DIARY

Book 11

November 1 - November 14, 1935

Book Page

China (Continued)
  Monetary change (Continued)................................ XI 5+
    c) HMJr thinks
      1. Proceeds of any silver purchased by United States should be used solely for stabilization purposes and not for purchase of armaments, defraying army expenses, et cetera
      2. Basis of change should be satisfactory to United States; yuan should be tied to United States dollar
    d) Proposed loan also discussed
    e) Stabilization Committee should have 2 of its 3 members Americans
  Kung cables Sze 11/3/35 (Sunday) of critical situation in Shanghai and that currency change will be announced on 11/4/35 (Monday): .... 8+
    a) Yuan to be stabilized around present level
    b) Chinese banks and subjects ordered to turn in silver holdings to Central Bank of China against bank notes without any premium; foreign banks - same terms. HMJr asked to use his good offices to the end that American banks in China comply
  Chase National Bank, New York, notified by branch in Shanghai about 9 P.M. 11/3/35 that announcement has been made:
    a) Official rate of 1 shilling, 2½ pence to the yuan (about 30¢ United States)
    b) Chase+National City Bank both confirm request to turn over silver holdings to Central Bank of China
      1. National City Bank has 9 million yuan of silver
      2. Chase National Bank has 1¼ million yuan of silver
      3. American Express Company has 500 thousand yuan of silver
  Sze receives further message: agreement withheld on tying yuan to dollar; HMJr sends message indicating disappointment to Sze (Copy in Book XI, page 11)
  Kung's message 11/4/35.................................... 12
    a) Points 1, 2, and 4 agreed
    b) Point No. 3 - Currency Reserve Board already appointed; Committee already created; 9 members - including American, British, French, and Japanese
    c) Point No. 5 (tying to United States dollar): "We have announced maintenance of stable exchange at present level by Government bank buying and selling unlimited amount exchange"
  HMJr will confer with Sze in Treasury at 10 A.M. Wednesday 11/6/35 13
    a) Sze asks for earlier appointment, possibilities discussed
  HMJr, Phillips (State Department), Oliphant, Lochhead, and Sze confer - 11/6/35... 17
    a) HMJr tells Phillips Baruch knows all details of negotiations - only FDR could have told him

November 1, 1935

Mr. Dunn called on me and gave me the latest information on the European situation.

I told him I thought Marriner was doing a fine job in Paris and that he was very close to Laval and it seemed a shame to move him out. He said he was very glad to get this information and they had decided to leave him there until the first of March.

He asked me what I had in mind about Spain. I told him I thought we ought to consider soon making some country in Europe a loan, as we were rapidly accumulating all the gold and silver in the world and it was up to us to do something about it and that, based on Cochran's report, I felt that Spain offered the best prospect for a loan. He said, "You wouldn't try to hook this loan up with our Trade Treaty that we are negotiating with Spain?" I said I wouldn't do anything with Spain or any other country that was not entirely agreeable to the State Department. He said that if I were willing to wait until they had signed the trade treaty with Spain that then they would be more than pleased if I would take up the question of a loan, but what he was afraid of was that if we tied the loan in with the trade treaty, every other country would hold back on signing until they got a loan.

Dunn got quite enthusiastic about the idea, but I told him that as far as we were concerned, we would much rather make the loan purely as a financial matter and entirely independent of any trade treaties. I did not tell him (because I did not think it was the right time to tell him) that I had spoken about this matter to Secretary Wallace and that Wallace is in favor of our making loans abroad, but wants to tie it up very closely with the tariff. I also told Dunn that if we were going into any loans, we would, of course, have to use the Export-Import Bank and I wished the State Department and the Treasury could grab off the Export-Import Bank and have it under our complete control and eliminate Mr. Peek, who is nothing but a "bull in a China shop." He agreed with me 100%.

I will next take up the idea of a loan to Spain with the President.

November 1, 1935

Judge Hoyt came in today and gave me the attached memorandum. Graves also was present.

The first question Judge Hoyt raises is, can he appoint at this time a General Counsel and increase his staff up to 190, of which 20 would be additional investigators.

I suggested that we take the matter up with Mr. Bell because Judge Hoyt's organization for the time being is being paid out of Treasury funds. Mr. Graves is under the impression that Mr. Bell has instructions from the President that there should be no addition to the personnel of FAA until they get their appropriation out of the Deficiency Bill. I want to check this with Mr. Bell and find out whether this impression that Mr. Graves has is right or wrong.

I sent for Mr. Bell and Mr. McReynolds and they came in. Mr. Bell corroborated Mr. Graves' opinion, but qualified it to the extent that it was right when we took them on the emergency rolls, the day the President was leaving on his vacation, but is not sure that it is right now. He said he had talked the matter over with Comptroller General McCarl who told him he was on thin ice when he paid them from emergency funds but he promised to approve the expenditures and also cautioned Mr. Bell that if he were in Bell's place he would not increase the force of employees.

I told Judge Hoyt to address a letter to me, to be sent to McReynolds, telling me exactly what he needed and that within an hour after its receipts it would be turned over to Mr. Bell, the Acting Director of the Budget, who would take it up with the President to see what he wanted done. I assured Judge Hoyt that the Treasury would go the limit to cooperate with him.

FEDERAL ALCOHOL ADMINISTRATION

November 1, 1935

MEMORANDUM OF MATTERS TO DISCUSS WITH THE SECRETARY

Before deciding to assume the responsibilities and duties of Administrator, I discussed with the President and Mr. Choate at Hyde Park several matters that I felt should be definitely determined prior to my taking office. I am informed that the President has recently discussed the Administration's problems with you and I assume that he has told you of the decision reached at the time of our Hyde Park Conference.

There were two matters which I particularly desired to have the President's approval of in advance, and I understood at that time that both were agreeable to him: first, that I be permitted to select a suitable General Counsel to head my legal staff; and secondly, that I be permitted to fill other positions, including twenty new investigators, to bring the staff up to a total of one hundred and ninety employees.

In other words, when I left Hyde Park on September 16th, there was no doubt in my mind that both of these matters had been definitely approved and that authorization would be arranged in due course to provide for them without delay. I sincerely hope that this can be done at this time. I should like the General Counsel to be appointed as of November 1st.

November 1, 1935

At a group meeting this morning, George Haas reported on the conference held yesterday to discuss possible courses of action in the event of an unfavorable Supreme Court decision on AAA and processing taxes. At this meeting Haas and Harlan represented the Treasury Department.

Among the substitutes suggested for processing taxes were a general sales tax; a tax on royalties and patents by which the Government could receive revenue from patents which would expire in ten years and the Government would take royalties on the inventions; a manufacturers' excise tax on agricultural commodities. Haas said he did not indicate a preference. When asked if the Treasury had considered the subject, Haas told them he did not know what the Secretary's ideas were, but that we were hoping it would be declared constitutional.

I told the group that Graves had reported to me on a meeting held in Judge Hoyt's office. One of the things Hoyt wants is a General Counsel and I am pretty sure he has one and so does Graves. They acted very childishly with Graves and he had to practically force his way in. They had him sit in at the meeting, but somewhere in the back of the room, but with his ability they had to bring him up to the front table. I am going to take the attitude when Hoyt comes in to see me this forenoon that the Secretary of the Treasury was very much hurt that his personal representative did not have a seat at the conference.

Saturday, November 2, 1935

Dr. Sze, Chinese Ambassador to the United States, telephoned this morning and stated that he had received a message from China which he wished to communicate to Mr. Morgenthau in person. I learned from Dr. Sze that his message related to a proposed monetary change in the Chinese currency and was related to his previous inquiry as to whether or not the United States Government was prepared to purchase a large amount of silver from the Chinese Government. Upon telephoning to Mr. Morgenthau at Beacon, New York, Mr. Morgenthau suggested that Dr. Sze make arrangements to go to Beacon today in order to discuss this question. I was instructed to accompany Dr. Sze and accordingly made arrangements to leave Washington on the noon train. During the course of the trip Dr. Sze allowed me to see a copy of the message from the Chinese Government but the contents of the note were not discussed by Dr. Sze and myself on the trip. However, in general conversation, Dr. Sze did not appear to be particularly well informed as to the financial situation in China nor did he seem to have any particular grasp of monetary matters. Mr. Oliphant joined us at New York and we proceeded by train to Beacon and went immediately to Mr. Morgenthau's residence. Dr. Sze delivered a copy of his note to Mr. Morgenthau, which is attached. Mr. Morgenthau expressed his desire to talk openly and frankly to Dr. Sze regarding this subject which he wished to treat as a monetary question only and only in as far, etc. as it was purely financial and within the province of the Treasury Department. The various points of the note were discussed, but it was pointed out to Dr. Sze that the note did not specify what the basis of the new currency was to be; neither did it give any information as to whether the new currency was to be on a gold or silver basis, or whether it was to be linked to some other currency such as the English pound, Japanese Yen, or the United States Dollar. Neither did it contain any of the information as to what purpose the proceeds of proposed silver sales were to be applied. As to the suggested loan of 10 million pounds, mentioned in the note, Dr. Sze admitted that this was not an accomplished fact but only a hope of the Chinese Government.

Dr. Sze also referred to a further Cable which he had received from Dr. Kung but no copy of this was supplied to us. In this supplementary Cable the Chinese indicated their desire of arranging a contract to sell 100 to 200 million ounces of silver to the United States Government at a fixed price, and added that this silver would be ready for delivery practically immediately.

Saturday, November 2, 1935

Mr. Morgenthau asked Mr. Oliphant and myself to discuss the question with him apart from Dr. Sze. Mr. Morgenthau felt that the plan as conveyed by Dr. Sze was vague and not satisfactory. Rumors were current in Shanghai that the new Chinese currency was to be tied to the pound sterling and that the United States Government had arranged to purchase a large quantity of silver from the Chinese. All indications pointed to the possibility that the Chinese had made some arrangement with the British to tie their currency to the pound sterling and obtain funds to stabilize the currency by selling silver to the United States as the stabilization loan of 10 million pounds which was mentioned was only a possibility. The sale of silver to the United States would be the only practical way in which they could get funds on short notice. In the plan outlined by the Chinese it might be possible that by our action in buying silver from them we would simply be assisting them to leave the silver standard which would be in direct opposition to the general plan of improving the standard of silver as a monetary metal. Mr. Morgenthau also felt that in view of his determination to treat this as a monetary question it would be very necessary to make sure that the proceeds of any silver purchased by the United States from the Chinese Government be used solely for stabilization purposes and not diverted to other channels such as purchase of war supplies, defraying army expenses, etc. which might very readily be embarrassing. It was thought that if the United States Treasury agreed to buy a large quantity of silver from China to assist them in effecting a monetary change that some assurance be obtained from China that the new currency be on a basis satisfactory to the United States. To assure this it would be desirable to have the Yuan tied to the United States dollar rather than any other currency such as the pound sterling or Yen and that some provision be made to continue the use of silver as a monetary metal in their currency.

It was accordingly decided to make any purchase of silver conditional on the acceptance of the suggestions contained in the proposal, a copy of which is attached. This was discussed with Dr. Sze and each sentence explained. At first the purchase of only 50 million ounces of silver was mentioned by Mr. Morgenthau but this was later modified to 100 million, as Dr. Sze explained that it would be desirable for the success of this plan to be able to announce that they had sufficient resources to carry it out successfully. Mr. Morgenthau then telephoned the President to acquaint him of the offer it was proposed to make to the Chinese Government, which the President approved with the addition of the word "proposes" after the word "Chinese" in the third point. The proposal was then again reviewed with Dr. Sze, who at that time brought up the point of a proposed loan from the United States to be also used in the stabilization of China's currency. Mr. Morgenthau informed him frankly that he did not even care to discuss the possibility of such a loan and stated that he did not feel that Dr. Sze could entertain any hopes of obtaining one. Mr. Morgenthau pointed out that we were lending them a great deal of assistance by agreeing to purchase this silver and that he felt that, properly administered, the sale of such silver should amply cover the purposes of stabilization. Dr. Sze then left to return to New York in order to prepare his message to the Chinese Government.

Saturday, November 2, 1935

I accompanied Dr. Sze on the train from Beacon to New York City and during the course of the trip he expressed the opinion that the Chinese Government will be somewhat upset by the receipt of our message. He seemed to be particularly concerned as to the suggested make-up of the Stabilization Committee on which it was proposed that two of the three members be Americans. He indicated that it was doubtful whether this proposal would be acceptable as in the eyes of the Chinese public the Chinese Government would lose "face" if they consented to such an arrangement. He also appeared somewhat disappointed at his failure to obtain any assurance that the United States would consider a straight loan to China in connection with the change in the monetary system. He apparently thought the mention that the British were considering such a loan would make the United States a great deal more responsive to the idea. Upon arriving at New York City and before taking the train to Washington, Dr. Sze dispatched a short Cable to his Government which he showed me, stating that he had met Secretary Morgenthau, that the interview had been satisfactory, but that special conditions had been insisted upon, the details of which he was forwarding by Cable in code on his arrival in Washington.

Sunday, November 3, 1935

Dr. Sze telephoned about noonday advising that he had started in to dispatch his message to China, that it was going in three sections, the last section of which would not be complete until about 3 o'clock in the afternoon. Mr. Oliphant telephoned in the afternoon and stated that he had been thinking over Point 5 in our message of Saturday and thought that the payment of the Yuan note in silver at the rate of $1.29 per ounce should not be at the option of the Chinese Government because of the fact that at the present price of silver it would give the Chinese Government the opportunity of redeeming their notes at half their real value. In other words, if the Yuan price was fixed at 35¢ U. S. it would only take 12 1/2¢ in silver to pay it. I agreed with Mr. Oliphant that in all probability this point would have to be discussed but that it probably could be covered by making payment in silver at the option of the holder rather than the Chinese Government. Dr. Sze again called in the early evening and stated that when he received his message from China on Saturday morning he immediately cabled Dr. Kung, advising that Secretary Morgenthau and President Roosevelt were out of town and in the circumstances suggested that any announcement of a currency change be postponed until such time as he had an opportunity of discussing it with Mr. Morgenthau. He has now received a reply from Dr. Kung informing him that due to the critical situation in Shanghai it was impossible to postpone taking action and that announcement of the currency change was being made in China on Monday morning. Dr. Kung stated that they were going to stabilize the Chinese Yuan around the present levels by buying or selling exchange as required. Chinese banks and Chinese subjects were being ordered to turn in their silver holdings to the Central Bank of China against bank notes without any premium. Foreign banks in China were being requested to turn over their silver to the Central Bank of China on the same terms. Dr. Kung requested that Secretary Morgenthau use his good offices to the end that American banks in China follow the request of the Chinese Government. Dr. Sze said that this message was addressed by Dr. Kung to Secretary Morgenthau personally rather than officially and that he was not advising the U. S. State Department as to its contents unless we requested him to do so. Dr. Sze has not received a reply to the Cable dispatched by him on Sunday and did not think that any reply would be received before Monday.

Conveyed this information to Secretary Morgenthau by telephone. Mr. Morgenthau felt that in the absence of further details as to China's plan for a monetary change it would be premature for him to even consider taking up the question of delivering their silver with the American banks and that no action along this line would be taken for the present. Mr. Morgenthau also expressed the opinion that Mr. Oliphant's suggestion as to a possible correction of redeeming Yuan and silver could be left until an answer to our message was received from the Chinese Government.

About 9 o'clock in the evening news was received from the Chase Bank, New York, from their Shanghai Office, that the Chinese Government had announced the change in their currency and they had set the official rate of 1 shilling, 2 1/2 pence to the Yuan and were stabilizing the currency at that level by purchase and sales in the market. This rate is equal to about 30¢ U. S. and the Central Bank of China had also made some trades in dollars at this figure. The Chase and City Bank both confirm that they had been requested to turn over their silver holdings to the Central Bank of China but had made no decision on this subject.

Monday, November 4, 1935

The Shanghai exchange market continued to hold steady with the Yuan rate working out at about 30¢ to the dollar according to advices received by both the Chase and City Bank from their Shanghai offices. The City Bank reported that it had about 9 million Yuan of silver. The Chase Bank reported holdings of about one and a quarter million Yuan and the American Express Company holdings of 500 thousand Yuan. The Chase Bank felt that there holdings were so small that it was probably that they would accede to the Chinese Government's request and turn the silver into the Central Bank of China but were awaiting the views of the manager of their Shanghai office. The National City Bank, holding a larger amount, was less inclined to deliver their silver but thought that if the circumstances made it seem desirable they would also turn their silver over but were awaiting further news from Shanghai. No intimation was given to either of these banks that the Treasury had been approached by the Chinese Government regarding the turning over of silver by American banks. About 8 P. M. Dr. Sze called and advised receipt of a message from China which he had been waiting for, and at my request forwarded me a copy by messenger. Informed Mr. Morgenthau by telephone of the receipt of this message, copy of which is attached. It was thought that the Chinese had withheld agreement to the two most important points, especially number five, which would have linked the Yuan to the United States dollar. Mr. Morgenthau did not feel that the message was at all satisfactory and informed me that he would telephone me a little later after he had discussed it with the President. About 9 A. M. Mr. Morgenthau telephoned and asked me to advise Dr. Sze "Secretary appreciates your courteous message but is disappointed in the contents. He will be glad to discuss it with you at 10 A. M. Wednesday morning." Dr. Sze then expressed the desire of seeing Mr. Morgenthau before 10 o'clock on Wednesday morning, but I told him that from what I knew it would be impossible for Mr. Morgenthau to give him an interview before Wednesday morning.

