for stability and tranquility where there was only uncertainty and tension. If it was not all that could be hoped, it was all that could be expected.

The Meaning of Money

At this stage, I must digress to my second point—a brief review of the ideology of money. From the earliest times there have been two distinct and conflicting theories of money. One insisted that money must be a repository of value in itself—must stand on its own feet, so to speak. The other insisted that as the primary function of money was to serve as a medium of exchange, it was the creature of society itself—i. e., the State. The so-called modern concept of money—that it need be no more than an accepted legal tender—was familiar to Aristotle, and we can find a lived but comprehensive amount of its application in China in the well-known narrative of Marco Polo.

In the nineteenth century the general acceptance of the simple gold standard mostly relegated the legal tender idea to the background; but since 1914 the latter idea has been decidedly in the ascendant. I dare say that the great majority of this audience have never used gold coins as a medium of exchange. Convertible or quasi-convertible legal-tender tokens generally replaced gold coins; and as business theory fell into universal chaos, the ideology associated with it weakened, and so legal tender functions increased in use the longer we associated with their disintegration.

The ideology was almost exclusively "materialistic" and far quantity theory of money attached a general logic, and with it based in the quantity of the national determination of the quantity of money to secure certain social objectives.

national determination of the quantity of money to secure certain social objectives.

Management vs. Manipulation

The controversy may be stated as a paradox. The argument in favor of the gold standard was that it could not be manipulated; the opposing argument was identical—that the gold standard could not be manipulated, and legal tender could be. In short, what one side called management, the other side called manipulation; and while the gold standard advocates could see some merit in the idea of management, they balked at the question of who would manage the managers.

Since the war the world has oscillated uncertainly between these two ideologies. It maintained in form the substance of the historic gold standard, but its practice became more and more remote from its theory. In actuality the money of the post-war world was composed of legal tender tokens more or less—as a rule less—convertible into gold money. Commonly this was termed the managed gold standard, actually it was a hybrid, being neither a gold standard nor a managed standard; but maintaining enough management and enough gold to bring the two ideologies into intermittent and ultimately remote contact, notwithstanding in the period of currency warfare or currency anarchy which followed the memorable date, Sept. 21, 1931, when England canceled the existing relation of its currency to gold.

When I use the word anarchy, I wish it to be understood liberally. The accepted rules and principles of international currency relationships were abandoned. The wide and concrete fluctuations of the exchange, disconcerting as they were to practical men, were mere phenomena of a more fundamental reality. The reality was not merely that an old order was gone; the graver reality was that no new order had taken its place. There was great disorder in the foreign exchange; but there was greater disorder in men's minds. It was a period of extreme monetary nationalism. Some people talked of a return to the gold standard, others talked of the international delights of managed money. Each advanced his preference as a sovereign passion.

Three Primary Facts

The primary facts as I see them, were three:

1. In a world dominated by the doctrine of national self-sufficiency, no familiar form of the gold standard was realistically applicable.
2. In a world which faced the alternative of restoring some degree of international intercourse or reducing its standards of living immeasurably, some form of the gold standard was essential.
3. In a world of anti-ridden States, whether that debt is the heritage of the war or of depression, every national government was, and is, dominated by the dollar instability, and would consent to no monetary system under which it could not control the internal rate on its own obligations.

British Monetary Policy

From my third main point, The first and so far the only nation to accept this present monetary situa-

tionally, comprehensively, and resolutely is the British. The Royal Commission, minutely called the MacMillan Committee, appointed in 1926, rendered its report in June, 1931. Its analysis of the problem and the solution proposed are more apposite today than they were years ago.

If time permitted I should do you the disservice of giving you a comprehensive summary of the MacMillan report, together with a description of how its recommendations are applied in the present British monetary system. Fortunately, time forbids, for if I gave an exhaustive account half of you would be too bored to listen and the other half would take my word for its contents and let it go at that. Then none of you would read the report for himself. The main idea of my talk tonight is to give you interest in that report to such a degree that you will read it.

First of all, it is one of the great Royal Commissions. In my opinion it ranks with Winston's Finance Report, which was the economist's monetary bible for a century. Second, the current trend of monetary developments both here and abroad cannot be grasped as a whole unless one is familiar with the contents of that report. Third, however you regarded the Gentlemen's Agreement, you will see its implications in a new light when you have read that report. Understand, I am not asking you to accept the premises on which the committee based its conclusions, nor its conclusions. I am merely emphasizing the fact that these premises and conclusions are the best statement of the politically prevailing monetary ideology of our time, and that its recommendations, whether by reasoning or by initiative, are being followed not only in England but in this country and elsewhere.

Salient Features of MacMillan Report

But although it is my advice that each of you read this report for himself, I cannot refrain from drawing your attention to its salient features. The committee offered two opinions:

1. That "the sole use of a gold reserve today is . . . to enable a country to meet deficits in its international balance of payments."
2. That England should have a managed currency.

The reasoning back of the first conclusion was the full recognition (a) of the advantage of maintaining stable international relationships and (b) of the utility of gold for that function. The reason for that second was the recognition of the advantage of a voluntary control over the domestic money supply and, in consequence, of the inherent risk that control be guided by considerations of the domestic economy rather than by the incidence of gold exports and imports.

Gold Must Be Detached

Now obviously, there was only one way that both these conditions could be met. Gold must be completely detached from, and kept separate from, the monetary system. Unless it were detached its import would expand and its export contract the monetary base; and in either case management in aid of a coercive force on management. The solution was, therefore, a fund detached from the money system, which could inhibit and arbitrate gold solely in settling international balances, while the management of the money system continued

Continued on Page 672

Tenet of the MacMillan Report

Continued from Page

itself with the domestic economy, which the committee believed should be left very largely regulated through control of the quantity of money. This marked a radical attempt to reconcile the two theories of money laid above. Under the MacMillan report, the pound would be, domestically, purely a token of exchange, the quantity of pounds and the interest rate being determined by volition, externally, the pound would be a gold currency maintaining a stated relation to other gold currencies. The MacMillan Report did not contemplate devaluation, and it recommended that the gold fund be created in and operated by the Bank of England. Events brought devaluation, placed the fund in the British Treasury—but the theory of the Equalization Fund and its function were described in the report almost a year before the fund was created.

Meaning of Control

The committee was fully aware that the mere control of the exchange rate was far simpler than the control of an economy through the management of the domestic money supply. It was fully aware that the operation of a managed currency placed upon the central bank far heavier responsibilities and more exacting requirements than had been imposed by the gold standard. They knew that mere inconvertibility did not constitute a managed currency. They were not sponsoring a soft money scheme as an easy way out of a hard situation; nor a trick device by which they could eat their cake and have it. I will quote from their report:

The monetary system of this country must be a managed system. It is not advisable, or indeed practicable to regard our monetary system as an automatic system, grinding out the right result by the operation of natural forces aided by a few maxims of general application and some well-worn rules of thumb. The major objective of a sound monetary policy—for example the maintenance of parity of the foreign exchange without unnecessary disturbance to domestic business, the avoidance of the Credit

Cycle, and the stability of the price level—cannot be attained except by the constant exercise of knowledge, judgment and authority, by individuals placed in a position of unchallengeable independence with great resources and every technical device at their disposition. (Italics supplied.)

The history of five years shows the influence of the MacMillan Report on British monetary policy. Britain has a managed currency, detached from gold domestically, attached to gold internationally, in the sense that international balances are settled in gold, and the relation of the pound to other currencies is controlled through the mechanism of the gold market.

A Permanent Monetary System

I have given this somewhat extensive account of the British system for two reasons:

1. The basis of that system has been elaborately explained.
2. The present British system has been in operation long enough for us to see its form rather distinctly.

In no other country has there been any comparable statement of the principles guiding its monetary policy, and in no other country can the guiding principles be so clearly deduced from the actual record. Nevertheless, it cannot but be apparent that the theses of the MacMillan Report are influencing monetary policy here and in France.

These principles represented no emergency improvisation, no scheme of funny money concocted by cockeyed brain-trusters. The machinery will no doubt be modified in detail, but in my opinion it will persist, as former standards have persisted, until the course of human events, an economic earthquake displaced it, as it has displaced its predecessors.

A Landmark in Monetary History

In conclusion let me tie together my three theses. Although limited in scope, the agreement of Sept. 29, 1936, is a landmark in monetary history. It is an effort to give international unity to national currency systems which are attempting to reconcile the ancient con-

flict between two divergent money, both supported by in their own fields, in metals. Second, the system no longer is in the dark; its outline is every one who trouble to read it, and its action to date, although by no means successful.

So far I have attempted objective reporting. Now I comment:

1. Stabilization, unless mere pegging operation from fundamental equilibrium group of funds may peg but they cannot of the fundamental international. They may even, for a time, aggravate disequilibrium, again from the report: "gold reserve today is, it is able a country to meet a international balance of the appropriate measure to bring it again to equilibrium."
2. Second, let me repeat stated by the report to currency management: "series of knowledge, judgment, by individuals, position of unchallengeable. Unless these qualities a country adopting a man has merely exchanged gold" for some new "debt."

The agreement of Sept. 29, 1936, is a number of isolated into a relatively homogeneous monetary system speak, the introductory book to be written from experience passes into greater mistakes can be suppose that it is an tac result, except to suppose the past. A period of monetary anarchy has close has not returned to a standard. As Secretary said, it has created a standard.

Triparte Agreement a Retreat From the Gold Standard Toward Managed Money

By WALTER E. SPAHN*

Professor of Economics, New York University

IF by international currency stabilization we have in mind stabilization with fixed gold parities, I believe the prospects for it in the near future are highly uncertain. As things stand at present, I believe this country, along with England, France and other nations may move in either of two directions: (1) toward stabilization with the weight of the gold units fixed by law, or (2) toward a pseudo-stabilization resting upon so-called managed currency systems. We have the latter system now; but presumably it is not at present in a form which may be considered permanent.

Destinations Unknown

Just where we are headed remains to be seen. The government has not indicated the destination of this nation in monetary matters since the President's early announcements to the effect that he proposed to give this country a dollar of stable purchasing power. That assertion was interpreted to mean that the President proposed to lead this nation into a managed currency or commodity dollar scheme—a scheme condemned as unworkable by a great majority of the respectable monetary economists. Whether the President and his advisers still have this plan in mind, we do not know. The monetary plank of the Democratic platform apparently can mean anything, but if the language be taken literally, it would translate itself into a commodity dollar scheme. One can only wonder whether the drafters understood and meant what they said. The recent Presidential campaign was notable in the fact that this plank was not discussed. For the last two years the public has been kept in the dark as to what the present government proposes to do with our currency system. Why it has done so should do this certainly is not clear. Some people suspect that the government has no plan and does not know beyond twenty-four hours just where it is going. Others feel that the administration may have in mind a plan which it does not deem it expedient to reveal to the public at this time.

We are not only in the dark as to where we are headed in currency matters but a large proportion of our people are not understood the nature of the path we have traveled thus far on the path toward our money at present.

But this audience it is not necessary to outline the chief steps taken in the field of money by this and other countries in recent years and months. But if we are to determine with any reasonable accuracy the probable developments which will come, we must examine the position in which we find ourselves now, and the most significant events which seem to show some light on what we may expect in the future—all of which, of course, will aid in our attempt to determine the prospects for international stabilization of currencies.

What Kind of a Currency?

First of all, where do we stand now? Evidently we are still on an inconvertible paper currency basis. Internationally we are on a managed currency basis. We have put those in the Secretary of the Treasury to Oct. 12, when he announced that the international price of our gold would no longer be fixed but would be on a twenty-four-hour basis. Even Jan. 30, 1934, to Oct. 12, 1936, we were on a gold standard internationally, though it

was somewhat restricted in nature. That the Secretary took us off of even this portion of a gold standard does not seem to be widely understood.

We all know that when our country is on a gold standard the number of gold dollars in an ounce of gold is fixed by law—say, for example, at \$35 per ounce. Now, according to this new plan, the selling price of an ounce of gold is to be on a day-to-day basis. It began with a price of \$35 per fine ounce plus a one-quarter per cent handling charge, which continues "until further notice."

Just what may be the meaning of this twenty-four-hour currency program? The tripartite international declaration on currency, announced on Sept. 23, is notable for two things: (1) it had nothing tangible about currency stabilization, and (2) it is a rare collection of vagaries and pious platitudes. I think we could study that document till tomorrow and not know what the monetary policy of the United States is or is to be. The document is a collection of affable nothingness. Following this allegedly momentous agreement, the new twenty-four-hour management plan of our Secretary of the Treasury has been given us. In connection with the announcement of the tripartite agreement, Chancellor of the Exchequer Chamberlain said England expects to return to a gold standard. A few days later our Secretary of the Treasury skidded us off of that part of our international gold standard which we thought we had attained. Now where are we? And where is international stabilization?

Gold Again Abandoned

What does the Secretary of the Treasury have to say about his latest move? Wittingly or unwittingly, he revealed in a press interview that he thinks he has taken us off an international gold standard, for he is quoted as saying that "we will maintain with France and Great Britain on a twenty-four-hour basis . . . otherwise we would be slipping back to the old gold standard." He also pointed out that "if at any time it appeared that the domestic situation was being put at a disadvantage the Treasury would feel at liberty to take appropriate action." What did he mean by that? When is the domestic situation at a disadvantage? And what is this "appropriate action"? Apparently the possibility of changing the price of gold is to be the corrective device for whatever is to be corrected. The Secretary also said that "the purchase and sale price of gold may fluctuate," and that "this could be accomplished under the law without further devaluation of the dollar." Presumably he means by this that the price of gold may be pegged by him as he sees fit within the limits of the Gold Reserve Act of January, 1934.

He would mean more than that, and I think there is a good basis for his conclusion if that is what he has in mind. I refer to the fact and I wish to emphasize it—that the writing of the tripartite agreement by the Secretary himself continued to change the price of gold as he saw fit after Jan. 30, 1934. I think that section of the law which we thought had to guarantee gold "not much

more and upon such terms and conditions as he may deem most advantageous to the public interest, any provision of law relating to the maintenance of parity . . . to the contrary notwithstanding." This "notwithstanding" clause would appear to make this section of the law effective, despite the fact that it otherwise conflicts with the part of the law which terminates, on Jan. 30, 1934, the power of the President to change within specified limits the weight of our gold dollar. It may be that this section of the law was merely a case of bad bill drafting, and that it was not designed to supersede the other part of the law. On the other hand, this section may have been inserted for the specific purpose of enabling the President to fix the price of gold as he sees fit and without any restrictions as to time. This provision of the law can prove to be exceedingly significant. It offers such distinct possibilities for monetary maneuvers that we should scrutinize it carefully.

Signs of a Managed Currency

So much for where we are now. In what direction do we seem to be headed? On the basis of incontrovertible evidence—and there is little enough of that—we can be headed toward a gold standard and international stabilization, or we can be headed toward a managed currency scheme of some sort under which international stability of currencies would become a matter of national convenience and great uncertainty. So far as I can see, there is not one bit of evidence to the effect that this government intends to lead us back to a gold standard. On the other hand, I believe there is a considerable amount of evidence to the effect that we may be headed toward a managed currency. I find no evidence which shows that we are not being headed in that direction. And should that be the case, then I think international currency stabilization will be only a mirage.

It is well to recall that the many statements of the President—those of 1933—pointed toward a commodity dollar scheme; that the Democratic platform can be interpreted to mean the same thing; and that the Secretary of the Treasury, on Oct. 12, actually told us led us such a scheme.

For some time monetary economists have attempted to warn the people of this country that there was a movement on foot to place us on a managed paper currency system, and that this administration might slip such a plan over on the people before they could be informed as to what it was all about. The second move by the Secretary of the Treasury can easily constitute a definite and calculated step in that direction. It is well known by monetary economists, but apparently not by many other people, that there are small but aggressive groups at work trying to take such a plan on this country. There are some of these advocates of a commodity dollar scheme who firmly believe that the President, now that he is in a position, will attempt to launch such a scheme.