Message from Secretary Morgenthau to Dr. Sze in answer to
Cable of November 4, 1935

November 4, 1935

"Secretary appreciates your courteous message but is disappointed in the contents. He will be glad to discuss it with you at 10 A. M. Wednesday morning."

Please express profound thanks to President and Secretary of Treasury for timely aid which means so much to our success.

As to details: points one, two and four agreed. Reference number three Government already appointed Currency Reserve Board of leading Chinese bankers to control bank note circulation and have custody of reserve. Also announced creation of Committee advisory to this Board which will probably comprise nine members including American, British, French and Japanese. Reference number five we have announced maintenance stable exchange at present level by Government bank buying and selling unlimited amount exchange. Trust these arrangements satisfactory.

Shanghai, November 4, 1935

Tuesday, November 5, 1935

Secretary Morgenthau telephoned this morning and stated that Dr. Sze had just communicated with him by telephone and wished to know if it were possible to make arrangements for Dr. Sze to go up to New York this evening to talk with Secretary Morgenthau instead of waiting for the appointment which had been arranged for Wednesday morning at 10 A. M. at the Treasury Department. Mr. Morgenthau stated that he saw no reasons to change his original plans but that he was going to get in touch with Under Secretary of State Phillips and then call me back in order to inform me as to what message should be delivered to Dr. Sze. Mr. Morgenthau shortly after telephoned and stated that he had decided not to see Dr. Sze before Wednesday morning at 10 A. M. He stated that he preferred to talk with Dr. Sze only while Mr. Oliphant and myself were present, and also stated that he had decided to ask Under Secretary Phillips to attend the meeting. I accordingly telephoned Dr. Sze that it would be impossible for the Secretary to see him before the time set, on which Dr. Sze gave a long explanation of his desire to leave Washington by 8 A. M. Wednesday morning. He is to address a dinner given in Boston tomorrow evening by the Society of the Friends of China and had made this engagement many months ago and was loathe to break his appointment as the Governor of Massachusetts was to be present as were also the presidents of quite a number of universities. In order to get to the dinner it will be necessary for him to leave on the 8 A. M. train as he was unable to obtain satisfactory assurance from air port officials that the weather would be satisfactory for flying tomorrow. He inquired if some arrangement could be made to obtain a Government plane in the event that commercial planes were not flying according to schedule. I told him I would be glad to make inquiries for him as to this possibility, but he asked me not to make any arrangements until he received further reports tomorrow morning as to the commercial airline schedules. He intimated that if it was not possible to make arrangements to go to Boston after the proposed meeting with Mr. Morgenthau, that he would leave on the train at 8 A. M. and suggested that in that case he send his Secretary to the Treasury to see Mr. Morgenthau and obtain any message which the Secretary might wish to give. I told him that I was sure that Mr. Morgenthau would not discuss this question with any third person as he would like to talk directly with Dr. Sze. Dr. Sze stated that if he went to Boston he would not return before Friday morning. I repeated that the Secretary was ready to see him at 10 A. M. on Wednesday and Dr. Sze would have to decide for himself the urgency of the situation and whether or not he cared to postpone the meeting for two days. Dr. Sze stated he would again communicate with me early tomorrow morning.

As requested by Mr. Morgenthau, I notified Mr. Oliphant, who is in New York, that a meeting was to be held at 10 A. M. tomorrow and that the Secretary would like him to arrange to be here by that time. Mr. Oliphant stated that he would be at the Treasury Department by 9 A. M. in the morning. Later in the afternoon Mr. Morgenthau again telephoned and I reported my conversation with Dr. Sze to him. He replied that he saw no reason to change his decision to see Dr. Sze only in the Treasury at the time set by him. He added that if necessary a Coast Guard plane might be obtained to furnish transportation for Dr. Sze to Boston if no commercial planes were available.

November 6, 1935

Upham told me today of a confidential conversation he had had with Sparkman, which is interesting. It is copied below:

"For the Secretary:

Sparkman, clerk of the Senate Banking and Currency Committee told me a few days ago over the telephone that the Comptroller had visited Senator Fletcher, and expressed the opinion that the President had made grave mistake in reappointing (or announcing his intention to reappoint) Eccles to the Governorship (or Chairmanship) of the Federal Reserve Board, and that he (the Comptroller) intended to do everything he could to have confirmation refused. He added that he understood Senator Glass had evidence of heavy stock market losses by Eccles.

I had lunch with Sparkman today. He says that Senator Glass was in a few days ago --- is very critical of the appointment of David Stern to the board of the Philadelphia bank, is renewing his fight on Eccles' confirmation, and generally disposed to cause trouble on that and other appointments. He says that opposition to Eccles also comes from McAdoo, and from former Senator Smoot, of Utah.

I asked Sparkman the other day if they had a subcommittee on appointments or confirmation. That gave him an idea, and he is now suggesting to Fletcher that such a subcommittee be appointed, with Fletcher as chairman. Then confirmations would go to that subcommittee instead of to the Glass subcommittee where they now go. With Fletcher, Glass, Wagner, Barkley and Norbeck on such a subcommittee, there would be much less danger of eruptions."

November 6th

In discussing Morris Cook's work I wish to point out to the President the following:

1. That,as Chairman of his Agricultural Committee in Albany, I was instrumental in getting a reduction of rural electric rates.

2. That at my instigation we took up in New York City through Procurement the question of buying electricity in New York for the government under one contract as against 173 contracts. Through this move we saved about 32%.

3. During the past year, against the interest and advice of my pocketbook, I sold for my wife and myself every share of public utilities stock that we owned.

4. While our tax program was under consideration this year I advocated and urged an inter-corporate dividend tax as the best means of controlling public utility holding corporations.

With this record on public utilities, I do not feel that I have to apologize when I suggest a sensible financial set-up for Morris Cook.

November 6, 1935

At the group meeting this morning, Secretary Morgenthau asked McReynolds to get for him a sketch which would show the location in New York City of all assay offices and other Federal buildings in which silver is stored. The Secretary explained that he has in mind purchasing the other half of the block on which the present Assay Office is located and will ask the President for an allocation of funds for that purpose with which he will have constructed a new building. Silver is at present stored in the Assay Office, the Sub-Treasury and the old Sub-Treasury buildings.

Mr. Grimm reported that the housing fair will start on the evening of January 4, in Baltimore at the Fifth Regiment Armory with a floor area of 60,000 square feet. HM,Jr. said he would ask the President to open the show, which Mr. Grimm thought would be splendid. Mr. Grimm also said the next show is planned for Miami. HM,Jr. asked Mr. Grimm for an extra set of newspaper clippings on the Baltimore show.

At this point, Mr. Grimm presented a complicated plan for financing of EHFA and REA, by which, with the President's approval, the EHFA would receive $15,000,000 from WPA. Of these funds, $5,000,000 would be used for financing the purchase of electrical equipment and $10,000 for plumbing equipment by REA. The funds would be deposited with EHFA and REA would, in turn, borrow from EHFA for the reason that the latter does not have facilities or personnel for promotional work in connection with sales and would, therefore, act only as banking agent.

Secretary Morgenthau said he was bitterly opposed to financing which requires any juggling. He said, "If these people will come to me and state their objective in an open and above-board manner, we will assist in every way possible with their financing, but it must be conducted in a businesslike manner. I am sick and tired of doing it in a slipshod way." He told Grimm to explain to EFHA and REA that it was not his intention to interfere with their policy, but from a financial point of view he wanted it done in a strictly businesslike manner and that he was pretty sure Jesse Jones would agree with him.

November 6, 1935

H. M., Jr., asked Mr. William Phillips of the State Department, to be present at the meeting with the Chinese Ambassador. Oliphant and Lochhead were also present.

Mr. Morgenthau brought Mr. Phillips up to date as to what had happened since Saturday. He told Mr. Phillips that he had met Mr. Bernard Baruch on the train and that Baruch knew everything about our negotiations, so far, with the Chinese. The only person who could have told Mr. Baruch was the President. HM,Jr. explained that the reason he was saying this was because he wanted Mr. Phillips to know that any information that Baruch or anyone else might have, had not come from HM,Jr. He told Mr. Phillips that the President had also told Mr. Hirst, former editor of the London Economist, about our negotiations with the Chinese.

Mr. Phillips asked Mr. Morgenthau whether he thought it essential that the yuan be tied to the American dollar, and Mr. Morgenthau said yes; that he had talked with the President about this, about a year ago, and the President had said then, very definitely, that he wanted to work South America in as closely as possible and that we should try to keep a foothold in China.

At this point, the Chinese Ambassador came in. He said, "I got further message from Kung saying that his disposition is to meet your wishes in every way possible. Of course the message he sent you yesterday, that the five conditions you put up to him, he has agreed to three of them, 1, 2 and 4. They already made an announcement. Your main object was, first, the money should not be used for any purpose except for stabilization. He can agree to that. The second point, money should be kept in an American bank. He can agree to that. The third point, which was embodied in our previous talk in which you said you want to be kept informed how the money will be used."

Mr. Morgenthau then said, "Mr. Kung has to keep our representative in China fully informed." He also wanted to know, "Is your stabilization on a fixed point?" The Ambassador replied that what they announced is that they will stabilize on the present level. "That, of course, is a fundamental thing," said Mr. Morgenthau. "As I understand you, they have not tied the yuan to anything. You announced it in terms of pence. It was just for the day. As I understand it, your devaluation is not fixed to anything unless it is to the £."

The Chinese Ambassador then said, "I forgot to tell you another point. Mr. Kung told me that I am to say nothing in regard to our negotiations in public.

Mr. Morgenthau said, "You came to my house a week ago Monday night and I asked to know something about the program and it was not until Saturday night that you had an answer. It seems to me that the yuan is not tied to anything," to which the Ambassador replied, "Except at the present level."

"Where would you say we stand right now?" asked Mr. Morgenthau. "How would you sum up the situation between your Government and ours?"

The Chinese Ambassador said, "I do not exactly catch the point."

Mr. Morgenthau queried, "What is the next move?"

The Chinese Ambassador answered, "You made five conditions and three they can accept without question and the other two they have already announced and they are in conflict with what you propose."

Mr. Morgenthau said, "Suppose you have our $65,000,000. I haven't yet got a guarantee that it would not be used for any other purpose except stabilization. Suppose you decide that you want to use $10,000,000 to buy munitions?"

The Ambassador said, "We could not do that."

"But," said Mr. Morgenthau, "suppose you do? All we could say is, 'Oh, that is terrible! That is terrible! We have no guarantee that you will not."

The Ambassador said, "We have given you a pledge."

Mr. Morgenthau said, "There is no pledge."

The Ambassador then read from his cable: "Referring to your cablegram of yesterday you may give specific assurance proceeds used for currency stabilization only and that his representative in China will be given fullest information. As to stabilization Government decree November 3 provides "Section 6 For the purpose of keeping the exchange value of the Chinese dollar stable at its present value the Central Bank of China, the Bank of China and the Bank of Communications shall buy and sell foreign exchange in unlimited quantities." This is effective since Monday and operating to general satisfaction."

Mr. Morgenthau said, "I do not feel that they have answered our number 5. We want to tie your money to the dollar. We are not asking for railroads, harbors or special trade treaties. We think it would be mutually advantageous, looking to the future, that your money and ours be tied together. You have to tie it to something in order to make this very large transaction of $65,000,000. The only thing that we are asking is that you tie your money to the dollar.

"I told you I did not think you need a loan. I thought this thing would work out. I do say if we are going to do this, number 5 is the crux of the whole thing. You need the money and everybody seems to think you moved too fast, but to make this thing a success you need this money. But we have our politicians and our public and our future to think of. I would not recommend this if I did not think that it was good for both of us. You have the Sterling bloc and the dollar bloc. We are not going to invest $65,000,000 and have you tie your money to Sterling. We are dealing with today. You made this move and we want to see you succeed. We feel that it is best for both countries to have the yuan quoted in terms of dollars instead of in terms of Sterling.

"You people are playing poker and you are bluffing. You have not enough money to back up your bets. Before you made this move you should have had the money to back it up. Just as soon as everybody finds out that you haven't got the money, your plan will fail. You need $50,000,000 or $60,000,000 to make this thing a success and we are willing to give it to you. Kung could not announce his entire plan because he was waiting for us to buy his silver."

The Ambassador then asked us to put up a new formula that he could present to the Chinese Government. Mr. Morgenthau told him: "If I had said to you, I insist that you tie "so many" yuans to the dollar, that you might object, but we never did this. We left that to you, but when you decide, let us know."

Mr. Phillips said, "In regard to your question, can you suggest a formula? We will be glad to help you in any way you suggest."

Mr. Morgenthau then said, "The formula is in number 5."

Mr. Phillips then said, "If you are going to approach it again, I suggest that you have another formula."

Mr. Morgenthau said to the Ambassador at this point, "You have to pick the kind of money you are going to tie the yuan to. You can't tie it to four; only one."

The Ambassador then said, "I asked you the other night, if we tied our yuan to the dollar would you make us a loan of $50,000,000, and you told me you could not give me any encouragement."

Mr. Morgenthau said, "That is correct. If we made that purchase of silver, I do not think you would need a loan. Certainly the United States could not make you a loan by itself. I suggest that our people and Mr. Phillips' people get together and work on a new formula. When we have it prepared I will give it to your First Secretary inasmuch as you will be in Boston.

The Ambassador said, "In regard to number 3 ---

Mr. Morgenthau said, "The President made the suggestion on the Advisory Committee; that we have a representative on that. All moves that you make should be taken up with our representative. We want the same relationship as our Open Market Committee has with the Federal Reserve. Before the Open Market Committee take action, they consult the Federal Reserve. We will not fight very hard over number 3."

After the Ambassador left, Mr. Morgenthau said that the best thing for the Chinese to do is to announce that we bought this silver. The next day they ought to quote in terms of dollars, and say nothing else. They should not make any announcement.

Dictated on November 6th

November 1st Lochhead informed me that the Chinese Ambassador had an important message in answer to our request for further information given him the previous Monday.

On Saturday, November 2d, Lochhead gave me the gist of the contents of the attached memorandum which was handed to me by the Chinese Ambassador at Fishkill on the evening of November 2d. In anticipation of Sze's coming, I asked Phillips to leave word where he could be reached Saturday night. I spoke to the President for the first time Saturday morning and told him about the message we had received from China. A little later he called me up on the phone and asked me whether I had gotten certain dispatches about China via the State Department. I had not received them and the President read them over the telephone to me.

Sze, Oliphant and Lochhead arrived about 6:45 and we immediately went into conference and discussed the memorandum that Sze had with him. Knowing that the President was going to eat at 7:30 I quickly called him and read the memorandum ver batim over the phone to him so that he could be thinking about it. I told him that we would go to work on an answer and after we had it prepared I would like to read it to him over the phone. After supper we went to work and prepared the following memorandum.(Attached) Sze doubted that his government would agree to having a committee of three of which two were Americans acting as Stabilization Committee. I read the memorandum over the telephone to the President about 8:45 and he only changed one word. In paragraph three he had me put in the words at the beginning of the paragraph "that Chinese", the purport of this being that the suggestion would come from the Chinese rather than from us - that a Stabilization Committee of three experts be set up. The President said two or three times, "that is fine, that is fine".

Immediately after calling him I called Phillips at the Maryland Club in Baltimore and read the same memorandum to him. He asked if he could not have until Monday to think it over and consult his experts. I told him I was sorry he could not as the President had approved it and Sze was waiting for it. Phillips was very polite but I could tell that he did not like being rushed. I did not hand a copy of this memorandum to Sze but as I wrote it down myself he wrote down word for word what I dictated. He just could barely make his train so I thought the polite thing to do was to drive him down myself, which I did. Going down I said to him, "are you not disturbed that your Premier has just been shot" and he said, "not at all, I am delighted because it shows that my people still have some spirit left". The reason for his saying this is that the Premier who was shot is supposed to have been very Pro-Japanese. He then told me this, "you know why the Japanese want those five northern provinces" and I said, "no Mr. Sze" and he said, "well in Manchuco the Japanese have not found the right grade of iron ore but in these northern provinces of present China they can get the right kind of iron that they need very badly. They have also discovered that in these provinces they can grow a new strain of cotton which, while it is not as good as our American cotton, would answer the entire needs of Japan. He said with cotton and iron ore they would practically be independent." I repeated this to the President who was intensley interested and he said, "they would still need rubber".

On the evening of November 4th, Lochhead read the attached message to me over the telephone. This message boiled down simply means that the Chinese were willing to agree to leave the money they received from us,if we purchased silver,in a New York Bank. Besides that they practically agreed to none of our suggestions.

I read this memorandum to the President and his advice was that we sit tight and he suggested that if they were not willing to accept our No. 3 suggestion that we make an alternate suggestion - that an Advisory Committee of experts be set up on stabilization, this Committee to be consulted on all moves prior to action taken by the Stabilization Committee. I told the President that Key Pittman had announced that due to China's recent move that within eighteen months silver would go to $1.29. Much to my surprise and interest the President's response to this information was "Key Pittman is cock-eyed". I gather from this that the President is less interested in putting up the price of silver than he used to be. This is the first indication that I have had along these lines. While the President was at our house Sunday for lunch E. F. M. informs me that he announced to everybody that Sze had been to see us the night before and I was more than surprised that he should say this in front of Mr. Hirst, Editor of the London Economist.

Hand me by Chinese ambassador at £
Fishkill on evening of Nov 2, 1935

PLEASE INFORM SECRETARY OF TREASURY CONFIDENTIALLY PROGRAM IS AS FOLLOWS:-

(ONE) STABILIZE FOREIGN EXCHANGE AT DEFINITE LEVEL.