I would like to tell you something of a movement made by the Whaley-Eaton Service at Washington at the back as late July 4. I wish you to notice how

well their position has already been substantiated by the act of the Secretary of the Treasury, Oct. 12. I quote this July 4 letter of that service not only because of the accuracy of its prediction, but also because I happen to know other reasons why that letter is likely to prove quite correct to be a warning regarding what we may reasonably expect in this country.

The Whaley-Eaton Service letter of July 4 said in part:

"It is within the possibilities that Roosevelt, if re-elected, will make a dramatic move in the monetary area, almost as important as was the original change in the gold content of the dollar. In essence, the scheme would call for a price for gold, but the opening of a free gold market, the price of gold to be determined in the open market and varying according to demand. This is in substance the plan advocated by the Committee for the Nation."

2. Experts in Constitution: The administration has again been in conference with its experts on the constitutionality of following in changing the gold content. It is understood that they gave substantially the following opinions:

(a) It is now inevitable that commodity prices will rise to reflect devaluation. It is probable, indeed, that the advances will be too pronounced for safety. Consideration should be given, therefore, to increasing the gold content. There may be no other way to prevent a rather alarming increase in the cost of living. It is probable, however, that more price advance may lag on the advance, and that would give the opportunity for raising the gold content—to restore our economic balance.

The President is without authority to raise the gold content above 90 cents, although he is empowered to set it to 50 cents.

3. Monetary Moves: It might be politically suicide for any President to raise the gold content in order to stop advancing prices, and few Presidents would want the power to do so. Likewise, it is believed to be imprudent to manage the dollar price for gold formally and artificially at frequent intervals, as to use a commodity index. It is argued, on the other hand, that:

(a) The establishment of a free gold market, would provide convertibility, in that anybody could buy gold with dollars, but that the market itself, by setting the price, would be establishing the proper value of gold daily. The government would be in a position to prevent raids, owing to the high ceilings, and SEC could supervise operations and prevent any speculation.

(b) A free gold market in the United States, with quotations paralleling those in London, would constitute a sort of exchange stabilization in that a commodity gold denominator as between pound and dollar would thus be established.

(c) Price stability in dollars would be maintained—the dollar price of gold rather than the dollar price of commodities would fluctuate.

(d) There would thus exist the "sound currency" that the Democratic platform contemplated.

4. Implications: The great importance of the foregoing is the obvious recommendation. The government, by operating in a free gold market, could control the dollar price for gold. It would thus automatically strengthen its control over credit and general financial conditions. It could almost automatically day by day, meet any depreciation of foreign currencies. The effect would be to institute much the same system as is now in vogue in Britain, to wit, the establishment of a managed currency.

(e) Legislation would be required to put the suggested system into operation. Therefore, it is a prospect for next Winter and not of the immediate future. However, it is not clear that any serious discussion has been given, nor is it thought likely that the plan would be seriously advanced during the campaign. There is much support on the strength of London moves and the same plan.

(f) The President's authority to raise

*First part of an address before the New York Chapter of the American Pathology Association, Nov. 4, 1936.

NOV 23 1936

ADD DUTCH JOIN TRI-PARTITE PACT

10.15

WASHN- THE NETHERLANDS WILL ASSUME THE
SAME STATUS AS BELGIUM WHICH ALSO HAS ALIGNED
ITSELF WITH THE UNITED STATES GREAT BRITAIN AND
FRANCE UNDER THE SEPTEMBER AGREEMENT BUT NOT
UNDER THE OCTOBER 13 EXCHANGE ARRANGEMENT

-0-

ADD DUTCH JOIN TRI-PARTITE AGREEMENT

WASHN- A STATEMENT FROM THE U S TREASURY
RECOGNIZING THE ADHERENCE OF THE NETHERLANDS
TO THE INTERNATIONAL MONETARY AGREEMENT OF
SEPT 26 PROBABLY WILL BE MADE PUBLIC THIS
AFTERNOON- OFFICIALS SAID THEY WERE -HIGHLY
GRATIFIED- AT A DECLARATION BY THE DUTCH
GOVERNMENT OF ITS ADHERENCE TO THE PRINCIPLES
LAID DOWN IN THE TRI-PARTITE AGREEMENT OF SEPT
26

NOV 23 1936

-0-

11.34

NOV 23 1936

DUTCH MAY NOT BE ADMITTED TO FULL
PARTNERSHIP UNDER OCT 13 EXCHANGE AGREEMENT

WASHN- ALTHO THE DUTCH GOVERNMENT HAS
STATED ITS ADHERENCE TO THE TRI-PARTITE
ANNOUNCEMENT OF MONETARY PRINCIPLES MADE ON
SEPT 25 THE NETHERLANDS MAY NOT BE ADMITTED TO
FUL PARTNERSHIP UNDER THE OCTOBER 13 EXCHANGE
AGREEMENT BETWEEN THE U S GREAT BRITAIN AND
FRANCE

INSTEAD OF BEING INCLUDED AS A MEMBER OF
THE OCT 13 EXCHANGE CLEARING SYSTEM HOLLAND
PROBABLY WILL MAKE SEPARATE BUT MUTUALLY
ACCEPTABLE EXCHANGE ARRANGEMENTS WITH EACH OF
THE THREE POWERS IN THE OCT 13 COMPACT- FOLLOW-
ING OUT OF THIS SYSTEM WOULD LEAVE THE UNITED
STATES GREAT BRITAIN AND FRANCE AS THE SOLE
PARTNERS IN THE OCT 13 AGREEMENT WITH SATELLITE
NATIONS ARRANGED AROUND THESE THREE

UNDER THE OCT 13 AGREEMENT THE U S AND
THE OTHER TWO POWERS AGREED TO REDEEM EACH
OTHER-S CURRENCY THROUGH THEIR EXCHANGE STABILIZ-
-ATION FUND AT MUTUALLY AGREED UPON GOLD PRICES

-0-

Pressman Holland

WCNS35

FORMAL NOTIFICATION THAT THE NETHERLANDS HAS JOINED THE BRITISH-FRENCH-AMERICAN MONETARY ACCORD IS EXPECTED BY TREASURY OFFICIALS TODAY.

HOLLAND IS KNOWN TO HAVE BEEN CLOSELY WATCHING OPERATIONS OF THE CURRENCY AGREEMENT SINCE IT WAS REACHED IN SEPTEMBER IN CONJUNCTION WITH DEVALUATION OF THE FRENCH FRANC.

REPORTS THAT THE NETHERLANDS HAD OFFICIALLY JOINED THE ACCORD WERE REGARDED AS PROBABLY AUTHENTIC. TREASURY OFFICIALS EXPECT TO RECEIVE FORMAL NOTIFICATION OF THE ACTION DURING THE DAY.

11/23--R1022A

Monetary Agreement

WCNS139

SECRETARY MORGENTHAU ANNOUNCED TONIGHT THAT THREE MORE COUNTRIES BELGIUM, HOLLAND AND SWITZERLAND-HAVE JOINED THE U. S, GREAT BRITAIN AND FRANCE IN THEIR INTERNATIONAL MONETARY AGREEMENT. HE DESCRIBED IT AS ANOTHER STEP TOWARD WORLD MONEY STABILIZATION.

BEGINNING TOMORROW, THE U. S. WILL SELL GOLD OR EARMARK IT FOR ANY OF THESE COUNTRIES OR THEIR DESIGNATED FISCAL AGENTS. THEY AGREE TO SELL OR EARMARK GOLD FOR THIS NATION.

THE FEDERAL GOVERNMENT BANK OF NEW YORK WILL ACT AS FISCAL AGENT FOR THE U. S.

THE NEW LINEUP NECESSITATED A SLIGHT CHANGE FROM THE "NEW GOLD STANDARD" MORGENTHAU ANNOUNCED OCT. 13, IN EXTENDING THE MECHANISM OF EXCHANGES TO FISCAL AGENTS. THIS WAS DUE TO THE FACT THAT BELGIUM HAS NO STABILIZATION FUND. EACH OF THE OTHER FIVE PARTIES TO THE AGREEMENT HAVE SUCH FUNDS.

PRIVATE INDIVIDUALS AND INSTITUTIONS STILL ARE BARRED FROM OBTAINING GOLD FOR USE EITHER IN THE U. S. OR ABROAD.

MORGENTHAU SAID THE NEW AGREEMENT WILL PERMIT OTHER COUNTRIES TO ENTER THE "INTERNATIONAL MONETARY EQUILIBRIUM ARRANGEMENTS" WITHOUT MAKING ANY CHANGES NECESSARY. HE REFUSED TO PREDICT WHAT COUNTRIES MIGHT JOIN OR WHEN.

11/23--E815P

8.45 9661 82 AON
REUTERS DISPATCH FROM BERNE SAYS SWITZER-
LAND-S ADHESION TO THE MONETARY CONVENTION BET-
WEEN GREAT BRITAIN FRANCE AND THE UNITED
STATES HAS BEEN BROUGHT A STEP NEARER TODAY
BY A COMMUNICATION BY THE SWISS GOVERNMENT TO
LONDON PARIS AND WASHINGTON - THIS COMMUNI-
CATION NOTIFIES THE THREE GOVERNMENTS THAT
THE SWISS FEDERAL COUNCIL HAS TAKEN COGNIZAN-
CE OF THEIR DECLARATION OF SEPT 25 CONCERNING
THEIR INTENTIONS ON MONETARY POLICY AND ADDING
THAT IT APPROVES IN GENERAL THE PRINCIPLES
CONTAINED IN THE CONVENTION - THE COUNCIL ADDS
THAT IT IS CARRYING ON NEGOTIATIONS ALREADY
ANNOUNCED WHICH ARE AIMED AT BRINGING ABOUT
IN COOPERATION WITH THE OTHER STATES ADHERENCE
BY SWITZERLAND TO THE THREE-POWER CONVENTION
ON GOLD MOVEMENTS

Holland Joins Agreement

WCNS19

LONDON.--THE EXCHANGE TELEGRAPH REPORTED FROM AMSTERDAM TODAY
THAT THE NETHERLANDS HAD JOINED THE BRITISH-FRENCH-AMERICAN MONETARY
AGREEMENT.

11/23--B931A

AMSTERDAM

DOW JONES - November 23, 1936.

148

9.35

DUTCH JOIN TRI-PARTITE AGREEMENT

AMSTERDAM- THE NETHERLANDS HAS JOINED
THE TRI-PARTITE AGREEMENT- THE GOVERNMENT
DECLARED THAT IN JOINING THE AGREEMENT PREPARA-
TION WAS BEING MADE FOR ESTABLISHING TECHNICAL
COOPERATION- NO MENTION WAS MADE OF ANY INTEN-
TION OF STABILIZING

NOV 23 1936

-0-

9.37

ADD DUTCH JOIN TRI-PARTITE AGREEMENT

AMSTERDAM- THE GOLD AGREEMENT IS WITH
GREAT BRITAIN FRANCE THE UNITED STATES AND
SWITZERLAND

NOV 23 1936

-0-

THE HAGUE - UNITED PRESS - November 23, 1938.

WCNS45

THE HAGUE.-- IT WAS OFFICIALLY ANNOUNCED TODAY THAT HOLLAND AGREES
TO THE PRINCIPLE OF MONETARY COOPERATION WITH THE UNITED STATES,
GREAT BRITAIN, AND FRANCE.

11/23--R1054A

November 23, 1936.
4:47 p.m.

Operator: Governor Harrison.

H.M.Jr: Hello.

O: Go ahead.

H.M.Jr: Hello George.

H: Hello, Henry?

H.M.Jr: Yes.

H: Now the best that I can find in a short while....

H.M.Jr: Yes.

H:is that there is nothing that you can specifically blame this on but both London and Paris were quite weak to-day.....

H.M.Jr: Yes.

H:due I suppose in no small part to the British difficulties with Spain and perhaps the new fears about war.

H.M.Jr: Yes.

H: That is usually translated over here.

H.M.Jr: Yes.

H: Whenever there's the war talk and whenever those markets are weak because of war.

H.M.Jr: Yes.

H: That may have started it. Also I did find, from one source, the report that there was considerable foreign selling to-day.

H.M.Jr: I see.

H: Now whether that was due to their own fears about war is for the same reason that made London and Paris weak.

H.M.Jr: Yes.

H: Or whether it was due in some part to the threat of a reduction of excess reserves I have no way of knowing.

H.M.Jr: Yes.

H: Still further than that there was - that might have accounted for the extra heavier selling in the last hour or two.....

H.M.Jr: Yes.

H:was the death of Van Swerigin.....

H.M.Jr:which occurred around noon. I think the report came out about noon.....

H.M.Jr: Yes.

H:which made many of the railroad issues of his stock weak.

H.M.Jr: I see.

H: And that already found an easy market.

H.M.Jr: Yes.

H: So that may have accentuated it.

H.M.Jr: I see.

H: But I think probably a combination of all those factors.

H.M.Jr: I see.

H: And I don't think there is anything myself to be concerned about. Furthermore, it was about time there was a shake-out.

H.M.Jr: Yes.

H: When you get enough reason to give them the opportunity to have a shake-out they usually get it.

H.M.Jr: Weren't you pleased to see us step in on sterling and steady it?

H: Oh yes, I think its the thing to do, you know. Oh yes.

H.M.Jr: Well I - my Press Conference lasted 35 minutes. I hope its all right.

H: Well I hope its all right too and I'll be very interested in the papers now.

H.M.Jr: The trouble is with these boys - you've got to go over, and over and over it. Several of them, of course, are damn smart and get it but the rest of them - its just spinach to them.

H: Yes.

H.M.Jr: And....

H: Weak spinach too.

H.M.Jr: Yes - yes. Well -

H: Its awfully hard to handle that sort of thing.

H.M.Jr: Where - where - where the - you see you get down there reporters who only cover the financial district.

H: Yes.

H.M.Jr: We get general news reporters who just don't know anything about this thing.

H: Do you get those? I suppose you do.

H.M.Jr: Oh yes, I mean people for just general information.....

H: Yes.

H.M.Jr:and its all Greek to them.

H: Yes.

H.M.Jr: But I mean we only have really two or three trained men on a little detail - like the Wall Street Journal - they know it - they get it....

H: Yes.

H.M.Jr:but the other boys don't.

H: Well I -

H.M.Jr: I - I - they - they all help each other out though.

H: Yes, I think they do as a matter of fact. They get down in the Press Room and help one another.

H.M.Jr: Yes, well thanks George.

H: All right, Henry. Is that - well now is that another - as close as I can get now.

H.M.Jr: Oh I

H: I'll try to get more tomorrow if you want.....

H.M.Jr: Well -

H:but I think its better for me not to nose in too hard.

H.M.Jr: Oh I imagine by tomorrow. Let's leave it this way - if you get anything that's really significant give me a ring.

H: All right, I shall.

H.M.Jr: Thank you.

H: All right.

November 24, 1936.
9:15 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

Cochran: Hello.

H.M.Jr: Good morning.

C: Good morning Mr. Morgenthau.

H.M.Jr: Well everything went all right on this side.

C: Good - well it did over here too.

H.M.Jr: I see.

C: The releases appeared in proper form in the French papers this morning and in the London papers.

H.M.Jr: They did.

C: Then the Financial Times, which I have before me, has a two column head-line, "Six Power Monetary Accord".

H.M.Jr: I see.

C: And in the Financial News the observation was made that this was a natural step and they didn't see why Holland hadn't made it before.

H.M.Jr: I see.

C: That the smaller countries had quite a bit to gain from such facilities.

H.M.Jr: Ah-ha.

C: And there has not been a great amount of wires from the United States yet.

H.M.Jr: There has not what?

C: There - there was a fair amount of cables from the United States.

H.M.Jr: Yes.

- 2 -

C: But most of it, of course, was available locally.....

H.M.Jr: Yes.

C:in these communiques. Of course they published in full your communique.

H.M.Jr: They did.

C: Which I had given them.

H.M.Jr: Yes.

C: The British communique was very good.

H.M.Jr: I see.

C: It was along the lines of that which I transmitted some days ago.....

H.M.Jr: Yes.

C:but amplified some more.

H.M.Jr: Well the American papers didn't carry that and they didn't carry the French.