(TWO) CENTRAL BANK OF CHINA TO BE REORGANIZED AS CENTRAL RESERVE BANK PRINCIPALLY OWNED BY BANKS CHINESE GOVERNMENT AND THE GENERAL PUBLIC AND BECOMING INDEPENDENT INSTITUTION. REORGANIZED BANK WILL HOLD RESERVE BANKING SYSTEM; ACT AS NATIONAL GOVERNMENT DEPOSITORY AND BANKER CHINESE GOVERNMENT. BANK ALSO ENJOY NOTE ISSUE MONOPOLY, OTHER BANKS' NOTES TO BE WITHDRAWN WITHIN TWO YEARS.

(THREE) CREATION SPECIAL MORTGAGE BANK TO ASSIST UNFREEZING COMMERCIAL BANK AND ADOPTION MEASURES STRICT REGULATION COMMERCIAL BANKS.

(FOUR) OBTAINING FOREIGN LOAN POUND STERLING TEN MILLION TO GIVE FUND FOR EXCHANGE CONTROL. ADDITIONAL FOREIGN EXCHANGE WILL BE OBTAINED BY SELLING PORTION SILVER. AS LOAN NEGOTIATIONS INVOLVE TIME, SUCCESS EXCHANGE CONTROL DEPEND ON IMMEDIATE SALE SUBSTANTIAL AMOUNT SILVER.

(FIVE) BALANCING BUDGET OVER NEXT EIGHTEEN MONTHS BY

FIRST REDUCING EXPENDITURE AS FAR AS CONDITIONS PERMIT

SECOND INTERNAL LOAN CONVERSION TO LONGER TERM AS OVER HALF MATURE DURING NEXT FIVE YEARS

THIRD EMPLOY PROCEED OF SALE CENTRAL BANK OF CHINA SHARES

FOURTH PROJECTED MEASURES WILL CAUSE RAPID ECONOMIC IMPROVEMENT WHICH WILL INCREASE GOVERNMENT REVENUE.

(SIX) PROCEED OF SILVER SALE WOULD BE USED FOR PROVIDING FOREIGN EXCHANGE FUND FOR CURRENCY REFORM AND STRENGTHENING CENTRAL BANK. WILLING TO AGREE TO USE THROUGH AMERICAN BANK AND WILL KEEP TREASURY REPRESENTATIVE INFORMED AS TO USE OF FUND.

SILVER COULD BE DELIVERED ALMOST IMMEDIATELY.

1-XI-35

NOTE:
Words underscored are mutilated in transmission

1. U. S. proposes to buy on shipboard 100 million ounces of silver from China and if proposed arrangements works out mutually satisfactorily U. S. to consider further purchases.

2. We suggest that all proceeds from sales will be used exclusively for stabilization of Chinese currencies.

3. That Chinese propose set up a stabilization committee of three experts (with gemtlemens agreement that one member is from Chase and one from National City)

4. That funds secured from sale of silver be kept on deposit in New York with agents of Central Bank of China. (It is understood that this will be a U. S. Bank)

5. It is further understood that if this proposal is mutually agreed to that:
   1. That the yuan will be redeemable at the election of the Chinese Government in any of these ways.

   A. At a fixed number of yuan to be the U. S. dollar this ratio to be fixed at the outset by the Chinese Government.

   B. In a fixed weight of gold at $35.00 per ounce.

   C. In a fixed weight of silver at $1.29 ounce.

Read to me over telephone on evening of Nov 4th, 1935

Please express profound thanks to President and Secretary of Treasury for timely aid which means so much to our success.

As to details: points one two and four agreed. Reference number three Government already appointed Currency Reserve Board of leading Chinese bankers to control bank note circulation and have custody of reserve. Also announced creation of Committee advisory to this Board which will probably comprise nine members including American, British, French and Japanese. Reference number five we have announced maintenance stable exchange at present level by Government bank buying and selling unlimited amount exchange. Trust these arrangements satisfactory.

Shanghai November 4, 1935.

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Shanghai November 4, 1935.

M. S. Eccles

November 6, 1935.
Wednesday

H.M.Jr.: Very well

E.: I'm discussing with them the question of changing reserve requirements.

H.M.Jr.: Yes

E.: -- Not with an idea of taking any action

H.M.Jr.: Yes

E.: -- But just with the idea of -- of getting a settlement on the thing and discussing it with you.

H.M.Jr.: Yes

E.: -- Do you have any opinions on it - like the --?

H.M.Jr.: Well - on the advice of counsel, see?

E.: Yes

H.M.Jr.: -- If you people want the opinion - they tell me that with the bunch of historians and diary keepers that you've got over there - that anything that I say I better put in writing.

E.: Laughs - Well, the --

H.M.Jr.: So when you people get ready and far enough along that you think you can - of doing something -- if you want to -- if you'll ask me formally why then I'll tell you formally.

E.: Yes, but, well I want to talk to you informally first, then.

H.M.Jr.: O. K. Well then --

E.: You see what I mean?

H.M.Jr.: Well, whenever you're ready I'll talk to you.

E.: Yes

H.M.Jr.: I'm walking down - tomorrow's Thursday, with Henry Wallace - why don't you walk down with me Friday?

E.: Friday? All right.

H.M.Jr.: You get up that early? - it's eight fifteen --

E.: Well, I can - but I don't usually. I tell you what we ought to do, though - it's going to take -- it's going to take - there's several things I want to talk to you -- one is this matter of calling these notes in.

H.M.Jr.: Yes

E.: And the other is, of course, this open market and --

H.M.Jr.: Well, do you want to come over Friday morning?

E.: Well, or before, because if we are going to do anything on this open market it ought to be done pronto.

H.M.Jr.: Well -

E.: I mean, on this reserve requirement.

H.M.Jr.: How about three o'clock tomorrow afternoon?

E.: That will be better I think.

H.M.Jr.: Three o'clock?

E.: Let's make it three o'clock tomorrow.

H.M.Jr.: O. K.

E.: All right, then.

H.M.Jr.: Thank you. Goodbye.

November 7th

Mr. Eccles discussed with Mr. Morgenthau excess reserves. Eccles thinks that the Board would vote for increase in reserves by 25% if it was put to them now.

Eccles is going to tell the Board that H.M.Jr's reasons for not doing it are that he wants to see what will happen in regard to:

A. The Bonus

B. The Budget

C. The War in Europe

That the matter of months is not vital and that he wishes to wait until after February 1st, when the new Board comes in.

November 7, 1935

Oliphant, Haas and Lochhead came to the house last night and brought with them a substitute for the original Number 5. (See Exhibit I attached.) Oliphant had been over to see Phillips and Hornbeck and Feis, and they had no suggestions to make.

After discussing the matter at considerable length, I called up the President who, before I could get on the Chinese question, congratulated me on electing a supervisor in East Fishkill. He was in a grand humor and bubbled over with laughter.

I read this new section to him and he redictated it to Grace Tully, who evidently was there with him. The President said, "I wish to make purely a snap judgment -- I think you ought to have some sort of a qualifying memorandum to accompany this which would explain the purpose, so that if it is given to the public, this qualifying memo would be given out at the same time." He dictated to me over the telephone the memorandum attached. (See Exhibit II.)

After considerable discussion, we decided that the President's suggestion was not so good and Oliphant dictated a memorandum. (See Exhibit III.)

We then sent for the First Secretary of the Chinese Embassy and gave him the new Section 5. He quite frankly admitted that he did not know what it was all about and said he would telephone Sze that evening at 11 o'clock. We have since been informed that they would do nothing about it until Sze returns on Friday. I did not give the First Secretary the qualifying memorandum because I thought it was useless.

11-7

Exhibit I

B.

5. That a definite ratio between the yuan and the dollar be fixed by the Chinese Government; and that its currency be redeemable in that number of grains of gold or silver (at the holder's election) which, at the United States monetary values of these metals at the time of such redemption, would be worth the corresponding number of yuan at such yuan-dollar ratio.

7.H.R

Exhibit II
31

These means for
xample that if
the yuan redemption
basis is changed
in China by action
f Chinese Gov.t or otherwise
n such event the yuan
would be redeemable
in the same gold ~~[illegible]~~ and
silver as the $. at the
time of the issuances of
the paper yuan.

Exhibit III 32

Our interpretation of this statement known as #5 is that it does not suggest that the chinese Gov. shall fix the $— yuan ratio from time to time or that it shall fix the ratio and not change it.

X-O

November 7, 1935

Mr. Bewley, Financial Counselor of the British Embassy, came in to see Mr. Morgenthau at a quarter to four. He said, "On this question of silver at Hong Kong, the Chinese Government has decided to abandon silver." British officials are afraid that if the Chinese abandon silver, they will have to do the same thing.

He said that if the Chinese abandon silver, Hong Kong would go on a managed paper currency or else link up with Sterling. They will want to sell the silver reserve they have. The amount of silver that they have he did not know, but after a preliminary estimate they figured it to be about 100,000,000 fine ounces. This is in Hong Kong. Mr. Bewley wanted to know whether the United States would buy the silver direct or whether it should be put on the market.

Mr. Morgenthau replied, "I appreciate the direct way in which you have presented your problem. What I would like to know is this, 'Do you represent the British Treasury or the Foreign Office'?." Mr. Bewley answered, "I represent them both. When I am in London, I am paid by the Treasury. When I am here, I am paid by the Foreign Office."

The Secretary then asked Mr. Bewley this question: "If we bought your entire reserve, what kind of currency would be issued?", and Mr. Bewley said, "We were told that no definite decision has been made as yet."

"I want to ask them a question," Mr. Morgenthau said. "Provided we took this silver, would they be willing to tell us what their program will be?" And Mr. Bewley replied by saying, "It is a fair question."

Mr. Morgenthau related to Mr. Bewley that Leith-Ross had told Ambassador Johnson that the Chinese did this on their own and that he had had nothing to do with it. He said, "Before we make a move, I want to know what your currency program is in Hong Kong. This is the first time that there has been any indication on the part of the British Treasury that they want to cooperate with the United States Government and it is very welcome."

Mr. Bewley defended the attitude of his Government by saying that he did not think there had not been any desire not to cooperate. "On stabilization we do not see eye to eye."

Mr. Morgenthau said, "In cooperation, the exchange of information is the first basis of cooperation. All of our money that we have in London is on deposit with the Bank of England. Every time we buy or sell, you people know about it. While the Supreme Court was making up its mind and we operated so heavily in Sterling, you people knew every day what we were doing. We always first notified you what we were doing. I have been so careful that whatever I have done in London, the Bank of England has always been notified. We have never done anything erratic. When the £ was falling off rapidly in that period, we purchased a large amount of Sterling, but we were very careful in disposing of this Sterling and stretched out the sale for somewhat over three months in order to avoid any disturbance in the market. I am just mentioning this because I feel the fact that you did not know this, probably your Treasury does not know it either. If I want to find out what the British stabilization fund is doing I have to go to the Bank of France and they tell me. I think we have done our part when we have kept our dollars in the Bank of England."

Mr. Bewley said, "I will certainly report what you have said to me."

Mr. Morgenthau told Mr. Bewley that, "What we are trying to do is to stabilize a three-point situation, which is London, Paris and New York, and the very basis of that is the exchange of information. I never would ask for it, because I did not want to be rebuffed. Having you here, I thought I would talk to you about it."

Mr. Bewley told the Secretary that Leith-Ross said that we all ought to send experts to Shanghai. To which Mr. Morgenthau replied, "I would not send one of our experts to have him crucified over there. I will not go any further other than to say what I said before. Before I can answer you I would like to know whether they would care to let me know what the currency program in Hong Kong will be." Mr. Bewley said that Hong Kong would not want to sell all the silver to the United States in bulk, but would want to separate the sales and ship it over a period of six months. He said the Hong Kong Bank was not in on this deal at all. It is practically the English Government.

Mr. Morgenthau told Mr. Bewley that he was here for the week-end and would not mind being bothered on this thing which is so critical.

* * * * *

Following Bewley's departure, HM,Jr. called in Haas and Oliphant. He told them that the Hong Kong Government would like to know whether the United States Treasury would want to buy their silver reserve of 100,000,000 ounces or whether they should dump it on the London market; that in view of the Shanghai situation and Hong Kong being so close, they will have to be guided by Shanghai. HM,Jr. told the men that he had replied to Bewley, "If we do buy this silver, and if the question is a proper one, what is your program?". Bewley said it was a perfectly proper question.

Mr. Morgenthau told Haas and Oliphant that he gave Bewley his talk about exchange of information; that we got our information from Paris and nothing from them. Bewley said he did not know that we kept all of our money with the Bank of England and that every time we bought or sold they knew about it.

The Secretary then consulted with Haas and Oliphant and said, "Suppose I let silver drop 5 cents a day. What happens to the Hong Kong Government? What happens to the Chinese Government? They will have nothing to figure on. I will take care of the Mexican silver and any other silver where there is production. We then live up to the London Agreement, but I will not take care of Hong Kong or Chinese silver." He said, "I can pretty nearly prove that two or three large mining corporations know several senators. One big official in a mining corporation said that they know everything we are doing; that they learn it directly from the senators every time we do something on silver. If that is true and we take care of the big producers in Peru, Chile, etc., then they have nothing to worry about. If Hong Kong will not work with us, then we will just drop the price of silver and punish them. We will say that we will offer to buy all newly-mined silver at 65 cents and withdraw any other offers. Thus the price will drop in London on Chinese silver."

November 7, 1935.
Thursday

The following is a transcript of my conversation with Key Pittman today on the silver situation.

H.M.Jr.: Hello - Hello

Key Pittman: Hello

H.M.Jr.: Key?

P.: Yes

H.M.Jr.: How are you?

P.: Pretty good.

H.M.Jr.: This is Henry Morgenthau.

P.: Yes

H.M.Jr.: - Must be pretty early out your way?

P.: Yes

H.M.Jr.: Key, I want to tell you what we've been doing.

P.: Yes

H.M.Jr.: Can you hear me all right?

P.: Fine -

H.M.Jr.: This thing with the Chinese has been running along now for about ten days, see?

P.: Yes

H.M.Jr.: And they originally came to me and wanted -- of course what I am telling you is very confidential -

P.: Yes

H.M.Jr.: - They wanted us to buy a hundred million ounces of silver, and I told them that we'd have to know what their financial program was, see?

P.: Yes

H.M.Jr.: Well, then they came back and told us about what they proposed to do but didn't tell us how much they were going to devalue or anything like that, you see?

P.: Yes

H.M.Jr.: So - we told them this, that any move that we made that they'd have to tie the yuan to the dollar.

P.: Yes

H.M.Jr.: -- that that was our main interest. They'd also have to promise us that any money they got for silver would be used only for stabilization and not to buy munitions, you see?

P.: Yes

H.M.Jr.: - And that they'd have to keep the money here in America.

P.: I see.

H.M.Jr.: Well, this has been going on day and night, and up to now they've agreed to everything except that they'll tie their money to the dollar.

P.: Yes

H.M.Jr.: And the last time I saw them was about ten o'clock last night. Now, as I told them - they're playing poker in the world's market, but they haven't got any chips.

P.: Yes

H.M.Jr.: - And that we'd be glad to furnish the chips if they will tie their money to ours, but if they are going to tie it up to sterling we're not interested.

P.: Yes

H.M.Jr.: Now, how does that sound to you?

P.: Fine, that sounds all right to me.

H.M.Jr.: What suggestions have you got?

P.: Well, - I'd suggest that

H.M.Jr.: Yes

P.: And you know how to play the game as well as I do.

H.M.Jr.: Well, I don't know that, but at - but I can't see why we should buy such a large block and have them use the money to stabilize their currency with sterling.

P.: No, I don't see why they couldn't still have gold.

H.M.Jr.: What's that?

P.: I don't see why they couldn't still have gold and stabilize with the pound sterling right now.

H.M.Jr.: No - Now here's this suggestion, I mean, we've made a suggestion that their money should be redeemable either in gold at thirty five dollars an ounce or silver at one dollar twenty nine. - In other words that they be definitely tied on the same basis as we are.

P.: Yes

H.M.Jr.: You see?

P.: Yes - Well, I think that's quite a fair proposition to them.

H.M.Jr.: And I told them that I thought it was good for China and it would be good for us, and if they did that that they'd have every chance of pulling themselves out.

P.: Yes

H.M.Jr.: - But that they couldn't go on bluffing the world when they had no money.

P.: They were trying to get their - I should say
they were
were they not?

H.M.Jr.: Well, they haven't got it, they've just been bluff-

P.: I know, but just the same they're trying to them.

H.M.Jr.: Yes

P.:

sterling.

H.M.Jr.: Yes - Well, they haven't got any loans and Leith-Ross has been in to see the American Ambassador, Johnson, and tells them that they've made no loans and the Chinese Ambassador here tells me that they have no promises of any loans - they just have a hopes.

P.: Well, I'd rather - I would rather myself

H.M.Jr.: Yes

P.: I'd loan them two hundred million, if necessary.

H.M.Jr.: Yes

P.: The amount for them provided they come to you at your own proposition.

H.M.Jr.: You mean - make them a loan or buy silver?

P.: No - I would, - I'd rather make them a loan.

H.M.Jr.: You would?

P.: About two hundred million or more - it's a safe proposition.

H.M.Jr.: Thank you

P.: They wouldn't find buyers for that silver

H.M.Jr.: Yes

P.: Two hundred million

H.M.Jr.: Yes

P.: Of silver provided you understood that, you could control that - the gold in some way.