C: They didn't carry it.

H.M.Jr: No. I guess yesterday was too late most likely for them to get it.

C: I see.

H.M.Jr: The papers carried it but they didn't play it up as much as they did the first time we made an agreement.

C: Well no no - they didn't in Paris.

H.M.Jr: Oh.

C: But one French paper, the Argonne Press, says, "That the technical collaboration extended to a more center to limit the fluctuation and at the same time it facilitates the National Trade Relations which the world recovery is now giving rise to".

H.M.Jr: Yes.

C: But I mean there - there's not much discussion or comments so far.

H.M.Jr: Well now I don't understand yesterday why they sold so many of our stocks, see? None of our papers have got a correct explanation, see? Hello.

C: Yes.

H.M.Jr: You know we get a report every night of where the selling comes from, see? Hello.

C: Yes.

H.M.Jr: And confidentially the selling yesterday of American stocks came from the Netherlands and Switzerland.

C: The selling of American stocks?

H.M.Jr: Of stocks - came from the Netherlands and Switzerland.

C: Yes.

H.M.Jr: And not from Great Britain.

C: I see.

H.M.Jr: Now - ah - I don't understand it - hello.

C: Yes.

H.M.Jr: Have you any explanation?

C: No. When I was up in the Netherlands and was talking to Tripp about this arrangement

H.M.Jr: Yes.

C:he said, "well it interests me right now just because I've been selling some dollars - (corrected himself to) - ah buying some dollars".

H.M.Jr: I see.

C: And I said, "well you'd like to convert those to gold".

H.M.Jr: Yes.

C: He said, "I've already at London".

H.M.Jr: Yes.

C: (Still quoting Tripp) "But would prefer to buy directly in the States".

H.M.Jr: I see.

C: And I asked him about American securities.

H.M.Jr: Yes.

C: He said that people had been holding onto American securities and had not been capital invested on the American market. He said that.....

H.M.Jr: Now look - while I'm waiting. I - is Mr. Bullitt around anywhere?

C: No - I'm at the house, you see, now?

H.M.Jr: Oh you're at the house.

C: Yes.

H.M.Jr: All right well some other time I'll say - I'll speak to him. I just wanted to say hello to him - that's all.

C: Yes. No I'm at the house now.

H.M.Jr: All right.

C: And may I explain - oh this morning the franc opened better here.

H.M.Jr: It did.

C: It was pretty weak yesterday because of so many rumors of broken international relations -.....

H.M.Jr: Yes.

C: -.....Germany and Russia and because of a submarine scare and so on.

H.M.Jr: Yes.

C: But to-day it's considerably stronger both against the dollar and sterling.

H.M.Jr: Good.

C: And I talked to Governor R ygg for two hours this morning.....

H.M.Jr: Yes.

C:of the Bank of Sweden.....

H.M.Jr: Yes.

C:and he explained to me that on October 24th.....

H.M.Jr: Yes.

C: four of the Scandinavian Central Bank Governors at Basle each week.

H.M.Jr: Hello.

C: Hello.

H.M.Jr: Go ahead. I didn't get that.

C: Had one of their periodic meetings at Oslo.

H.M.Jr: Who met?

C: The Central - the Governors of the Central Banks.

H.M.Jr: But what countries?

C: Sweden, Norway, Denmark and Finland.

H.M.Jr: Yes.

C: They met at the Norwegian capital.

H.M.Jr: Yes.

C: On October 24th.

H.M.Jr: Where did they meet?

C: At Oslo.

H.M.Jr: Oh yes.

C: That's the capital of Norway.

H.M.Jr: Yes, I know that.

C: Yes (laughs) all right.

H.M.Jr: (Laughs)

C: Met there at one of there periodic meetings.

H.M.Jr: Yes.

C: Usually meet once a year.....

H.M.Jr: Yes.

C:and they discussed the stabilization and devaluation of France, of course, and the statement of October 13th.

H.M.Jr: Yes.

C: And the others delegated Roueff, the man who was here this morning, to look into the matter and to report to them up at Helsingfors where they are journeying and....

O;O: Three minutes.

H.M.Jr: Go ahead.

C: Hello.

H.M.Jr: You'd better repeat.

C: To report back to them.....

H.M.Jr: Yes.

C:at Helsingfors, Finland.....

H.M.Jr: Yes.

C:on December 12th.

H.M.Jr: I see.

C: On that date they're having the 125th anniversary

H.M.Jr: Yes.

C:of the founding of the Bank of Finland....

H.M.Jr: Oh yes.

C:and so they're all going to be there but not under the guise of a meeting of themselves but not to attend the affair.

H.M.Jr: I see.

C: And I explained to him the different statements which were being made to-day.....

H.M.Jr: Yes.

C:and he said that, of course, they had been interested in getting gold but he said they were already getting gold in London.

H.M.Jr: Right.

C: And I said, "but just on the open market though".

H.M.Jr: Yes.

C: And he said, "No, the Bank of England will get us gold no matter whether there is any on the market or not".

H.M.Jr: I see.

C: You see they're really getting facilities without any arrangements.

H.M.Jr: I know.

C: And....

H.M.Jr: Well that's not very nice. It's not very gentlemanly, is it?

C: Well it's just a point I'm making that they're doing that to those - certainly to those sterling bloc countries.

H.M.Jr: Yes.

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C: And I said, "You ought to get into this like the Netherlands do - the gold".

H.M.Jr: Yes.

C: And he said - well he said that he wouldn't say anything yet as to a decision but that he thought the four countries would probably have to stand together.

H.M.Jr: Yes.

C: And support Scandinavia.

H.M.Jr: Yes.

C: And his bank and the Finish Bank are state-owned.

H.M.Jr: Yes.

C: State-owned - they're all in stocks so I think the arrangement of the declaration would be satisfactory there.

H.M.Jr: Yes.

C: There might be a little difficulty with Norway which is a privately owned bank.....

H.M.Jr: Ah-ha.

C:But the big trouble comes with Denmark where they have exchange control.

H.M.Jr: I see.

C: So then Denmark probably couldn't be eligible at all.

H.M.Jr: Ah-ha.

C: So whether any of the others would come in would then be a question. But he said not to consider anything settled.....

H.M.Jr: Yes.

C: He will report to them on the 12th of December.

H.M.Jr: Yes.

- 10 -

C: And I said, "well could you take action sooner if you decide".

H.M.Jr: Yes.

C: He said, "No there won't be any action taken until early in the year.

H.M.Jr: Yes.

C: They're all busy with their budgets.

H.M.Jr: I see.

H.M.Jr: Well you're sending me a cable on that.

C: I'll send - I'll confirm it by cable this afternoon.

H.M.Jr: Good. Well this would be a good time, if you wanted to take a week off right now.

C: Oh no.

H.M.Jr: What?

C: What's that?

H.M.Jr: Do you want to take any time off right now?

C: But not unless it's for you because the point is this. I talked to Baumgartner yesterday.....

H.M.Jr: Yes.

C:when I was talking about the arrangements and I said, "when is going to be quiet time in - in France"? And I said, "Now or in January"?

H.M.Jr: Yes.

C: And he said, "The difficulty, if any, will come here the last week in the year - that's when their budget would probably be".

H.M.Jr: Ah-ha.

C: And I said, "Well I'm thinking of getting away - probably - I'm not sure". I said, "Would you recommend now or in January?"

H.M.Jr: Yes.

C: And he said, "Well it's safer now than January".

H.M.Jr: Yes.

C: Outside of that I didn't mention any more.....

H.M.Jr: I meant if you wanted to take a week's vacation right now. I think you need the - supposing I tell you so that you won't have to charge it up to your leave. Just supposing I order you somewhere?

C: Oh no there's no use in that - I'd rather stay here and be on the job than take a vacation now.

H.M.Jr: I see.

C: My only point was did you mention about my coming home.

H.M.Jr: Yes, well that can wait. We'll see. But I mean I think you ought to come back and recharge your batteries and get a little American air.

C: Now my point is that's entirely up to you to decide whether you want me to come.

H.M.Jr: Well you look up the steamers and see what sails early in January.

C: Yes.

H.M.Jr: And you might even make a reservation, you see?