H.M.Jr.: Yes

P.: Either in this country and earmarked for their sale

H.M.Jr.: Yes

P.: At just the right time

H.M.Jr.: But, but you agree with me, the fundamental principle that I am fighting for is that they must tie their money into the dollar.

P.: Undoubtedly -

H.M.Jr.: - And if they are going to tie it up with sterling, then let the British finance them.

P.: Yes

H.M.Jr.: Is that right?

P.: I think so - I think you're perfectly right on that, Henry.

H.M.Jr.: Yes - Well, I wanted to tell you absolutely in confidence what I was doing, and if there is any change one way or the other I'll let you know.

P.: I wish you would - I'd appreciate it very much indeed.

H.M.Jr.: But, for the last five days that's all I've been doing and I talked to the President once or twice every day - he's keenly interested -

P.: Yes

H.M.Jr.: And he feels that if we could do this thing it would be a great thing for the United States and for the World Peace - because it would be stabilizing another currency.

P.: Yes

H.M.Jr.: And he's keenly interested and he's watching it very closely.

P.: Well, I'd like to keep in touch with it, Henry.

H.M.Jr.: What's that?

P.: I'd like to keep in touch with it - I'll be right here for the next two days.

H.M.Jr.: Well, if there's any change - I'll let you know, but, the Chi -

P.: I was out to the mountains yesterday.

H.M.Jr.: What's that?

P.: I was out to the mountains yesterday and didn't get in until last night.

H.M.Jr.: Well, I wish I was out there with you.

P.: It's quite nice out there.

H.M.Jr.: I'll bet you.

P.: All right, Henry.

H.M.Jr.: Goodbye

P.: Goodbye

November 7, 1935.
Thursday

Randolph Burgess

H.M.Jr.: Dr. Burgess?

B.: Yes, sir.

H.M.Jr.: Morgenthau -

B.: Yes, sir.

H.M.Jr.: Look, Burgess, I was looking over our Postal Savings thing -

B.: Yes

H.M.Jr.: And I find that we've got eight million cash.

B.: Yes

H.M.Jr.: And they've got a hundred million dollar note. I think we ought to sell about - go ahead with that program that Jeff laid out -

B.: On the --

H.M.Jr.: - of selling those three per cent forty-six forty-eight.

B.: All right, yes.

H.M.Jr.: Now the price he gave you was a hundred and two -

B.: Twenty-six

H.M.Jr.: Twenty-six

B.: Yes

H.M.Jr.: Well, I'd leave it there. I don't want to sell more than three million in any one day.

B.: Yes, I see.

H.M.Jr.: I don't want to sell more than three million dollars in one day, though.

B.: Yes - yes

H.M.Jr.: See?

B.: Yes

H.M.Jr.: So, will you take that please?

B.: All right, sir, yes - I'll do that

H.M.Jr.: All right

B.: Yes, sir

H.M.Jr.: Thank you

B.: - Goodbye.

November 8, 1935.
Friday

The following is a transcript of my conversation with Key Pittman today on the silver situation.

H.M.Jr.: Hello

P.: Yes, hello

H.M.Jr.: Henry Morgenthau

P.: This is Pittman.

H.M.Jr.: Good morning

P.: Good morning

H.M.Jr.: Key, I got your telegram, see? Hello -

P.: Yes

H.M.Jr.: And I've read it with great interest. Now, since then there are other things - have happened - again very confidentially. The Hong Kong people have sent a message to us, officially, wanting to know whether we'd buy a hundred million ounces of their silver reserve. Hello -

P.: Yes

H.M.Jr.: Now, we're working on this whole thing and I just wanted to know if the next day or two you are going to be available on the telephone.

P.: Yes, I'm going to be in Los Angeles at the Ambassador Hotel.

H.M.Jr.: Los Angeles?

P.: Yes

H.M.Jr.: When do you get to Los Angeles?

P.: Yes

H.M.Jr.: I mean, when will you get there?

P.: I'm expecting to be there on Saturday night.

H,M.Jr.: That's tonight?

P.: Saturday night. No, I'll be here tonight.

H.M.Jr.: Oh, you'll be here tonight and you're flying to Los Angeles tomorrow?

P.: I'm going to Los Angeles tomorrow.

H.M.Jr.: Then you'll be at Los Angeles for how long?

P.: At the Ambassador Hotel for about three days.

H.M.Jr.: Well, that - that's all right.

P.: Yes

H.M.Jr.: Now, I haven't talked to anybody else on your committee, see?

P.: Yes

H.M.Jr.: - And so I've only talked to you. You're the only person outside of the Treasury and of course the President that I've discussed this with.

P.: Yes

H.M.Jr.: But, I -- my interest is the United States Government first, you see? - And I'm trying to figure out what's best for us.

P.: Yes

H.M.Jr.: And I don't know yet, but I want to keep in touch with you.

P.: I see

H.M.Jr.: But, I thought yesterday that the British were pretty bold when they came in and said, 'Are you going to take this or do you want us to dump it on the market?'

P.: If they dump it why doesn't it come in?

H.M.Jr.: Well, of course it would.

P.: Let it come in, but it would come

why, let them bring it in

H.M.Jr.: Yes, but look, what they are talking about is - going on entirely a paper basis -

P.: Well, I understand, but - what if they do go on a paper basis?

H.M.Jr.: Well, then let's say India goes next.

P.: Well, suppose they do. I don't believe anything of the kind.

H.M.Jr.: Well -

P.: If they do, let them do it and see what will happen.

H.M.Jr.: Well, then - then

P.: everything as if they were playing a strong game of poker.

H.M.Jr.: Well, that's what we want and we - I want to out-bluff them if I can.

P.: But I think they're playing poker, Henry.

H.M.Jr.: Well, I want to out-bluff them, but I don't know - and - I want -

P.: They think that they'll have a revolution in India if they start that.

H.M.Jr.: Yes

P.: They just can't do it in India.

H.M.Jr.: Yes

P.: Well, I don't you can't do anything about it.

H.M.Jr.: No, Well, I'm not going to make any move until I talk to you first.

P.: All right.

H.M.Jr.: Thank you.

P.: Goodbye.

November 7, 1935

Bell came in and told the Secretary that Farm Credit Administration wants to sell $50,000,000 2-3/4% 1942-47 Federal Farm Mortgage Corporation bonds at par or better. HM,Jr., approved.

November 8, 1935

HM,Jr. called in Oliphant, Haas and Lochhead and discussed with them the attached memorandum which had been prepared as a basis of his talk with the President this morning and on which the President had said he wanted the Treasury's reaction before 12 o'clock today.

Oliphant said the matter was too serious to be disposed of in two hours and the Secretary thereupon telephoned the President and told him the matter had been discussed in the Treasury but we were of the opinion that to give an answer by noon the same day would be too hasty and that further consideration should be given to the subject. He told the President that he thought the earliest it was possible to give an answer after serious consideration would be in twenty-four hours. The President gave his approval to the delay. The Secretary, Oliphant, Haas and Lochhead will see the President tomorrow afternoon to discuss the memorandum with him.

1st draft
Pres to 6 c 11 pm
on 9:30 the am

November 8, 1935

With the uncertainty of the outcome of the recent move in China and due to the fact that it has been brought to the Treasury's attention that the British Government are considering changing their currency in Hong Kong and proposing to issue a paper currency without any silver or gold reserves and due to the fact that we are being offered silver in blocks of 100,000,000 ounces, the United States Treasury will, until further notice, continue to purchase newly-mined silver in the United States at 77 cents an ounce and newly-mined silver produced outside of the United States in North and South America at 65 cents in New York City. Based on 1934 figures there were produced in the world 187,855,000 ounces of silver, of which 143,624,000 ounces were produced in North and South America.

? At the London Economic Conference in 1933 it was agreed by 51 (or 55) nations that in order to stabilize world currencies it was deemed advisable that these nations should look forward to a currency backed by 25 per cent gold reserve and silver.

At this moment, it looks as though a move to abandon metallic reserves is about to be abandoned ? in China and we are fearful that this may spread to India and other silver using countries.

The United States Treasury does not wish to be a party to this crime and, therefore, until we can see more clearly the outcome of the recent change in currency in China, we will refrain from buying the floating supply of silver in the world's market.

November 8, 1935

Ambassador Sze: I reported the conversation of Wednesday and got a reply this morning. They also got your substitute No. 5. Kung is very sorry that he is not able to say at the present moment that the currency will be linked to anything on account of our external political situation.

Mr. Morgenthau: The way the thing stands, as far as No. 5 goes and substitute No. 5, I understand that he cannot do anything at this time.

Ambassador Sze: At the present time, he cannot commit himself. He wants to know whether you would be willing to buy silver without tieing the yuan to the dollar.

Mr. Morgenthau: He does not say that he will not do No. 5?

Ambassador Sze: If he now linked it to any particular currency, he will have another disturbance.

Mr. Morgenthau: I will have to think it over. I cannot give you an answer at this time.

Ambassador Sze: Kung says he is doing his best. If he saw a way, he would do it. He appreciates your cooperation.

*****

The Ambassador left. Mr. Morgenthau asked Lochhead, who had been present when the Ambassador met with the Secretary, to remain and HM,Jr., also called in Oliphant and Haas.

Mr. Morgenthau told the group that "as far as I am concerned, the thing that none of us has mentioned here and the thing that I am terribly proud of is that for a year and a half, the dollar has been stable. This has a great deal to do with our recovery. We do not want to "rock the boat" any more. On the other hand, we do not want to find ourselves with several billion ounces of silver and no one interested in buying silver except ourselves. We have the choice of (a) making another important monetary move, which at this time I consider most undesirable, (b) taking this silver in London at the present price of 65-5/8 cents, or (c) dropping the price every time the offering of silver gets too heavy, or (d) gradually dropping the price to a level where it no longer would be profitable for the Chinese to export silver.

Mr. Oliphant was of the opinion that none of the above mentioned moves would be inconsistent with our monetary policy today or with what the President has said or with what we have done.

Mr. Morgenthau told the group that "Inasmuch as Sze informed me, this afternoon, that at this time they considered it impolitic to tie the yuan to the dollar, I think before making any decision, we must wait to hear from the British financial attache Bewley. In the meantime, nothing new is happening from day to day and there is no real pressure on us to make up our minds, except from Ambassador Sze and Bewley. If we can get away with it politically at this moment, I think the nicest "out" would be to drop the price to around 40¢, which I understand is the present level on which there would be no profit to export silver from China. I want you to keep in mind that it is my opinion that it would be to the best interest of England to get all of the Orientals and Indians to using paper money with no backing of silver, and the present Chinese move is in that direction and if Hong Kong should follow Shanghai, it would not be long before India would also make the same move and we would be left "holding the silver bag."

November 8, 1935

When Judge Hoyt conferred with the Secretary, on November 1, it was decided that Judge Hoyt should write a letter to Mr. Morgenthau in which he would formally request the appointment of a general counsel and twenty additional inspectors for the new Federal Alcohol Control Administration. He wrote this letter under date of November 1 and copy is attached hereto.

HM,Jr. instructed McReynolds to handle the matter. McReynolds wrote a memorandum to Bell, Acting Director of the Bureau, on the same date. Copy of the memo is attached.

Acting on the recommendation of McReynolds, Oliphant and Bell, HM,Jr. today sent to the President his views and a copy of that memorandum is also attached.

(COPY)

November 1, 1935

My dear Mr. Secretary:

As suggested by you at our conference this morning, I wish to set forth the two matters that I consider of particular importance at this time.

I understand that it is agreeable to you for me to appoint a General Counsel at this time. I have already given you the name of Mr. Phillip E. Buck. Mr. Buck has been recommended to me by Dr. Willard L. Thorp and Mr. Golden W. Bell, both of whom were Members of the Board of the former Federal Alcohol Control Administration. They have worked with Mr. Buck during the past year and are personally familiar with his ability and qualifications. Mr. Buck is at present detailed to the Federal Trade Commission from the NRA where he was formerly in charge of the Litigation Division, with a staff of approximately one hundred and fifty attorneys. I sincerely trust that I may be able to act promptly in respect to Mr. Buck's appointment. The salary of the General Counsel of the former FACA was $10,000. I have suggested, and ask your approval of, a salary of $9,500 per annum for the General Counsel of this Administration.

In order to administer the new Act effectively, it would appear that a total staff of one hundred andninety employees should be authorized at this time. This would permit a general strengthening of our organization, especially in our enforcement activity as this arrangement will permit the appointment of twenty additional investigators needed in the field to report violations. This should not be further delayed as the industry will be quick to detext laxity in enforcement of the new law. Suitable personnel has already been chosen and we are ready to proceed with the building up of our staff to the one hundred and ninety figure basis as soon as the necessary authorization has been provided. Several vacancies on our staff which should have been filled will also be provided for under this arrangement.

As I have mentioned before, the contemplated staff is no larger than that employed a few months ago by the former FACA. With such a staff I believe that I can get results that will be satisfactory both yo you and the President.

Cordially yours,

(Sgd) Franklin C. Hoyt,
Administrator

The Honorable
The Secretary of the Treasury

(COPY)

TREASURY DEPARTMENT

Inter Office Communication

Date Nov. 1, 1935

FROM: Mr. McReynolds

To: Mr. D. W. Bell

I transmit herewith a letter from Hon. Franklin C. Hoyt, Administrator of the Federal Alcohol Administration, requesting the appointment of a general counsel at $9500 a year, and additional inspection personnel.

In view of the fact that no funds were provided by Congress for the Federal Alcohol Administration and that the salaries of the employees of that administration are being paid from emergency funds allotted to the Treasury Department on the theory that they are on detail, it is my opinion that the Department may not legally appoint the additional employees requested by Judge Hoyt, and that to do so would place the Treasury Disbursing Officers in a position where the Comptroller General would almost certainly disallow any payments made on account of such salaries.

Therefore, I can only recommend adversely on Judge Hoyt's request for the technical reasons stated. This is done without any regard whatever to the merits of Judge Hoyt's proposals. I might add, incidentally however, that the Treasury could not approve the salary for the proposed general counsel for the Federal Alcohol Administration as high as that suggested by Judge Hoyt.

(Signed) Wm. H. McReynolds.

(COPY)

THE SECRETARY OF THE TREASURY

WASHINGTON

November 8, 1935

MEMORANDUM FOR THE PRESIDENT:

I am sending you herewith a letter dated November 1, 1935, from Judge Hoyt in which he requests the appointment of a general counsel and twenty additional inspectors for the new Federal Alcohol Administration which was recently set up as a division in the Treasury Department. You will recall that Judge Hoyt's organization is one of the units for which funds were carried in the last Deficiency Appropriation Bill, which failed of enactment by the last Congress, and that as an emergency measure arrangements were made to pay the salaries of the employees taken over by Judge Hoyt from the old Federal Alcohol Control Administration from other Treasury funds pending the provision of direct appropriation by Congress.

I am advised by my General Counsel that no money available for expenditure by the Treasury Department may be legally used to employ the additional personnel requested by Judge Hoyt. Furthermore, it is my opinion that it would be undesirable for this new division to undertake any expansion of its organization until its budget has been finally approved and funds approved by Congress.

If I have your approval, I should like to say to Judge Hoyt that while I am unable to supply the additional employees he requests, he may call on my office for such legal and investigational assistance as he requires, and that I will undertake to have such assistance rendered by the existing Treasury staff.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

THE SECRETARY OF THE TREASURY
WASHINGTON

November 8, 1935.

MEMORANDUM FOR THE PRESIDENT:

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Faithfully yours,

HMorgenthau Jr

FEDERAL ALCOHOL ADMINISTRATION
A DIVISION OF THE TREASURY DEPARTMENT

November 1, 1935

WASHINGTON, D. C.

My dear Mr. Secretary:

As suggested by you at our conference this morning, I wish to set forth the two matters that I consider of particular importance at this time.

I understand that it is agreeable to you for me to appoint a General Counsel at this time. I have already given you the name of Mr. Phillip E. Buck. Mr. Buck has been recommended to me by Dr. Willard L. Thorp and Mr. Golden W. Bell, both of whom were Members of the Board of the former Federal Alcohol Control Administration. They have worked with Mr. Buck during the past year and are personally familiar with his ability and qualifications. Mr. Buck is at present detailed to the Federal Trade Commission from the NRA where he was formerly in charge of the Litigation Division, with a staff of approximately one hundred and fifty attorneys. I sincerely trust that I may be able to act promptly in respect to Mr. Buck's appointment. The salary of the General Counsel of the former FACA was $10,000. I have suggested, and ask your approval of, a salary of $9,500 per annum for the General Counsel of this Administration.

In order to administer the new Act effectively, it would appear that a total staff of one hundred and ninety employees should be authorized at this time. This would permit a general strengthening of our organization, especially in our enforcement activity as this arrangement will permit the appointment of twenty additional investigators needed in the field to report violations. This should not be further delayed as the industry will be quick to detect laxity in enforcement of the new law. Suitable personnel has already been chosen and we are ready to proceed with the building up of our staff to the one hundred and ninety figure basis as soon as the necessary authorization has been provided. Several vacancies on our staff which should have been filled will also be provided for under this arrangement.

As I have mentioned before, the contemplated staff is no larger than that employed a few months ago by the former FACA. With such a staff I believe that I can get results that will be satisfactory both to you and the President.

Cordially yours,

Franklin C. Hoyt

Franklin C. Hoyt
Administrator

The Honorable
The Secretary of the Treasury

Memorandum of Call Made by Ambassador Sze upon Secretary Morgenthau

Saturday Afternoon, November 9, 1935

* * * * * *

Dr. Sze: Good afternoon, Mr. Morgenthau.

Mr. Morgenthau: Good afternoon, Dr. Sze. I have asked you to come down to my office regarding the proposed silver purchases we have been discussing the past week.

Dr. Sze: Yes.

Mr. Morgenthau: We have given this question considerable thought and notwithstanding the fact that you have not as yet given satisfactory answers to the proposals we made regarding the linking of the new Yuan currency to the dollar, we have decided to endeavor to do something practical in order to furnish you with some assistance at this critical period.

Dr. Sze: That is very nice of you.

Mr. Morgenthau: I will be willing to purchase 20 million ounces of silver from you at 65 5/8¢ per ounce when it has been delivered on board American Steamer at Shanghai, less expenses of delivery.

Dr. Sze: Can't you make it more than 20 million ounces?

Mr. Morgenthau: 20 million ounces is all for which I care to commit myself. I have talked this over with the President and he is in agreement. As you know, we are not asking you for any land or harbors or railroads, we are simply offering to buy 20 million ounces to tide you over the immediate situation. As to further developments, all I can say is the door is open so that they may be discussed when the time comes.

Dr. Sze: I will communicate this to Dr. Kung immediately. You know the question of shipping only on American boats came up in the form of wheat transactions and the American boats took advantage and raised the rates so that there was no profit left for us.

Mr. Morgenthau: Don't worry about that. We will see that the American boats only charge the regular freight on these shipments and if they attempt to take advantage, I will put it on a British, French or any other boat available.

Dr. Sze: What will be the exact charges to be taken from the 65 5/8¢ rate?

Mr. Lochhead: These will be the usual charges covering all expenses of delivery of the silver to the Mint at San Francisco. These details can easily be arranged later on through the regular channels.

Dr. Sze: You would prefer using the National City Bank for this transaction?

Mr. Morgenthau: No. It is simply that there are two United States banks in Shanghai and in order that there be no criticism or charges of favoritism we think the business should be done through both of them, and I think that this can be easily arranged.

Dr. Sze: Thank you very much for your kindness, and please convey my thanks to the President for his consideration and helpfulness.

November 9, 1935

This evening, at six o'clock, Mr. Hickerson of the State Department, came in to see the Secretary. Mr. Haas and Mr. Oliphant were also present.

Mr. Hickerson brought with him the general provisions of the proposed trade agreement with Canada which, he explained, were the standard and similar to the sort used in the Swedish agreement, the Brazilian agreement and the Colombian agreement. He said that Johnson of the Customs Bureau had been working with his Department on the provisions and rates; that the rates were in form to be initialed; that they would work on the description this week and be ready to sign the agreement about Thursday, November 14.

The Secretary told Mr. Hickerson he thought the President should be furnished with a table in connection with the agreement, which they did not have at Cabinet yesterday, showing the potential loss or gain in customs revenues, but Mr. Hickerson said that was impossible because "Only God himself knows." Mr. Morgenthau reminded him that in the Cuban agreement we had figures which showed a possible $23,000,000 loss in revenue.

Continuing, the Secretary said that on a big thing like this the President holds the Treasury Department responsible. He called attention to the figures given out on September 30 which showed that we are operating within 7/10ths of the President's estimated revenue and that Lew Douglas made the statement that it was pure "window-dressing" and made for purely campaign purposes, but it actually was an honest statement. He also called attention to the fact that if the President puts his signature on the proposed agreement it might throw the budget out $25,000,000. Mr. Morgenthau stressed the fact that he was interested in the agreement only as a fiscal officer of the Government and whether the President could be a good financial housekeeper and stay within his budget.

Mr. Hickerson said both the Secretary and the President had already given approval to the reduction in the tariff on whiskey, the President having done so in August. Mr. Morgenthau disclaimed any knowledge of it or that anyone in the Treasury would have acted for him in this respect. Mr. Hickerson said both Eli Frank, Jr., and Graves had cleared it; that at a meeting of the Trade Agreements Committee, Eli Frank had reported that the Secretary of the Treasury had some doubts about it, but now that smuggling was well bottled up, he saw no objections to going ahead.

Mr. Morgenthau reminded Mr. Hickerson that the Treasury had a potential $50,000,000 which it hoped to collect in a claim from Canada on back taxes and was worried what effect the proposed reduction would have on the outcome of the claim. He said that every fancy lawyer in New York and Washington had been hired to put this over and all sorts of heavy pressure brought to bear and again said this was the first he knew of the contemplated reduction. He refused to take the responsibility for the loss of the claim until after the Treasury Department and Justice Department had had a chance to study the matter and until he talked to the President. Mr. Hickerson said that in this Canadian work the State Department had had in mind the Treasury's effort to collect the back taxes and had looked at it with the greatest sympathy and, considering it from every angle, they could not see that it would affect the Treasury's efforts in one way.

Secretary Morgenthau at this point talked to the President on the 'phone and expressed his fears about the outcome of the Government's claim for back taxes as it might be affected by the agreement and the President said, "Initial with the understanding that it is subject to confirmation in 48 hours." This was agreeable to the Secretary and Mr. Hickerson.

The State Department representative apoligized to Mr. Morgenthau for not bringing the matter to his attention and for the misunderstanding concerning his not knowing of the proposed reductions. The Secretary told him it was quite likely in his own shop, but that neither Secretary Hull nor Mr. Phillips, in his talk with them yesterday at the luncheon in honor of the new Prime Minister of Canada, had any knowledge that whiskey was involved. Mr. Morgenthau expressed his sincere desire to cooperate with Mr. Hull and Mr. Hickerson gave Mr. Morgenthau his personal assurance that in the future he would submit to him personally any trade agreements under consideration.

Mr. Morgenthau promised to let Mr. Hickerson have his opinion on the agreement before noon, Monday.

November 9th

President: Well, what have you brought me today?

Mr. Morgenthau: Since I talked to you yesterday morning I have altered my ideas somewhat regarding the plans for the purchase of silver. We have done a great deal of work since yesterday morning and have given the problem considerable thought. Mr. Oliphant has prepared this file which contains the extracts from all your speeches and messages covering everything you have said which bears on our monetary policy and the Silver Program. He has also prepared this summary of the monetary program and its objectives.

Mr. Oliphant: I feel that any action that we may take at this time should be consistent with your statements of monetary policy.

Mr. Morgenthau: Yesterday morning the idea was considered of buying only the newly mined silver, but there are one or two other alternatives which we have thought out that I would like to have your opinion on.

President: Well, what is the first one?

Mr. Morgenthau: China has asked us to purchase 100 or 200 million ounces of silver and now Hongkong has also asked if we are prepared to take their silver. This

Mr. Morgenthau: (Cont'd.) means that they are willing to give up silver as a monetary base and that is not in accordance with the idea of a wider use of silver as one of the objectives of our silver plan.

President: Have you heard anything further from Dr. Sze?

Mr. Morgenthau: Yes. He called yesterday afternoon and said that Dr. Kung could not give any promises as to linking the Chinese Yuan to the United States Dollar.

President: Did he give any reasons?

Mr. Morgenthau: Yes. He said that owing to political pressure they could not announce the linking of the Yuan to any other currency and simply repeated that they were stabilizing it at the present level.

President: Internal or external pressure?

Mr. Morgenthau: External pressure. The Japanese.

President: This Evening's Star says that the Japanese have made the statement that they were not consulted regarding the change in the Chinese monetary system and seem to feel that the British are behind it.

Mr. Morgenthau: Yes. I have already seen that statement and it ties in with other information of the same nature which we have received through various other sources.

The President: Do you think the British knew that the plan was going to be announced or were behind it?

Mr. Morgenthau: Leith Ross says that the Chinese announced the plan before consulting him, or as he expressed it, they "beat the gun".

Mr. Lochhead: That may be true, but there is no doubt that Leith Ross has been working with the Chinese on some plan of currency reform and the plan which they have announced is apparently along the lines which the British had in mind.

The President: Did the Chinese say why they announced the plan so suddenly?

Mr. Lochhead: You will remember, Mr. Morgenthau, that last Sunday Dr. Sze telephoned and stated that he had a wire from Kung stating that the political situation was so acute and the withdrawal of

Mr. Lochhead: (Cont'd.) silver so serious that they could not delay making their announcement beyond Monday morning.

Mr. Morgenthau: The British plans were evidently prepared with the idea of inducing the silver using countries to give up the use of silver as a monetary metal. If they can induce China to adopt a plan which does not make use of silver, Hongkong will also follow the same procedure, and then with this accomplished, their difficulty regarding the silver situation in India would be simplified and they would also ? be able to eliminate the use ? of silver there also. ? This is certainly contrary to the thought of broadening the use of silver as a monetary metal, but is apparently what they would like to accomplish.

The President: But the Chinese do not state what they are tying their Yuan to.

Mr. Morgenthau: They have simply said that they are going to stabilize their currency around the present level, which is 30¢, or 1 shilling, 2 1/2 pence, and will buy or sell this exchange to maintain this level.

The President: They cannot tie their currency on two entirely different currencies such as the United States Dollar and the pound sterling.

Mr. Lochhead: They perhaps have left this question open purposely so as to maintain a trading position and thus be able to play Britain and the United States, one against the other, in order to secure whatever advantage might be obtained thereby.

Mr. Morgenthau. I think I told you that the State Department has informed me that the tie-up of the Chinese Yuan to the U. S. Dollar is not a necessary point from their standpoint.

Mr. Haas. One thing we have to consider is this: If we persuade China to tie their currency to the dollar and anything goes wrong in China due to the failure of their currency reform, they will no doubt attempt to blame the United States.

Mr. Morgenthau: The Hongkong Government declared an embargo on the export of all silver effective at noon today, but this embargo was just too late to prevent a shipment of about 15 million ounces made by the Hongkong & Shanghai Banking Corporation.

Mr. Morgenthau: One way to prevent China and Hongkong from selling their silver is to allow the price to decline to around the 40¢ level. This would make their paper Yuan, if maintained at the present level of 30¢, worth as much as silver. In other words, there would be no premium on the silver as against bank notes, and neither China nor Hongkong would find any advantage in selling their silver. When the price of silver was going up rapidly, some little time ago, Mexico approached us and asked for time in order to prevent a drain of silver out of the country. As a consequence we withheld our purchases and threw open our Mints so that they could have new coins made which had a silver content equal to the U. S., that is to say, on a basis of $1.29 an ounce. This proved very successful and as a result there was no large outflow of silver from Mexico.

Mr. Oliphant: It is too early to say whether or not they have been successful in substituting paper money for silver in Mexico. They have probably succeeded to some extent in the large cities, but the peons and others who make up the great mass of Mexico's population

Mr. Oliphant: (Cont'd.) will probably be very reluctant to give up the use of hard silver to which they have been accustomed for years past.

Mr. Morgenthau: If we allow the price to go down to 40¢ for the time being, this would give China a breathing spell and then when their house was in order the price of silver could again be advanced.

Mr. Haas: What advantages would China obtain if the price of silver was held down to the 40¢ level?

Mr. Lochhead: The new Central Bank would probably be able to obtain a considerable amount of silver from the outlying districts if there was no premium against bank notes. Otherwise this silver would probably be smuggled out. If the Central Bank of China had a large amount of silver as a result of an exchange against their new bank notes, they would look more kindly towards any later plan for an advance in the price of silver, as they would then be able to secure the advantage of this rise.

Mr. Morgenthau: This is only a temporary plan and would not tie our hands for later action. It would simply give China a breathing spell.

Mr. Morgenthau: (Cont'd.) I heard from Key Pittman again. He apparently has changed his mind somewhat since our last telephone conversation and does not seem to feel that we should refuse to buy silver if offered to us by the Chinese as long as we paid for it in credit or legal tender rather than actual gold.

Mr. Lochhead: If we made payment in credit or legal tender there would be no essential difference than paying for it in gold as they could buy gold in other markets at the present time at slightly better rates than the $35 plus 1/4% charged by the U. S., and could pay for the gold by drawing down their balances with us.

The President: One thing that has to be considered is that it may be easy enough to drop the price of silver but a very difficult thing to raise it once such action has been taken.

Mr. Oliphant: Whatever it is decided to do should not be accompanied by any publicity as that might cause uneasiness and lead to considerable discussion in the Press. It does not seem necessary to make any announcement of any kind at this time.

The President: No. This idea of dropping the price does not seem so good. What is your other idea?

Mr. Morgenthau: The other idea is to buy some silver from China but not necessarily 100 or 200 million ounces as they ask. They are having a very difficult situation over there at present and if we could give them some help it might at least tide them over for the time being.

The President: Have you ever considered the idea of a trade dollar? You know, if you go back 75 years or more you will find that there was a silver American trade dollar coined for use in China which was later supplanted by the Mexican silver dollar.

Mr. Oliphant: In order for such a trade dollar to be of any real use, the price of silver would have to be fixed. Otherwise, the value of the trade dollar would fluctuate constantly in response to the fluctuations in the price of silver.

Mr. Lochhead: One of the objections to the use of an American trade dollar is that the Chinese have been united for sometime past on the idea that they should have control over their own currency and have endeavored to standardize the unit of currency.

Mr. Lochhead: (Cont'd.) It was for this reason that they established the Yuan dollar and made the use of the various taels illegal. Any attempt to introduce a trade dollar containing a foreign imprint would probably arouse considerable opposition among the Chinese bankers and financial authorities.

The President: I would feel much better if these communications from China came from Dr. Soong rather than Dr. Kung. I have more faith in Dr. Soong than I have in Dr. Kung.

Mr. Morgenthau: Dr. Soong is in complete charge of all these affairs and Dr. Kung only handles the details as Minister of Finance. I think that we may consider that all that is being done in China along monetary lines is with the full approval of Dr. Soong.

The President: An idea to be considered is one that would insure the physical distribution of both gold and silver reserves among the various nations of the world. In other words, settlements of trade balances by shipments of both gold and silver combined in some manner.

Mr. Oliphant: I have made a study of this subject requiring over six months time and in fact went so far as to have a sample coin made in the Mint. The idea of symmetalism appears to be entirely feasible, but of course in considering this subject careful study must be given to the ratio of gold and silver and to do this one has to go back over a period of say 100 years to study the relationship which probably can best be determined by ascertaining the amount of gold and silver produced during this period and fixing a relationship between the two metals in that proportion.

President: (Laughingly addressing Mr. Oliphant) William Jennings Bryan.

Mr. Oliphant: Of course you understand that my ideas on this subject are not emotional, the opinions I advanced being purely intellectual ones on my part. The relationship between the two metals as fixed by Alfred Marshall is nearer 20 to 1 than 16 to 1.

Mr. Haas: In making a study of this problem I have come to the conclusion that any ordinary country can independently adopt a symmetalism system successfully

Mr. Haas: (Cont'd.) and there can be no doubt that the United States, with its enormous gold and silver reserves, as well as of vast natural resources, could, if it wished, set up such a system with undoubted success. There seems to be sound economic justification for it and Marshall made quite a study of it back somewhere in 1890. However, at the present time the business picture in this country is very fine and everything is progressing satisfactorily. Any ideas of this nature expressed at this time might very well be untimely and cause a feeling of uncertainty, which would be most unfortunate. It might be possible at some future time to combine this idea along with the control of credit inflation and put them over together without disturbance.

President: This is only an idea which has occurred to me which I do not care to take any immediate action upon but simply want you to think it over as of possible interest. Suppose for instance some country had a favorable balance of trade with the United States.

Mr. Lochhead: Colombia, for instance.

The President: How was Colombia's favorable balance with the United States obtained?

Mr. Lochhead: Colombia sells practically all of her main export commodity, which is coffee, in the United States. She does not buy nearly as much U. S. products as would offset the proceeds of the coffee sold by her.

The President: Well, say, for example, that at the end of some period of time, say a year, or three months, or even one month, Colombia had a favorable trade balance with the United States of 10 million dollars. Suppose this balance was not settled from day to day, but was held up until the end of a stated period. At the end of that period we owe Colombia 10 million dollars. We might then say we intend to settle this balance by actually shipping you 10 million dollars consisting of both gold and silver. You will have to actually take this metal and hold it in your reserves. In this manner the actual metal would be distributed.

Mr. Lochhead: The difficulty in this specific case would be that, although Colombia has a favorable trade balance with us, she has an unfavorable trade balance with some other nations. Colombia could not keep this whole amount of gold and silver in her currency reserve as she is under the necessity of purchasing currency such as the pound sterling

Mr. Lochhead: (Cont'd.) and French Francs to settle her adverse trade balances with those countries. In order to obtain the sterling and francs it would be necessary for her to ship the gold and silver to those countries, or any other country where a market existed for these metals, and sell the gold and silver in order to obtain the foreign exchange necessary for settling her adverse trade balance with a particular country.

The President: Well, as I said before, this is only an idea which is not necessary to consider at the present time. (After this meeting Mr. Oliphant informed Mr. Lochhead that the example given did not entirely cover the case as only the balancing of one country's trade balance was discussed, whereas for a proper discussion, the question of settling trade balances between all countries would have to be considered.)
The question seems to settle down as to what is the best thing we can do at the present time to help China.

Mr. Morgenthau: They have asked us to purchase 100 million ounces and although I do not feel that we should agree to this amount, it does seem that we might be able to tide them over by agreeing to purchase, say, 25 million ounces.