C: Yes.

H.M.Jr: Not so many steamers sail now. Hello

C: Hello.

H.M.Jr: I say you might make a reservation early in January.

C: I see. Then you'd rather put it off till then?

H.M.Jr: Yes - until the French.....

- 12 -

C: I can get one easily whenever you say in the wintertime.

H.M.Jr: All right. Well then let's just keep it in abeyance.

C: Yes.

H.M.Jr: The other thing - how worried are you right now on the Spanish thing?

C: It doesn't look very good but I still don't think any international troubles are coming.

H.M.Jr: Do you feel fairly strongly about?

C: Well I shouldn't be too strong when - when - with so much going on.

H.M.Jr: Yes.

C: But I still think nothing is going to happen. I still think Franco won't be foolish enough to hurt any British ships.

H.M.Jr: Ah-ha.

C: Or French either.

H.M.Jr: All right.

C: Now that's my honest feeling.

H.M.Jr: Well fine - I'm very much pleased and now we can all take a deep breath for a couple of days.

C: All right - fine - I'll wire this in this afternoon then.

H.M.Jr: All right.

C: About Scandinavia.

H.M.Jr: Thank you.

C: Goodbye.

H.M.Jr: Goodbye.

November 24, 1936.
10:15 a.m.

Gordon

Rentschler: Hello Mr. Secretary. How are you?

H.M.Jr: Oh I'm fine and you?

R: Oh fine thanks.

H.M.Jr: Look I'd like to have a little talk with you at a time that's mutually convenient.

R: Yes what would suit you - what time would suit you?

H.M.Jr: Well here's the thing. I'm going up to the farm tomorrow afternoon.

R: Yes.

H.M.Jr: At Fishkill. And I'll be there till Sunday.

R: Yes.

H.M.Jr: You - I don't know - I mean are you going away over.....

R: No I'm going to be - I'll be here over the holiday.

H.M.Jr: Well I mean would either - I could - Friday or Saturday.....

R: Either Friday or Saturday would suit and I could come wherever you're going to be if - whatever is convenient to you.

H.M.Jr: Well it might be as convenient there as it would be to - ah - come down to Washington.

R: Yes. Just whatever suits your convenience.....

H.M.Jr: Well - ah

R:I'll be delighted to do.

H.M.Jr: Well here's - you could - supposing you look this up, you see? I mean I don't - you could either drive or take a train, you see?

R: Yes.

- 2 -

H.M.Jr: Whichever you preferred - it's about the same time.

R: Why yes - ah...

H.M.Jr: I mean you could have your secretary look it up.

R: Yes I'll motor - why don't I do this? Why don't I motor over to your - to the farm either on Friday or Saturday whichever suits you the better.

H.M.Jr: Well I was going to suggest if you come up - say if you wanted to come up here Friday afternoon you could have supper with us and then go back. We could have supper at 7 o'clock and go back right after or you could - or - or Saturday - either one - I've made no dates.

R: Well.....

H.M.Jr: Which would...

R:it does make a particle. Saturday would be a little more convenient to me than Friday really.

H.M.Jr: All right. Would you - would Saturday afternoon.

R: Saturday afternoon? Fine.

H.M.Jr: Well I mean would you - ah - would you rather come say at 4 o'clock and then spend a little time and then go back or would you rather come later?

R: Well suppose I drop over about 4 o'clock Saturday afternoon.

H.M.Jr: All right and then we can have a talk.

R: Yes, fine that would suit me just right.

H.M.Jr: Now I'll tell you the best way. You know there's this new East - they call it Eastern Motor Parkway, which is an extension of Bronx River?

R: Yes.

H.M.Jr: Now that's finished - hello.

R: Yes.

- 3 -

H.M.Jr: And you get on that parkway and go to the end of it and then you come to what they call State Highway No. 52.

Yes, I know that road.

H.M.Jr: And you turn left.

R: Yes.

H.M.Jr: And you come to the Village - Wiccopee Village.

R: Yes.

H.M.Jr: And at the Wiccopee store you'd better inquire - we're about a mile from the Wiccopee store on a dirt road.

R: Fine, well I'll come right to the village. I think I know exactly where it is.

H.M.Jr: Well you go up on the new extension of Bronx River to route - State Highway 52 -

R: Yes.

H.M.Jr: Turn left to the little village of Wiccopee.

R: Yes.

H.M.Jr: And at the store you inquire.

R: Fine and I'll motor up Saturday afternoon.

H.M.Jr: And then we could have a little talk. I - I'd like to go over the general situation as well as the bond market.

R: Yes, very good. I'd rather do that than come down to Washington.

H.M.Jr: Good.

R: All right. It'll be very nice to see you.

H.M.Jr: Say listen.

R: Yes.

- 4 -

H.M.Jr: What do you mean by buying our whole bill issue and not leaving any for anybody else?

R: Well we wanted them this time. Do you mind letting us have them?

H.M.Jr: (Laughter) No, I was very much amused.

R: (Laughter) We'd rather have you give us a better rate though fellow.

H.M.Jr: Well listen, you write the ticket.

R: I know it. We write the ticket.

H.M.Jr: All I do is to print them.

R: Well you keep on printing them but let's try to get that rate up a bit.

H.M.Jr: (Laughter) All right with me.

R: All right, fine.

H.M.Jr: All right. Saturday at 4 o'clock at my farm.

R: All right, fine.

H.M.Jr: Thank you.

R: Bye-bye.

H.M.Jr: Goodbye.

Memorandum of a Conference of Secretary Morgenthau with Aubrey Williams, Acting Administrator of W. P. A., and Mr. Ross, his Chief Finance Officer, Mr. Bell and Mr. McReynolds in the Secretary's Office at 10:30 a.m., November 24, 1936.

The Secretary stated that in a conference with the President and Mr. Hopkins on November 15th, Mr. Hopkins stated that 250,000 drought farmers would be dropped from the rolls and 125,000 of them would need relief.

Mr. Williams stated that 250,000 drought farmers are to be dropped, but that the relief cases will be individually studied and he did not know exactly how many would have to be furnished relief.

Mr. Bell stated that the Tugwell organization had already been furnished \$12,000,000 from the amount previously reserved for them to take care of those cases.

Secretary talking: It was also stated that prior to December 15, 25,000 employees are to be dropped - consisting of administrative employees, foremen and supervisors who were not taken from relief rolls.

Mr. Williams: Yes.

The Secretary: In starting December 15th, you will save \$25,000,000 a month through these changes?

Mr. Williams: The full effect of that saving will not be felt until about the middle of January.

The Secretary: Mr. Hopkins stated that a new formula is to be established to be effective January 1st, reducing the cost per man per month to \$50, and that the formula would be ready in 24 hours.

Mr. Williams: We have worked out arrangements and will start January 1st.

The Secretary: You will tell us what the formula is?

Mr. Williams: Yes.

The Secretary: It was stated that 85% of the unemployed is in a hundred cities.

Mr. Williams: That is right.

The Secretary: There was an agreement between the President and Mr. Hopkins that the only Federal payment after January 1st would be wages and that would be \$50 per month per man; the material costs of any project to be taken care of by the locality.

Mr. Williams: We had a meeting here of state directors and a plan was worked out for a money quota as well as a man quota to be given to the states which I think is one of the things you wanted. That quota was fixed at \$126,000,000 for the state projects not including the costs of administration. This does not include the Federal agencies. The quota, including W.P.A. administration, is \$136,000,000.

The Secretary: One of the reasons I asked you to come here is that I feel you are in an impossible position. I was dumb-founded when I heard Harry was away. I was going to point out to him

- 3 -

that the earliest he can expect new money is February 1st. I wondered whether you people realized that. What arrangement can you make so that your money will last until February 1st?

Mr. Williams: We have estimated that we can go into January with approximately \$75,000,000. That \$75,000,000 would carry us through the month of January on the basis of an expenditure of \$136,000,000 over-all for W.P.A. Based upon that, Mr. Hopkins is telling each state that this is all the money they can have and they will have to employ as many men as they can.

The Secretary: Let me ask you this: Have you got the \$136,000,000?

Mr. Williams: No.