The President: My idea would be 20 million ounces which we may consider as a bet on what may develop in the future. Yes, I think that is the best thing we can do. That is, to go along without making any radical changes in the price of silver and see what happens.

Mr. Lochhead: The thing I am afraid of for the immediate future is that Hongkong may force us to make a decision suddenly. They have offered to sell us 100 million ounces and have intimated that if we do not care to buy this from them direct, they will dump it on the London market.

Mr. Morgenthau: Well, I think we can take care of this.

Mr. Lochhead: Some morning I may give you an early telephone call to tell you that we have been offered 25 or 50 million ounces of silver and that we will either have to make up our mind to take it or let the market drop.

Mr. Morgenthau: It will not be the first time that you have telephoned me early in the morning, and they will not do anything radical in the London market without giving us time before they anncunce the fixing. If what you are afraid of occurs, we can very easily back away from the offerings if we think it advisable.

Mr. Morgenthau: I have a report here giving the details of some transactions covering various sales made by American concerns for export to Italy. Lochhead follows this up through a special man in the Federal Reserve Bank of New York so that we may have a picture of what is going on from time to time (This report was discussed in detail. The shipments covered mostly exports of gasoline and oil which were paid for immediately by the debit on the New York Banks' books of the account of Italian customers).

The President: The New York banks apparently do not extend any credit to the Italians for these purchases.

Mr. Lochhead: No. Aside from the ethical or moral questions involved, the banks do not consider credits to Italians a good business risk, especially in view of their previous experiences with Germany.

The President: Where do the Italians obtain their funds to pay for these purchases?

Mr. Lochhead: The balances of Italians on the books of New York banks have remained fairly constant around 11 million dollars despite payments for these purchases. The accounts are replenished from time to time, probably through the sales of gold by Italy.

The President: Do we buy any gold from Italy?

Mr. Lochhead: No. We have not received any shipments of gold from Italy but it is probable that Italy obtained New York funds by selling gold in Paris and securing their dollars in that market.

The President: When do the League of Nations sanctions go into effect?

Mr. Lochhead: November 18.

The President: Will they be able to sell gold to countries belonging to the League of Nations after the sanctions go into effect?

Mr. Lochhead: Yes. The purchase of gold from Italy is not prohibited by the sanctions, the thought being that the sale of gold by Italy would weaken her position.

The President: Well, we are building up a case.

THE ADMINISTRATION'S MONETARY POLICY

Everything the President has said on monetary matters, and everything the Administration has done in relation to money, group themselves around five basic propositions, which constitute the underlying and long-time monetary policy of the Administration. These five basic purposes are:

1. To restore commodity price levels;
2. Thereafter to establish and maintain a dollar less variable in its purchasing and debt paying power;
3. To use both silver and gold, on a co-ordinated basis, as a yardstick of value;
4. To increase the proportion of silver in the metallic reserves back of paper currency; and
5. To vest in the Government title to all monetary gold and keep it in bullion form.

Under these five headings, there are listed below extracts from the President's utterances on monetary matters and references to the various monetary steps taken by the Administration.

PURPOSE TO RESTORE COMMODITY PRICE LEVELS

Statements of This Policy

"The Administration has the definite objective of raising commodity prices to such an extent that those who have borrowed money will, on the average, be able to repay that money in the same kind of dollar which they borrowed. We do not seek to let them get such a cheap dollar that they will be able to pay back a great deal less than they borrowed." — Radio Address May 7, 1933.

"Finally, I repeat what I have said on many occasions, that ever since last March the definite policy of the Government has been to restore commodity price levels." — Radio Address, October 22, 1933.

"In conformity with the progress we are making in restoring a fairer price level . . " — Message to Congress, January 15, 1934.

Action Taken

Recommendation, passage, and approval of Thomas Amendment, May 12, 1933, authorizing decrease in the value of the gold and the silver dollar.

Devaluation of the dollar after a progressive increase in the price of gold to determine the best point at which to fix such devaluation. — January 31, 1934.

PURPOSE TO ESTABLISH LESS VARIABLE DOLLAR

Statements of This Policy

"Let me be frank in saying that the United States seeks the kind of a dollar which a generation hence will have the same purchasing and debt paying power as the dollar value we hope to attain in the near future."— President's Message to the London Economic Conference, July 2, 1933.

"When we have restored the price level, we shall seek to establish and maintain a dollar which shall not change in its purchasing and debt paying power during the succeeding generation. I said that in my message to the American Delegation in London last July. And I say it now once more. . . My aim in taking this step (raising price of gold) is to establish and maintain continuous control. This is a policy and not an expedient. It is not to be used merely to off-set a temporary fall in prices. We are thus continuing to move toward a managed currency." — Radio Address, October 22, 1933.

"Permit me once more to stress two principles. Our national currency must be maintained as a sound currency which, insofar as possible, will have a fairly constant standard of purchasing power and be adequate for the purposes of daily use and the establishment of credit." — Message to Congress, January 15, 1934.

"In conformity with . . . our purpose of arriving eventually at a less variable purchasing power for the dollar . . ." — Message to Congress, January 15, 1934.

"As a part of the larger objective, some things have been clear. One is that we should move forward as rapidly as conditions permit . . . in stabilizing the purchasing and debt-paying power of our money on a more equitable level." President's Message to Congress, May 22, 1934.

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"This objective of a greater steadiness (of prices and values) we have constantly kept before us as our national policy." — President's Speech to Bankers, October 24, 1934.

Action Taken

Recommendation, enactment and approval of various pieces of legislation giving the power to adjust the value of the gold and of the silver dollar up or down; to buy and sell gold and silver only in combination and at a fixed ratio of ounces if symmetallism is desired; and to provide for the unlimited coinage, or purchase and sale, of silver at a fixed ratio to gold if bi-metallism is desired.

PURPOSE TO USE BOTH SILVER AND GOLD AS YARDSTICK OF VALUE

Statements of This Policy

"We can proceed with this program of increasing our store of silver for use as a part of the metallic reserves for our paper currency without seriously disturbing adjustments in world trade. However, because of the great world supply of silver and its use in varying forms by the world's population, concerted action by all nations, or at least a large group of nations, is necessary if a permanent measure of value, including both gold and silver, is eventually to be made a world standard. To arrive at that point, we must seek every possibility for world agreement, although it may turn out that this nation will ultimately have to take such independent action on this phase of the matter as its interests require." — President's Message to Congress, May 22, 1934.

"Accordingly, I have begun to confer with some of our neighbors in regard to the use of both gold and silver, preferably on a coordinated basis, as a standard of monetary value. Such an agreement will constitute an important step forward toward a monetary unit of value more equitable and stable in its purchasing and debt paying power." — Message to Congress, May 22, 1934.

Action Taken

Recommendation, enactment and approval of various pieces of legislation giving power to buy and sell gold or silver separately or in combination and at any price and otherwise operate a monetary system under control of an index of prices.

PURPOSE TO INCREASE METALLIC RESERVES OF SILVER

Statements of This Policy

"Governments can well, as they have in the past, employ silver as a basis for currency, and I look for a greatly increased use." — Message to Congress, January 15, 1934.

"As part of the larger objective, some things have been clear. One is that we should move forward as rapidly as conditions permit in broadening the metallic base of our monetary system . . . Another is that we should not neglect the value of an increased use of silver in improving our monetary system. Since 1929 that has been obvious. . . Of the former class (of measures appropriate for independent action) is that of increasing the proportion of silver in the abundant metallic reserves back of our paper currency. This policy was initiated by the proclamation of December 21, 1933, bringing our current domestic production of silver into the Treasury, as well as placing this Nation among the first to carry out the agreement on silver which we sought and secured at the London Conference. We have since acquired other silver in the interest of stabilization of foreign exchange and the development of a broader metallic base for our currency. We seek to remedy a maladjustment of our currency." — Message to Congress, May 22, 1934.

Action Taken

This Administration took the leadership in London in securing the London Silver Agreement of July 26, 1933.

On December 21, 1933, the President issued a proclamation bringing the current domestic production of silver into the metallic reserves of the Treasury.

Recommendation, passage and approval of the Silver Purchase Act, providing for a metallic reserve one-fourth silver and three-fourths gold. — June 19, 1934.

Nationalization of silver — August 9, 1934.

PURPOSE TO TAKE OVER GOLD

Statement of This Policy

"Thereafter it is a prudent step to vest in the Government of our nation the title to and possession of all monetary gold within its boundaries and to keep that gold in the form of bullion rather than in coin." — Message to Congress, January 15, 1934.

Action Taken

Recommendation, passage, and approval of the Gold Reserve Act, vesting in the Government title to all monetary gold and providing for its being kept in bullion form. — January 30, 1934.

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October 24, 1934

TIME RIPE FOR ALLIANCE OF ALL FORCES INTENT ON RECOVERY

By Franklin D. Roosevelt, President of the
United States

I am glad to be here to-night at your invitation to speak to you informally about some of our common problems.

As many of you know by personal experience, it is not a new thing for me to talk with bankers. I have been seeing many of your number almost daily during the past year and a half, and let me make it quite clear that in these meetings I have not done all the talking.

I have been a good listener and I have asked many questions. I have found there is the striking lack of unanimity of opinion among bankers that characterizes many other groups in the country. It has been my purpose to seek out underlying agreement in the opinions that bankers have expressed.

A true function of the head of the Government of the United States is to find among many discordant elements that unity of purpose that is best for the nation as a whole. This is necessary because government is not merely one of many co-ordinate groups in the community or the nation, but Government is essentially the outward expression of the unity and the leadership of all groups.

Consequently, the old fallacious notion of the bankers on the one side and the Government on the other as more or less equal and independent units has passed away. Government by the necessity of things must be the leader, must be the judge of the conflicting interests of all groups in the community, including bankers. The Government is the outward expression of the common life of all citizens.

What is a bank and what are its relations with the people? Why do the people through their Government supervise banks? The people put their money into banks. They do this in order to protect it and in some cases to have it earn a small income.

It costs money to provide this service and, therefore, the banks are permitted to invest these deposits in order to pay their expenses and to provide a reasonable profit to their stockholders.

The public has no means of knowing whether the bank is making safe investments, so it turns to its Government to supervise the bank. Government has accepted this responsibility.

In its relation with bankers, the purpose of Government should be threefold. First, to promote the confidence of the people in banks and banking in view of the important service that banks and banking may perform for the people as a whole. Second, to make this confidence a real and living thing by assisting banks to render themselves useful and worthy of this confidence through wise supervision.

A third purpose now offers itself, and I wish with all earnestness to press this point to-night. Government should assert its leadership in encouraging not only the confidence of the people in banks, but the confidence of the banks in the people.

In March, 1933, I asked the people of this country to renew their confidence in banks. They took me at my word. To-night I ask the bankers of this country to renew their confidence in the people of this country. I hope you will take me at my word.

I need not recount the situation of the banks in the spring of 1933. I found that the restoration of banking activity itself was my first responsibility on assuming office.

It was necessary that the Government throw itself squarely into the task of bringing back to the banks the deposits of the citizens of the country. As a result of my appeal the people responded by restoring their confidence in the banks of the United States.

The primary purpose accomplished, it became necessary that the Congress and the Administration enact measures to build up the banking structure so that it could once more provide support for the economic life of the country.

Moreover, it had to be built and we built it strong enough so that it could resist future stresses and strains. The Government found it necessary to create and get under way new emergency credit agencies and to use to the fullest extent the already existing RFC.

These credit agencies moved with heroic energy, and it was a source of the utmost satisfaction to find that when the Federal Deposit Insurance Corporation went into operation the banking structure had regained a very considerable amount of its strength and its vitality.

I think it is only fair to say that never since the formation of our Government has such a task been achieved in so short a time. Happily, the present security of our banks bears witness to the wise course that we pursued.

I find almost general agreement among bankers that these agencies must continue until such time as the banks and other private credit agencies are themselves able and ready to take over these lending functions; and when that time comes, I shall be only too glad to curtail the activities of these public agencies in proportion to the taking up of the slack by privately owned agencies.

I venture to suggest to you that when the history of these years comes to be written, while the closing and the reopening of the banks will occupy a prominent place, even greater interest will be centered in the fact that within a few months not only was the banking structure strengthened but the great governmental lending agencies went into action and also saved from disastrous deflation, liquidation and loss a vast portion of the farms, homes, railroads and corporations of the nation.,

This definitely rescued the security and happiness of all of us.

Just as it is to be expected that the banks will resume their responsibility and take up the burden that the Government has assumed through the credit agencies, so I assume and expect that private business generally will be financed by the great credit resources which the present liquidity of banks makes possible.

Our traditional system has been built upon this principle and the recovery of our economic life should be accomplished through the assumption of this responsibility. The present steady and unmistakable revival of public demand for goods and services should provide the assurance necessary to the financing of industrial life.

The Government is bending every effort through the Treasury, the Federal Reserve System, the Reconstruction Finance Corporation, the Securities and Exchange Commission and the Federal Housing Administration to facilitate and encourage the revival of private investment.

I commend the objectives of the Housing Administration to your immediate consideration, but at the same time I ask you to note that all of these new agencies are seeking consultation and cooperation with you bankers.

While there lies before us still the necessity for large expenditures for the relief of unemployment, I think we should all proceed in the expectation that the revival of business activity will steadily reduce this burden.

I am gratified to know of the expressions of belief, public and private of your members that the speed that we shall make toward this objective is something that no one has the wisdom or the hardihood to estimate. This recognition reflects a growing appreciation of the problems resting upon a responsible Chief Executive.

With respect to international relationships, I have been glad to note the growing appreciation in other nations of the desirability of arriving, as quickly as possible, at a point of steadiness of prices and values.

This objective of a greater steadiness we have constantly kept before us as our national policy.

The fact that American business men and bankers are devoting more and more individual study and attention to the wider problems of our nation and of international affairs is manifesting itself in many ways. It seems to me that this is a very important development.

Let me make it clear to you that the Government of the United States has daily and even hourly contact with sources of information which cover not only every State and section of our own country, but also every other portion of the habitable globe. This information is more complete, informative and accurate than that possessed by any private agency.

I need not tell you that true wealth is not a static thing. It is a living thing made out of the disposition of men to create and to distribute the good things of life with rising standards of living. Wealth grows when men cooperate; but it stagnates in an atmosphere of misunderstanding and misrepresentation.

Here, in America, the material means are at hand for the growth of true wealth. It is in the spirit of American institutions that wealth should come as the reward of hard labor of mind and hand.

That is what we call a profit system. Its real fulfillment comes in the general recognition of the rights of each factor of the community. It is not in the spirit of partisans, but partners, that America has progressed.

The time is ripe for an alliance of all forces intent upon the business of recovery.

In such an alliance will be found business and banking, agriculture and industry, and labor and capital. What an all-American team that is! The possibilities of such a team kindle the imagination--they encourage our determination--they make easier the tasks of those in your Government who are leading it.

The nation does not merely trust or hope that we will do our duty--the nation is justified in expecting that we will do our duty.

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SILVER PURCHASE ACT OF 1934
(Approved June 19,1934)

SILVER PURCHASE ACT OF 1934

AN ACT to authorize the Secretary of the Treasury to purchase silver, issue silver certificates, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Silver Purchase Act of 1934."

SEC. 2. It is hereby declared to be the policy of the United States that the proportion of silver to gold in the monetary stocks of the United States should be increased, with the ultimate objective of having and maintaining, one fourth of the monetary value of such stocks in silver.

SEC. 3. Whenever and so long as the proportion of silver in the stocks of gold and silver of the United States is less than one-fourth of the monetary value of such stocks, the Secretary of the Treasury is authorized and directed to purchase silver, at home or abroad, for present or future delivery with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates, at such times, and upon such terms and conditions as he may deem reasonable and most advantageous to the public interest: *Provided*, That no purchase of silver shall be made hereunder at a price in excess of the monetary value thereof: *And provided further*, That no purchases of silver situated in the continental United States on May 1, 1934, shall be made hereunder at a price in excess of 50 cents a fine ounce.

SEC. 4. Whenever and so long as the market price of silver exceeds its monetary value or the monetary value of the stocks of silver is greater than 25 per centum of the monetary value of the stocks of gold and silver, the Secretary of the Treasury may, with the approval of the President and subject to the provisions of section 5, sell any silver acquired under the authority of this Act, at home or abroad, for present or future delivery, at such rates, at such times, and upon such terms and conditions as he may deem reasonable and most advantageous to the public interest.

SEC. 5. The Secretary of the Treasury is authorized and directed to issue silver certificates in such denominations as he may from time to time prescribe in a face amount not less than the cost of all silver purchased under the authority of section 3, and such certificates shall be placed in actual circulation. There shall be maintained in the Treasury as security for all silver certificates heretofore or hereafter issued and at the time outstanding an amount of silver in bullion and standard silver dollars of a monetary value equal to the face amount of such silver certificates. All silver certificates heretofore or hereafter issued shall be legal tender for all debts, public and private, public charges, taxes, duties, and dues, and shall be redeemable on demand at the Treasury of the United States in standard silver dollars; and the Secretary of the Treasury is authorized to coin standard silver dollars for such redemption.

SILVER PURCHASE ACT OF 1934
(Approved June 19,1934)

SEC. 6. Whenever in his judgment such action is necessary to effectuate the policy of this Act, the Secretary of the Treasury is authorized, with the approval of the President, to investigate, regulate, or prohibit, by means of licenses or otherwise, the acquisition, importation, exportation, or transportation of silver and of contracts and other arrangements made with respect thereto; and to require the filing of reports deemed by him reasonably necessary in connection therewith. Whoever willfully violates the provisions of any license, order, rule, or regulation issued pursuant to the authorization contained in this section shall, upon conviction, be fined not more than $10,000 or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both.