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After some discussion of the details of the availability of funds, and the possible shifting of cushions now provided for operating convenience, the Secretary asked Mr. Williams to have his Finance Section restate their financial picture and come back the following day for another conference. The Secretary also asked Mr. Williams to bring with him copy of the letter signed by Mr. Hopkins establishing both money and man quotas in the states and showing amount allotted to each state.

WORKS PROGRESS ADMINISTRATION

WALKER-JOHNSON BUILDING
1734 NEW YORK AVENUE NW.
WASHINGTON, D. C.

HARRY L. HOPKINS
ADMINISTRATOR

November 24, 1956

To: Honorable Henry Morgenthau, Jr.
Secretary of the Treasury

From: Emerson Ross *ER*

Attached are copies of the statements
left with Mr. Bell which I am sending to you for
your files, at your request.

Approximate Time Limit of Operations Under Present Funds

Agriculture

Agricultural Economics	February 1
Animal Industry	February 1
Geological Survey	February 1
Entomology and Plant Quarantine	February 15
Forest Service	March 15
Home Economics	May 1

Commerce

Census Bureau	March 1
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Interior

National Park Service	March 1
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Office of Education

June 1

Department of Labor

Labor Statistics	January 15
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Department of Navy

Bureau of Yards and Docks	January 10
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Treasury Department

Internal Revenue	February 1
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Public Health Service

January 15

Department of War

Corps of Engineers	June 30
Quartermaster Corps	March 1

Resettlement Administration

Land Utilization	February 1
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November 24, 1936

ANALYSIS OF U. P. A. FUNDS

(Allocation figures based on Bureau of the Budget report as of November 20, 1936 - - Encumbrances based on Commissioner of Accounts and Exports Statement as of October 31, 1936.)

SUMMARY

(Line References Used Herein Refer to Detailed Statement Attached)

Allocations to WPA through November 20, 1936 (Line 3)	1,092,544,885	
Encumbered to October 31, 1936 (Line 6)	<u>720,077,924</u>	
Unobligated Allocations (Line 7)		372,466,961
Funds not Available for Immediate Encumbrance (Line 17)		<u>32,000,000</u>
Net Balance Available for Encumbrances by WPA (Line 18) (As of October 31, 1936)		340,466,961
Requirements for November (Line 20)	160,000,000	
Requirements for December (Line 21)	<u>160,000,000</u>	
Total Requirements to December 31, 1936 (Line 24)	320,000,000	
Total Funds Recoverable (Line 24)	<u>28,000,000</u>	
Net Requirements to December 31 (Line 25)		<u>292,000,000</u>
Additional Allocations Required (Line 26)		30,832,119
Funds Available in the Act (Line 27)		67,627,086

On basis of above WPA will go into January without any funds for advance encumbrances as required by Treasury Regulation No. 1, approved by the President. Consequently in order to pay the obligations incurred in January, it will be necessary (1) to consume all previously established advance encumbrances; (2) to exhaust the Washington pool; (3) to exhaust working balances in WPA district allotment accounts.

This means that shortly after January 1, projects will start shutting down due to lack of funds in appropriations where needed and inability to purchase materials, and that sometime between January 15 and 25 the program will probably come to a close.

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I. Status of Funds - October 31, 1954

(1) Allocations Received (Nov. 30)	\$1,157,045,104	
(2) Less Allocations to HPA	<u>22,521,520</u>	
(3) Net Allocations to HPA		\$1,030,544,084
(4) Encumbrances through Oct. 31	764,145,045	
(5) Less HPA Encumbrances	<u>14,979,979</u>	
(6) Net HPA Encumbrances		<u>749,165,066</u>
(7) Unobligated Allocations - HPA		<u>\$28,379,018</u>

II. Funds Allocated but not Available Due to Irrevocable
Reserving for Completion of Federal Projects

(8) Total Allocated		42,000,000
(9) Encumbrances through Oct. 31	\$17,000,000	
(10) Estimated Encumbrances		
	Nov. 1-30 <u>6,000,000</u>	
(11) Total		<u>23,000,000</u>
(12) Balance Reserved and Not Available		\$19,000,000

III. Funds Not Available Due to Treasury Accounting and Procurement Systems
(Due to segregation of funds into numerous Appropriation Accounts and approximately 8,000 Allotment Accounts and advance encumbrances of payrolls and material requisitions)

(13) In Washington Pools for inter-appropriation transfers. (Necessary to expedite transfers between appropriations as requested by States - otherwise serious delays would be occasioned pending completion of transfers by Treasury Warrants). \$ 30,000,000

(14) Encumbrances in Transit between HPA District Offices and Treasury State Accounts Office. \$0,000,000

(15) Working Balance in District Allotment Accounts. \$0,000,000
(\$20,000 in each of 8,000 accounts - There being 10 appropriation accounts in each of 800 districts)

(16) Total \$30,000,000

(17) Total of Unobligated Allocations not Available

(18) Not available Balance - HPA

\$57,379,018
\$28,379,018

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IV. November and December Operations

(19)	Net Available Balance Forwarded from Section III		284,448,881
(20)	Estimated Encumbrances Nov. 1-30 1/	\$180,000,000	
(21)	Estimated Encumbrances Dec. 1-31 1/	<u>180,000,000</u>	
(22)	Total Requirements Oct. 31 through Dec. 31		\$310,000,000
<u>Recoverable from</u>			
(23)	1935 Act Funds	15,000,000	
(24)	Federal Project Funds	<u>10,000,000</u>	
		<u>25,000,000</u>	
(25)	Net Requirements		285,000,000
(26)	Additional Allocations Required to Operate to December 31		20,533,119

V. Status of Funds - 1935 Act - 11/30/35

(27)	Funds Appropriated	1,435,000,000	
<u>Allocated</u>			
(28)	To WPA	1,083,544,845	
(29)	To NYA	23,801,288	
(30)	Other	<u>228,253,867</u>	
(31)	Total Allocations		<u>1,335,600,000</u>
(32)	Balance Available for Allocation		97,397,281 2/
(33)	Balance		47,085,787

1/ Estimates based on reduction in employment of 400,000 workers by January first (Line 22 and 26).

2/ Figures secured from Bureau of the Budget. (11/30/35)

SAMPLE OF LETTERS SENT TO STATE ADMINISTRATORS
NOVEMBER 21, 1936

REGARDING EMPLOYMENT QUOTAS AND BUDGETS FOR STATE WPA PROGRAMS
EXCLUSIVE OF FEDERAL PROJECTS I-VI, NYA, AND FEDERAL AGENCIES.

CONFIDENTIAL

Mr. Bankson T. Holcomb, Administrator
State Works Progress Administration
Water and West Streets
Wilmington, Delaware

Dear Mr. Holcomb:

I am writing you at this time so that you may begin immediately to make the necessary adjustments in the program of the Works Progress Administration which are called for in the immediate future.

In order to plan operations, it is necessary to assume that in January the Congress will make an appropriation to finance the Works Progress Administration until July 1, 1937. The amount which the Congress will appropriate cannot, of course, be forecast, but it is clear that a further substantial reduction in the expenditures of the Works Progress Administration will be necessary and can be made in the light of improving economic conditions. Consequently, it is necessary to restrict expenditures to a sum sufficient to cover the wage bill plus a smaller allowance for materials and other expenditures than has heretofore been available.

The current review as to need, together with the reduction of drought employment, will reduce total employment on Federal agency programs, State WPA projects, and Federal WPA projects. On state projects, excluding Federal arts and other Federal agency programs, you should plan to keep a maximum of _____ persons at work throughout January, February and into March. After the first part of March, further reductions are to be anticipated in the number employed. The sum of _____ will be released to you for encumbrances in January to employ not more than the above _____ persons on your state projects.

In making the necessary adjustments to this set of conditions, two primary obligations on your part must be kept constantly in mind. First, the relief situation must be met. In this connection, let me re-emphasize that it is highly important that your employment quota be equitably apportioned to the districts strictly on the basis of relative need for

employment. Second, the whole future of the WPA requires that the integrity of the projects must not be sacrificed. The program cannot be carried on with projects of doubtful value or those which are overloaded with labor, in order to reduce man-year costs. Projects must be executed with reasonable efficiency and at unit costs which are not excessive.