SEC. 7. Whenever in the judgment of the President such action is necessary to effectuate the policy of this Act, he may by Executive order require the delivery to the United States mints of any or all silver by whomever owned or possessed. The silver so delivered shall be coined into standard silver dollars or otherwise added to the monetary stocks of the United States as the President may determine; and there shall be returned therefor in standard silver dollars, or any other coin or currency of the United States, the monetary value of the silver so delivered less such deductions for seigniorage, brassage, coinage, and other mint charges as the Secretary of the Treasury with the approval of the President shall have determined: *Provided*, That in no case shall the value of the amount returned therefor be less than the fair value at the time of such order of the silver required to be delivered as such value is determined by the market price over a reasonable period terminating at the time of such order. The Secretary of the Treasury shall pay all necessary costs of the transportation of such silver and standard silver dollars, coin, or currency, including the cost of insurance, protection, and such other incidental costs as may be reasonably necessary. Any silver withheld in violation of any Executive order issued under this section or of any regulations issued pursuant thereto shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law; and, in addition, any person failing to comply with the provisions of any such Executive order or regulation shall be subject to a penalty equal to twice the monetary value of the silver in respect of which such failure occurred.

SEC. 8. Schedule A of title VIII of the Revenue Act of 1926, as amended (relating to stamp taxes), is amended by adding at the end thereof a new subdivision to read as follows:

"10. SILVER, AND SO FORTH, SALES AND TRANSFERS.—On all transfers of any interest in silver bullion, if the price for which such interest is or is to be transferred exceeds the total of the cost thereof and allowed expenses, 50 per centum of the amount of such excess. On every such transfer there shall be made and delivered by the transferor to the transferee a memorandum to which there shall be affixed lawful stamps in value equal to the tax thereon. Every such memorandum shall show the date thereof, the names and addresses of the transferor and transferee, the interest in silver bullion to which it refers, the price for which such interest is or is to be transferred and the cost thereof and the allowed expenses. Any person liable for payment of tax under this subdivision (or anyone who acts in the matter as agent or broker for any such person) who is a party to any such transfer, or who in pursuance of any such transfer delivers any silver bullion or interest therein, without a memorandum stating truly and completely the information herein required, or who delivers any such memorandum without having the proper stamps affixed thereto, with intent to evade the foregoing provisions, shall be deemed guilty of a misdemeanor, and upon conviction thereof shall pay a fine of not exceeding $1,000 or be imprisoned not more than six months, or both. Stamps affixed under this subdivision shall be canceled (in lieu of the manner provided in section 804) by such officers and in such manner as regulations under this subdivision shall prescribe. Such officers shall cancel such stamps only if it appears that the proper tax is being paid, and when stamps with respect to any transfer are so canceled, the transferor and not the transferee shall be liable for any additional tax found due or penalty with respect to such transfer. The Commissioner shall abate or refund, in accordance with regulations issued hereunder, such portion of any tax hereunder as he finds to be attributable to profits (1) realized in the course of the transferor's regular business of furnishing silver bullion for industrial, professional, or artistic use and (a) not resulting from a change in the market price of silver bullion, or (b) offset by contemporaneous losses incurred in transactions in interests in silver bullion determined, in accordance with such regulations, to have been specifically related hedging transactions; or (2) offset by contemporaneous losses attributable to changes in the market price of silver bullion and incurred in transactions in silver foreign exchange determined, in accordance with such regulations, to have been hedged specifically by the interest in silver bullion transferred. The provisions of this subdivision shall extend to all transfers in the United States of any interest in silver bullion, and to all such transfers outside the United States if either party thereto is a resident of the United States or is a citizen of the United States who has been a resident thereof within three months before the date of the transfer or if such silver bullion or interest therein is situated in the United States; and shall extend to transfers to the United States Government (the tax in such cases to be payable by the transferor), but shall not extend to transfers of silver bullion by deposit or delivery at a United States mint under proclamation by the President or in compliance with any Executive order issued pursuant to section 7 of the Silver Purchase Act of 1934. The tax under this subdivision on transfers enumerated in subdivision 4 shall be in addition to the tax under such subdivision. This subdivision shall apply (1) with respect to all transfers of any interest in silver bullion after the enactment of the Silver Purchase Act of 1934, and (2) with respect to all transfers of any interest in silver bullion on or after May 15, 1934, and prior to the enactment of the Silver Purchase Act of 1934, except that in such cases it shall be paid by the transferor in such manner and at such time as the Commissioner, with the approval of the Secretary of the Treasury, may by regulations prescribe, and the requirement of a memorandum of such transfer shall not apply.

SILVER PURCHASE ACT OF 1934
(Approved June 19,1934)

"As used in this subdivision—

"The term 'cost' means the cost of the interest in silver bullion to the transferor, except that (a) in case of silver bullion produced from materials containing silver which has not previously entered into industrial, commercial, or monetary use, the cost to a transferor who is the producer shall be deemed to be the market price at the time of production determined in accordance with regulations issued hereunder; (b) in the case of an interest in silver bullion acquired by the transferor otherwise than for valuable consideration, the cost shall be deemed to be the cost thereof to the last previous transferor by whom it was acquired for a valuable consideration; and (c) in the case of any interest in silver bullion acquired by the transferor (after April 15, 1934) in a wash sale, the cost shall be deemed to be the cost to him of the interest transferred by him in such wash sale, but with proper adjustment, in accordance with regulations under this subdivision, when such interests are in silver bullion for delivery at different times.

"The term 'transfer' means a sale, agreement of sale, agreement to sell, memorandum of sale or delivery of, or transfer, whether made by assignment in blank or by any delivery, or by any paper or agreement or memorandum or any other evidence of transfer or sale; or means to make a transfer as so defined.

"The term 'interest in silver bullion' means any title or claim to, or interest in, any silver bullion or contract therefor.

"The term 'allowed expenses' means usual and necessary expenses actually incurred in holding, processing, or transporting the interest in silver bullion as to which an interest is transferred (including storage, insurance, and transportation charges but not including interest, taxes, or charges in the nature of overhead), determined in accordance with regulations issued hereunder.

"The term 'memorandum' means a bill, memorandum, agreement, or other evidence of a transfer.

"The term 'wash sale' means a transaction involving the transfer of an interest in silver bullion and, within thirty days before or after such transfer, the acquisition by the same person of an interest in silver bullion. Only so much of the interest so acquired as does not exceed the interest so transferred, and only so much of the interest so transferred as does not exceed the interest so acquired, shall be deemed to be included in the wash sale.

"The term 'silver bullion' means silver which has been melted, smelted, or refined and is in such state or condition that its value depends primarily upon the silver content and not upon its form."

Sec. 9. The Secretary of the Treasury is hereby authorized to issue, with the approval of the President, such rules and regulations as the Secretary of the Treasury may deem necessary or proper to carry out the purposes of this Act, or of any order issued hereunder.

Sec. 10. As used in this Act—

The term "person" means an individual, partnership, association, or corporation;

The term "the continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska;

The term "monetary value" means a value calculated on the basis of $1 for an amount of silver or gold equal to the amount at the time contained in the standard silver dollar and the gold dollar, respectively;

The term "stocks of silver" means the total amount of silver at the time owned by the United States (whether or not held as security for outstanding currency of the United States) and of silver contained in coins of the United States at the time outstanding;

The term "stocks of gold" means the total amount of gold at the time owned by the United States, whether or not held as a reserve or as security for any outstanding currency of the United States.

Sec. 11. There is authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, the sum of $500,000, which shall be available for expenditure under the direction of the President and in his discretion, for any purpose in connection with the carrying out of this Act; and there are hereby authorized to be appropriated annually such additional sums as may be necessary for such purposes.

Sec. 12. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

Sec. 13. All Acts and parts of Acts inconsistent with any of the provisions of this Act are hereby repealed, but the authority conferred in this Act upon the President and the Secretary of the Treasury is declared to be supplemental to the authority heretofore conferred.

Approved, June 19, 1934, 9 p.m.

PRESIDENT'S MESSAGE RE SILVER PURCHASES

73d Congress } SENATE { Document
2d Session } { No. 181

SILVER PURCHASES

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

RECOMMENDING

ENACTMENT OF LEGISLATION DECLARING IT TO BE THE POLICY OF THE UNITED STATES TO INCREASE THE AMOUNT OF SILVER IN OUR MONETARY STOCKS WITH THE ULTIMATE OBJECTIVE OF HAVING AND MAINTAINING ONE FOURTH OF THEIR MONETARY VALUE IN SILVER AND THREE FOURTHS IN GOLD

May 10 (calendar day, May 22), 1934.—Ordered to lie on the table and to be printed

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To the Congress of the United States:

On January 11, 1934, I recommended to the Congress legislation which was promptly enacted under the title, "The Gold Reserve Act of 1934." This act vested in the United States Government the custody and control of our stocks of gold as a reserve for our paper currency and as a medium of settling international balances. It set up a stabilization fund for the control of foreign exchange in the interests of our people, and certain amendments were added to facilitate the acquisition of silver.

As stated in my message to the Congress, this legislation was recommended as a step in improving our financial and monetary system. Its enactment has laid a foundation on which we are organizing a currency system that will be both sound and adequate. It is a long step forward, but only a step.

As a part of the larger objective, some things have been clear. One is that we should move forward as rapidly as conditions permit in broadening the metallic base of our monetary system and in stabilizing the purchasing and debt-paying power of our money on a more equitable level. Another is that we should not neglect the value of an increased use of silver in improving our monetary system. Since 1929 that has been obvious.

Some measures for making a greater use of silver in the public interest are appropriate for independent action by us. On others, international cooperation should be sought.

Of the former class is that of increasing the proportion of silver in the abundant metallic reserves back of our paper currency. This policy was initiated by the proclamation of December 21, 1933, bringing our current domestic production of silver into the Treasury, as well as placing this Nation among the first to carry out the agreement on silver which we sought and secured at the London Conference. We have since acquired other silver in the interest of stabilization of foreign exchange and the development of a broader metallic base for our currency. We seek to remedy a maladjustment of our currency.

In further aid of this policy, it would be helpful to have legislation broadening the authority for the further acquisition and monetary use of silver.

I, therefore, recommend legislation at the present session declaring it to be the policy of the United States to increase the amount of silver in our monetary stocks with the ultimate objective of having and maintaining one fourth of their monetary value in silver and three fourths in gold.

The Executive Authority should be authorized and directed to make the purchases of silver necessary to attain this ultimate objective.

The authority to purchase present accumulations of silver in this country should be limited to purchases at not in excess of 50 cents per ounce.

The Executive authority should be enabled, should circumstances require, to take over present surpluses of silver in this country not required for industrial uses on payment of just compensation, and to regulate imports, exports, and other dealings in monetary silver.

There should be a tax of at least 50 percent on the profits accruing from dealing in silver.

We can proceed with this program of increasing our store of silver for use as a part of the metallic reserves for our paper currency without seriously disturbing adjustments in world trade. However, because of the great world supply of silver and its use in varying forms by the world's population, concerted action by all nations, or at least a large group of nations, is necessary if a permanent measure of value, including both gold and silver, is eventually to be made a world standard. To arrive at that point, we must seek every possibility for world agreement, although it may turn out that this Nation will ultimately have to take such independent action on this phase of the matter as its interests require.

The success of the London Conference in consummating an international agreement on silver, which has now been ratified by all the governments concerned, makes such further agreement worth seeking. The ebb and flow of values in almost all parts of the world have created many points of pressure for readjustments of internal and international standards. At no time since the efforts of this Nation to secure international agreement on silver began in 1878 have conditions been more favorable for making progress along this line.

Accordingly, I have begun to confer with some of our neighbors in regard to the use of both silver and gold, preferably on a coordinated basis, as a standard of monetary value. Such an agreement would constitute an important step forward toward a monetary unit of value more equitable and stable in its purchasing and debt paying power.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE, *May 22, 1934.*

PRESIDENT'S MESSAGE RE SILVER PURCHASES

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

WHEREAS, by virtue of Section 1 of the Act of Congress approved March 14, 1900 (31 Stat. L.45), the present weight of the gold dollar is fixed at twenty-five and eight tenths grains of gold nine tenths fine; and

WHEREAS, by Section 43, Title III of the Act approved May 12, 1933 (Public No. 10, 73d Congress), as amended by Section 12 of the Gold Reserve Act of 1934, it is provided in part as follows:

> "Whenever the President finds, upon investigation, that (1) the foreign commerce of the United States is adversely affected by reason of the depreciation in the value of the currency of any other government or governments in relation to the present standard value of gold, or (2) action under this section is necessary in order to regulate and maintain the parity of currency issues of the United States, or (3) an economic emergency requires an expansion of credit, or (4) an expansion of credit is necessary to secure by international agreement a stabilization at proper levels of the currencies of various governments, the President is authorized, in his discretion -
>
> "(a) To direct the Secretary of the Treasury to enter into agreements with the several Federal Reserve banks and with the Federal Reserve Board whereby the Federal Reserve Board will, and it is hereby authorized to, notwithstanding any provisions of law or rules and regulations to the contrary, permit such reserve banks to agree that they will, (1) conduct, pursuant to existing law, throughout specified periods, open market operations in obligations of the United States Government or corporations in which the United States is the majority stockholder, and (2) purchase directly and hold in portfolio for an agreed period or periods of time Treasury bills or other obligations of the United States Government in an aggregate sum of $3,000,000,000 in addition to those they may then hold, unless prior to the termination

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of such period or periods the Secretary shall consent to their sale. No suspension of reserve requirements of the Federal Reserve banks, under the terms of section 11(c) of the Federal Reserve Act, necessitated by reason of operations under this section, shall require the imposition of the graduated tax upon any deficiency in reserves as provided in said section 11(c). Nor shall it require any automatic increase in the rates of interest or discount charged by any Federal Reserve bank, as otherwise specified in that section. The Federal Reserve Board, with the approval of the Secretary of the Treasury, may require the Federal Reserve banks to take such action as may be necessary, in the judgment of the Board and of the Secretary of the Treasury, to prevent undue credit expansion.

"(b) If the Secretary, when directed by the President, is unable to secure the assent of the several Federal Reserve banks and the Federal Reserve Board to the agreements authorized in this section, or if operations under the above provisions prove to be inadequate to meet the purposes of this section, or if for any other reason additional measures are required in the judgment of the President to meet such purposes, then the President is authorized -

* * * * * *

"(2) By proclamation to fix the weight of the gold dollar in grains nine tenths fine and also to fix the weight of the silver dollar in grains nine tenths fine at a definite fixed ratio in relation to the gold dollar at such amounts as he finds necessary from his investigation to stabilize domestic prices or to protect the foreign commerce against the adverse effect of depreciated foreign currencies, and to provide for the unlimited coinage of such gold and silver at the ratio so fixed, or in case the Government of the United States enters into an agreement with any government or governments under the terms of which the ratio between the value of gold and other currency issued by the United States and by any such government or governments is established, the President may fix the weight of the gold dollar in accordance with the ratio so agreed upon, and such gold dollar, the weight of which is so fixed, shall be the standard unit of value, and all forms of money issued or coined by the United States shall be maintained at a parity with this standard and it shall be the duty of the Secretary of the Treasury to maintain such parity, but in no event shall the weight of the gold dollar be fixed so as to reduce its present weight by more than 50 per centum. Nor shall the weight of the gold dollar be fixed in any event at more than 60 per centum of its present weight. The powers of the President specified in this paragraph shall be deemed to be separate, distinct, and continuing powers, and may be exercised by him, from time to time, severally or together, whenever and as the expressed objects of this section in his judgment may require; except that such powers shall expire two years after the date of enactment of the Gold Reserve Act of 1934 unless the President shall sooner declare the existing emergency ended, but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency"; and

WHEREAS, I find, upon investigation, that the foreign commerce of the United States is adversely affected by reason of the depreciation in the value of the currencies of other governments in relation to the present standard value of gold, and that an economic emergency requires an expansion of credit; and

WHEREAS, in my judgment, measures additional to those provided by subsection (a) of said Section 43 are required to meet the purposes of such Section; and

WHEREAS, I find, from my investigation, that, in order to stabilize domestic prices and to protect the foreign commerce against the adverse effect of depreciated foreign currencies, it is necessary to fix the weight of the gold dollar at 15 5/21 grains nine tenths fine,

NOW, THEREFORE, be it known that I, FRANKLIN D. ROOSEVELT, President of the United States, by virtue of the authority vested in me by Section 43, Title III of said Act of May 12, 1933, as amended, and by virtue of all other authority vested in me, do hereby proclaim, order, direct, declare and fix the weight of the gold dollar to be 15 5/21 grains nine tenths fine, from and after the date and hour of this proclamation. The weight of the silver dollar is not altered or affected in any manner by reason of this proclamation.

This proclamation shall remain in force and effect until and unless repealed or modified by act of Congress or by subsequent proclamation; and notice is hereby given that I reserve the right by virtue of the authority vested in me to alter or modify this proclamation as the interest of the United States may seem to require.

IN WITNESS WHEREOF I have hereunto set my hand and have caused the seal of the United States to be affixed.

DONE in the City of Washington at 3:10 o'clock in
the afternoon, Eastern Standard Time, this
31st day of January, in the year of our
(Seal) Lord one thousand nine hundred and thirty-four,
and of the Independence of the United States
the one hundred and fifty-eighth.

FRANKLIN D. ROOSEVELT

By the President:

Cordell Hull
Secretary of State.