This means, therefore, that immediate action must be taken to enter into negotiations with the state government, cities and other political subdivisions to secure from these sponsors a larger share of the total cost of the program, particularly in the form of materials and other non-labor costs. I firmly believe that this can and should be done, in view of the improved financial condition of municipalities and state governments and the very extensive benefits and public improvements which they derive from WPA projects. To make the situation perfectly clear, I should like to repeat that we are going to have less Federal funds available than ever before and that the release of funds for your state projects for the month of January will be restricted to \$_____.

In the meantime, we are facing a difficult financial situation, pending the next session of Congress. Consequently, we shall not be able to release the full amount of funds which were contained in the November budget, and releases for December will be smaller than in recent months. This means that reductions in employment resulting from the review must begin at once. Also, I should like to call your attention to the wire of November 18, sent to your Director of Finance and Statistics, to the effect that it is imperative that advance encumbrances be held to actual requirements; that a concerted drive be made to liquidate unnecessary encumbrances; and that material requirements be held to an absolute minimum.

I realize that these adjustments give you a difficult assignment, but the most important job facing the Works Progress Administration is to make these necessary adjustments and at the same time to protect the workers who depend on the WPA, and to insure the integrity of the whole program of the Works Progress Administration.

Sincerely yours,

Harry L. Hopkins
Administrator

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**Employment Quotas and Budgets for State WPA Programs,
Exclusive of Federal Projects I-VI, NYA, and Federal Agencies**

State	Employment Quota	January Budget
Alabama	29,500	\$ 1,160,000
Arizona	8,000	490,000
Arkansas	38,400	990,000
California	100,000	6,600,000
Colorado	24,500	1,460,000
Connecticut	17,300	1,240,000
Delaware	1,800	100,000
District of Columbia	5,400	330,000
Florida	24,400	1,030,000
Georgia	33,100	1,260,000
Idaho	7,000	410,000
Illinois	160,000	9,470,000
Indiana	64,600	3,930,000
Iowa	25,700	1,390,000
Kansas	41,500	1,800,000
Kentucky	50,000	1,720,000
Louisiana	32,500	1,420,000
Maine	7,700	440,000
Maryland	12,800	750,000
Massachusetts	90,000	6,300,000
Michigan	67,000	4,070,000
Minnesota	44,500	2,970,000
Mississippi	23,700	850,000
Missouri	85,000	4,210,000
Montana	9,500	540,000
Nebraska	18,700	1,030,000
Nevada	1,600	90,000
New Hampshire	7,700	450,000
New Jersey	70,000	5,060,000
New Mexico	8,500	420,000
New York State	90,000	5,910,000
New York City	172,000	14,670,000
North Carolina	27,500	940,000
North Dakota	19,800	900,000
Ohio	138,000	9,050,000
Oklahoma	50,000	1,750,000
Oregon	14,600	1,000,000
Pennsylvania	225,000	15,300,000
Rhode Island	11,700	690,000
South Carolina	23,200	920,000
South Dakota	21,900	950,000
Tennessee	31,500	1,140,000
Texas	75,000	2,820,000
Utah	8,500	520,000
Vermont	3,900	190,000
Virginia	23,000	860,000
Washington	30,000	1,990,000
West Virginia	40,000	1,930,000
Wisconsin	50,000	2,980,000
Wyoming	2,800	170,000
Total	2,188,800	\$126,860,000

LMS

GRAY

Paris

Dated November 24, 1936

Rec'd 2:41 p. m.

Secretary of State,
Washington.

1142, November 24, 5 p. m.

FOR THE SECRETARY OF THE TREASURY FROM COCHRAN.

Your statements to the press of Tuesday evening and the communiques of the French and British Treasuries have been carried in full in the French and British financial press today and in part or in summary in other French and British papers. FINANCIAL TIMES London carries a two-column headline "Six Power Monetary Accord". FINANCIAL NEWS remarks that the adherence of Switzerland and the Netherlands to the tripartite agreement was a natural step. AGENCE ECONOMIQUE ET FINANCIERE Paris considers that the Swiss and Dutch decisions affirm and extend the technical collaboration of the important exchange markets with the view to limiting fluctuations and thereby facilitating the international commercial trade which the world business recovery is setting in motion.

Paris exchange market understood that weakening of dollar on New York market Tuesday night resulted from foreign sales of American dollars and securities. While
the

LMS 2-No. 1142, November 24, 5 p. m., from Paris.

the franc opened strong this morning in Paris, it has subsequently weakened against both the dollar and sterling, with the Bank of France now giving pounds at the rate heretofore held of 105.15 I am confidentially advised that the rise in the dollar rate here has resulted principally from the purchasing of dollars by Lazard for official Russian account. French rentes have made slight gains. International securities fairly well bid.

Reference my 1140, November 23, 5 p. m., today's Journal Officiel confirms that Rueff is to succeed Baumgartner (END SECTION ONE)

BULLITT

WSB

PARAPHRASE OF SECTIONS TWO, THREE AND FOUR OF
telegram No. 1142 of November 24, 1936, from Paris.

I had a visit in Paris this forenoon from Governor Ivar Rooth of the Sveriges Riksbank (the Swedish Central Bank). Governor Rooth had been in London for a few days, and is going to Basel from Paris. He said that on October 24 and 25 one of the periodic meetings of the Scandinavian Central Bank Governors had been held at Oslo, which was attended by the Governors from the Central Bank of Sweden, Norway, Denmark and Finland. At that time the central banks had discussed the American declaration of October 12 and the tripartite monetary agreement. When they had their meeting they were not ready to take any action, but they desire to obtain further information regarding the technical working of the reciprocal arrangements on gold. Therefore Governor Rooth, who twice a year visits the important European financial centers, was asked to investigate the matter for the Scandinavian group of banks.

I pointed out to Governor Rooth the various declarations in this morning's London and Paris papers, and gave him the full background of them, with the exception of certain confidential information, regarding Belgium in particular. I was told by Governor Rooth that the four Scandinavian central banks are pledged one to the other

not

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not to depreciate their respective currencies further without giving due notice to the others; they consult one another constantly, and their aim is to maintain common policies.

On December 12 there will be celebrated at Helsingfors the 125th anniversary of the founding of the Bank of Finland. The ceremony will be attended by the central bank Governors mentioned above, who will take advantage of the occasion to have a confidential meeting. At that meeting Governor Rooth will report his findings regarding the tripartite agreement and technical arrangements subsequent thereto. I was told by Governor Rooth that he would let me know after December 14, and most likely before December 25, of the conclusions that may be reached at Helsingfors; he does not expect that any definite action in the premises will be taken by any one of the central banks before the first of the year, because throughout December the respective state budgets will keep most of them very busy.

As for the possibility of adherence by any one of the Scandinavian countries, Governor Rooth did not appear to be very optimistic. He said that they usually all stand together, and that there would be cause for unhappiness if two or three of them might adhere to the tripartite declaration and the other one or two might not be eligible thereto. It would appear impossible for Denmark to pledge herself

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herself to give gold since that country has exchange control. Norway furthermore has no exchange equalization or stabilization fund and the central bank of Norway is a private corporation. The Governments of Sweden and Finland own the stock of their respective central banks, and the Governments guarantee the acts of those banks. However, I should add that Governor Rooth is a firm exponent of central banks retaining what independence has been acquired by them.

On several occasions during the past year Governor Rooth has informed me of his interest in carrying a certain part of his reserves in dollars, provided he had the facility for converting them into gold at his desire; however, he frankly stated that present circumstances do not make it urgent that such facilities be afforded him. The Bank of England, he informed me confidentially, is very accommodating in carrying out such gold operations as he may need. In other words, the Bank of England will sell gold for his account or buy for the account of the Riksbank such gold as the latter may order, even though at the time the quantities stipulated are not procurable on the London open market. Thus the Bank of England has been willing to yield gold to the central bank of Sweden even though the two countries did not have an arrangement such as has now been consummated in the tripartite agreement, and with Belgium, the Netherlands and Switzerland.

END MESSAGE.

EA:LWW

BULLITT.

Regraded Unclassified