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GOLD RESERVE ACT OF 1934

(Approved January 30,1934)

GOLD RESERVE ACT OF 1934

AN ACT To protect the currency system of the United States, to provide for the better use of the monetary gold stock of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the "Gold Reserve Act of 1934."

SEC. 2. (a) Upon the approval of this Act all right, title, and interest, and every claim of the Federal Reserve Board, of every Federal Reserve bank, and of every Federal Reserve agent, in and to any and all gold coin and gold bullion shall pass to and are hereby vested in the United States; and in payment therefor credits in equivalent amounts in dollars are hereby established in the Treasury in the accounts authorized under the sixteenth paragraph of section 16 of the Federal Reserve Act, as heretofore and by this Act amended (U.S.C., title 12, sec. 467). Balances in such accounts shall be payable in gold certificates, which shall be in such form and in such denominations as the Secretary of the Treasury may determine. All gold so transferred, not in the possession of the United States, shall be held in custody for the United States and delivered upon the order of the Secretary of the Treasury; and the Federal Reserve Board, the Federal Reserve banks, and the Federal Reserve agents shall give such instructions and shall take such action as may be necessary to assure that such gold shall be so held and delivered.

(b) Section 16 of the Federal Reserve Act, as amended, is further amended in the following respects:

(1) The third sentence of the first paragraph is amended to read as follows: "They shall be redeemed in lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal Reserve bank."

(2) So much of the third sentence of the second paragraph as precedes the proviso is amended to read as follows: "The collateral security thus offered shall be notes, drafts, bills of exchange, or acceptances acquired under the provisions of section 13 of this Act, or bills of exchange endorsed by a member bank of any Federal Reserve district and purchased under the provisions of section 14 of this Act, or bankers' acceptances purchased under the provisions of said section 14, or gold certificates:".

(3) The first sentence of the third paragraph is amended to read as follows: "Every Federal Reserve bank shall maintain reserves in gold certificates or lawful money of not less than 35 per centum against its deposits and reserves in gold certificates of not less than 40 per centum against its Federal Reserve notes in actual circulation: *Provided, however*, That when the Federal Reserve agent holds gold certificates as collateral for Federal Reserve notes issued to the bank such gold certificates shall be counted as part of the reserve which such bank is required to maintain against its Federal Reserve notes in actual circulation."

GOLD RESERVE ACT OF 1934

(Approved January 30, 1934)

(4) The fifth and sixth sentences of the third paragraph are amended to read as follows: "Notes presented for redemption at the Treasury of the United States shall be paid out of the redemption fund and returned to the Federal Reserve banks through which they were originally issued, and thereupon such Federal Reserve bank shall, upon demand of the Secretary of the Treasury, reimburse such redemption fund in lawful money or, if such Federal Reserve notes have been redeemed by the Treasurer in gold certificates, then such funds shall be reimbursed to the extent deemed necessary by the Secretary of the Treasury in gold certificates, and such Federal Reserve bank shall, so long as any of its Federal Reserve notes remain outstanding, maintain with the Treasurer in gold certificates an amount sufficient in the judgment of the Secretary to provide for all redemptions to be made by the Treasurer. Federal Reserve notes received by the Treasurer otherwise than for redemption may be exchanged for gold certificates out of the redemption fund hereinafter provided and returned to the Reserve bank through which they were originally issued, or they may be returned to such bank for the credit of the United States."

(5) The fourth, fifth, and sixth paragraphs are amended to read as follows:

"The Federal Reserve Board shall require each Federal Reserve bank to maintain on deposit in the Treasury of the United States a sum in gold certificates sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal Reserve notes issued to such bank, but in no event less than 5 per centum of the total amount of notes issued less the amount of gold certificates held by the Federal Reserve agent as collateral security; but such deposit of gold certificates shall be counted and included as part of the 40 per centum reserve hereinbefore required. The Board shall have the right, acting through the Federal Reserve agent, to grant in whole or in part, or to reject entirely the application of any Federal Reserve bank for Federal Reserve notes; but to the extent that such application may be granted the Federal Reserve Board shall, through its local Federal Reserve agent, supply Federal Reserve notes to the banks so applying, and such bank shall be charged with the amount of the notes issued to it and shall pay such rate of interest as may be established by the Federal Reserve Board on only that amount of such notes which equals the total amount of its outstanding Federal Reserve notes less the amount of gold certificates held by the Federal Reserve agent as collateral security. Federal Reserve notes issued to any such bank shall, upon delivery, together with such notes of such Federal Reserve bank as may be issued under section 18 of this Act upon security of United States 2 per centum Government bonds, become a first and paramount lien on all the assets of such bank.

"Any Federal Reserve bank may at any time reduce its liability for outstanding Federal Reserve notes by depositing with the Federal Reserve agent its Federal Reserve notes, gold certificates, or lawful money of the United States. Federal Reserve notes so deposited shall not be reissued, except upon compliance with the conditions of an original issue.

"The Federal Reserve agent shall hold such gold certificates or lawful money available exclusively for exchange for the outstanding Federal Reserve notes when offered by the Reserve bank of which he is a director. Upon the request of the Secretary of the Treasury the Federal Reserve Board shall require the Federal Reserve agent to transmit to the Treasurer of the United States so much of the gold certificates held by him as collateral security for Federal Reserve notes as may be required for the exclusive purpose of the redemption of such Federal Reserve notes, but such gold certificates when deposited with the Treasurer shall be counted and considered as if collateral security on deposit with the Federal Reserve agent."

(6) The eighth paragraph is amended to read as follows:

"All Federal Reserve notes and all gold certificates and lawful money issued to or deposited with any Federal Reserve agent under the provisions of the Federal Reserve Act shall hereafter be held for such agent, under such rules and regulations as the Federal Reserve Board may prescribe, in the joint custody of himself and the Federal Reserve bank to which he is accredited. Such agent and such Federal Reserve bank shall be jointly liable for the safe-keeping of such Federal Reserve notes, gold certificates, and lawful money. Nothing herein contained, however, shall be construed to prohibit a Federal Reserve agent from depositing gold certificates with the Federal Reserve Board, to be held by such Board subject to his order, or with the Treasurer of the United States for the purposes authorized by law."

(7) The sixteenth paragraph is amended to read as follows:

"The Secretary of the Treasury is hereby authorized and directed to receive deposits of gold or of gold certificates with the Treasurer or any Assistant Treasurer of the United States when tendered by any Federal Reserve bank or Federal Reserve agent for credit to its or his account with the Federal Reserve Board. The Secretary shall prescribe by regulation the form of receipt to be issued by the Treasurer or Assistant Treasurer to the Federal Reserve bank or Federal Reserve agent making the deposit, and a duplicate of such receipt shall be delivered to the Federal Reserve Board by the Treasurer at Washington upon proper advices from any Assistant Treasurer that such deposit has been made. Deposits so made shall be held subject to the orders of the Federal Reserve Board and shall be payable in gold certificates on the order of the Federal Reserve Board to any Federal Reserve bank or Federal Reserve agent at the Treasury or at the Subtreasury of the United States nearest the place of business of such Federal Reserve bank or such Federal Reserve agent. The order used by the Federal Reserve Board in making such payments shall be signed by the governor or vice governor, or such other officers or members as the Board may by regulation prescribe. The form of such order shall be approved by the Secretary of the Treasury."

(8) The eighteenth paragraph is amended to read as follows:

"Deposits made under this section standing to the credit of any Federal Reserve bank with the Federal Reserve Board shall, at the option of said bank, be counted as part of the lawful reserve which it is required to maintain against outstanding Federal Reserve notes, or as a part of the reserve it is required to maintain against deposits."

SEC. 3. The Secretary of the Treasury shall, by regulations issued hereunder, with the approval of the President, prescribe the conditions under which gold may be acquired and held, transported, melted or treated, imported, exported, or earmarked: (a) for industrial, professional, and artistic use; (b) by the Federal Reserve banks for the purpose of settling international balances; and, (c) for such other purposes as in his judgment are not inconsistent with the purposes of this Act. Gold in any form may be acquired, transported, melted or treated, imported, exported, or earmarked or held in custody for foreign or domestic account (except on behalf of the United States) only to the extent permitted by, and subject to the conditions prescribed in, or pursuant to, such regulations. Such regulations may exempt from the provisions of this section, in whole or in part, gold situated in the Philippine Islands or other places beyond the limits of the continental United States.

SEC. 4. Any gold withheld, acquired, transported, melted or treated, imported, exported, or earmarked or held in custody, in violation of this Act or of any regulations issued hereunder, or licenses issued pursuant thereto, shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure, and condemnation of property imported into the United States contrary to law; and in addition any person failing to comply with the provisions of this Act or of any such regulations or licenses, shall be subject to a penalty equal to twice the value of the gold in respect of which such failure occurred.

SEC. 5. No gold shall hereafter be coined, and no gold coin shall hereafter be paid out or delivered by the United States: *Provided, however*, That coinage may continue to be executed by the mints of the United States for foreign countries in accordance with the Act of January 29, 1874 (U.S.C., title 31, sec. 367). All gold coin of the United States shall be withdrawn from circulation, and, together with all other gold owned by the United States, shall be formed into bars of such weights and degrees of fineness as the Secretary of the Treasury may direct.

SEC. 6. Except to the extent permitted in regulations which may be issued hereunder by the Secretary of the Treasury with the approval of the President, no currency of the United States shall be redeemed in gold: *Provided, however*, That gold certificates owned by the Federal Reserve banks shall be redeemed at such times and in such amounts as, in the judgment of the Secretary of the Treasury, are necessary to maintain the equal purchasing power of every kind of currency of the United States: *And provided further*, That the reserve for United States notes and for Treasury notes of 1890, and the security for gold certificates (including the gold certificates held in the Treasury for credits payable therein) shall be maintained in gold bullion equal to the dollar amounts required by law, and the reserve for Federal Reserve notes shall be maintained in gold certificates, or in credits payable in gold certificates maintained with the Treasurer of the United States under section 16 of the Federal Reserve Act, as heretofore and by this Act amended.

No redemptions in gold shall be made except in gold bullion bearing the stamp of a United States mint or assay office in an amount equivalent at the time of redemption to the currency surrendered for such purpose.

SEC. 7. In the event that the weight of the gold dollar shall at any time be reduced, the resulting increase in value of the gold held by the United States (including the gold held as security for gold certificates and as a reserve for any United States notes and for Treasury notes of 1890) shall be covered into the Treasury as a miscellaneous receipt; and, in the event that the weight of the gold dollar shall at any time be increased, the resulting decrease in value of the gold held as a reserve for any United States notes and for Treasury notes of 1890, and as security for gold certificates shall be compensated by transfers of gold bullion from the general fund, and there is hereby appropriated an amount sufficient to provide for such transfers and to cover the decrease in value of the gold in the general fund.

SEC. 8. Section 3700 of the Revised Statutes (U.S.C., title 31, sec. 734) is amended to read as follows:

"SEC. 3700. With the approval of the President, the Secretary of the Treasury may purchase gold in any amounts, at home or abroad, with any direct obligations, coin, or currency of the United States, authorized by law, or with any funds in the Treasury not otherwise appropriated, at such rates 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, or limiting the purposes for which any of such obligations, coin, or currency, may be issued, or requiring any such obligations to be offered as a popular loan or on a competitive basis, or to be offered or issued at not less than par, to the contrary notwithstanding. All gold so purchased shall be included as an asset of the general fund of the Treasury."

SEC. 9. Section 3699 of the Revised Statutes (U.S.C., title 31, sec. 735) is amended to read as follows:

"SEC. 3699. The Secretary of the Treasury may anticipate the payment of interest on the public debt, by a period not exceeding one year, from time to time, either with or without a rebate of interest upon the coupons, as to him may seem expedient; and he may sell gold in any amounts, at home or abroad, in such manner and at such rates and upon such terms and conditions as he may deem most advantageous to the public interest, and the proceeds of any gold so sold shall be covered into the general fund of the Treasury: *Provided, however*, That the Secretary of the Treasury may sell the gold which is required to be maintained as a reserve or as security for currency issued by the United States, only to the extent necessary to maintain such currency at a parity with the gold dollar."

SEC. 10. (a) For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section. An annual audit of such funds shall be made and a report thereof submitted to the President.

(b) To enable the Secretary of the Treasury to carry out the provisions of this section there is hereby appropriated, out of the receipts which are directed to be covered into the Treasury under section 7 hereof, the sum of $2,000,000,000, which sum when available shall be deposited with the Treasurer of the United States in a stabilization fund (hereinafter called the "fund") under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decisions shall be final and not be subject to review by any other officer of the United States. The fund shall be available for expenditure, under the direction of the Secretary of the Treasury and in his discretion, for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar. The proceeds of all sales and investments and all earnings and interest accruing under the operations of this section shall be paid into the fund and shall be available for the purposes of the fund.

(c) All the powers conferred by this section shall expire two years after the date of enactment of this Act, unless the President shall sooner declare the existing emergency ended and the operation of the stabilization fund terminated; but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency.

SEC. 11. The Secretary of the Treasury is hereby authorized to issue, with the approval of the President, such rules and regulations as the Secretary may deem necessary or proper to carry out the purposes of this Act.

SEC. 12. Paragraph (b) (2), of section 43, title III, of the Act approved May 12, 1933 (Public, Numbered 10, Seventy-third Congress), is amended by adding two new sentences at the end thereof, reading as follows:

"Nor shall the weight of the gold dollar be fixed in any event at more than 60 per centum of its present weight. The powers of the President specified in this paragraph shall be deemed to be separate, distinct, and continuing powers, and may be exercised by him, from time to time, severally or together, whenever and as the expressed objects of this section in his judgment may require; except that such powers shall expire two years after the date of enactment of the Gold Reserve Act of 1934 unless the President shall sooner declare the existing emergency ended, but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency."

Paragraph (2) of subsection (b) of section 43, title III, of an act entitled "An act to relieve the existing national economic emergency by increasing agricultural purchasing power, to raise revenue for extraordinary expenses incurred by reason of such emergency, to provide emergency relief with respect to agricultural indebtedness, to provide for the orderly liquidation of joint-stock land banks, and for other purposes", approved May 12, 1933, is amended by adding at the end of said paragraph (2) the following:

"The President, in addition to the authority to provide for the unlimited coinage of silver at the ratio so fixed, under such terms and conditions as he may prescribe, is further authorized to cause to be issued and delivered to the tenderer of silver for coinage, silver certificates in lieu of the standard silver dollars to which the tenderer would be entitled and in an amount in dollars equal to the number of coined standard silver dollars that the tenderer of such silver for coinage would receive in standard silver dollars.

"The President is further authorized to issue silver certificates in such denominations as he may prescribe against any silver bullion, silver, or standard silver dollars in the Treasury not then held for redemption of any outstanding silver certificates, and to coin standard silver dollars or subsidiary currency for the redemption of such silver certificates.

"The President is authorized, in his discretion, to prescribe different terms and conditions and to make different charges, or to collect different seigniorage, for the coinage of silver of foreign production than for the coinage of silver produced in the United States or its dependencies. The silver certificates herein referred to shall be issued, delivered, and circulated substantially in conformity with the law now governing existing silver certificates, except as may herein be expressly provided to the contrary, and shall have and possess all of the privileges and the legal tender characteristics of existing silver certificates now in the Treasury of the United States, or in circulation.

"The President is authorized, in addition to other powers, to reduce the weight of the standard silver dollar in the same percentage that he reduces the weight of the gold dollar.

"The President is further authorized to reduce and fix the weight of subsidiary coins so as to maintain the parity of such coins with the standard silver dollar and with the gold dollar."

SEC. 13. All actions, regulations, rules, orders, and proclamations heretofore taken, promulgated, made or issued by the President of the United States or the Secretary of the Treasury, under the Act of March 9, 1933, or under section 43 or section 45 of title III of the Act of May 12, 1933, are hereby approved, ratified, and confirmed.

SEC. 14. (a) The Second Liberty Bond Act, as amended, is further amended as follows:

(1) By adding at the end of section 1 (U.S.C., title 31, sec. 752; Supp. VII, title 31, sec. 752), a new paragraph as follows:

"Notwithstanding the provisions of the foregoing paragraph, the Secretary of the Treasury may from time to time, when he deems it to be in the public interest, offer such bonds otherwise than as a popular loan and he may make allotments in full, or reject or reduce allotments upon any applications whether or not the offering was made as a popular loan."

(2) By inserting in section 5 (U.S.C., title 31, sec. 771), after the words "certificates of indebtedness", a comma and the words "Treasury bills".

(3) By striking out the figures "$7,500,000,000" where they appear in section 18 (U.S.C., title 31, sec. 753) and inserting in lieu thereof the figures "$10,000,000,000."

(4) By adding thereto two new sections, as follows:

"SEC. 19. Notwithstanding any other provisions of law, any obligations authorized by this Act may be issued for the purchase, redemption, or refunding, at or before maturity, of any outstanding bonds, notes, certificates of indebtedness, or Treasury bills, of the United States, or to obtain funds for such purchase, redemption, or refunding, under such rules, regulations, terms, and conditions as the Secretary of the Treasury may prescribe.

"SEC. 20. The Secretary of the Treasury may issue any obligations authorized by this Act and maturing not more than one year from the date of their issue on a discount basis and payable at maturity without interest. Any such obligations may also be offered for sale on a competitive basis under such regulations and upon such terms and conditions as the Secretary of the Treasury may prescribe, and the decisions of the Secretary in respect of any issue shall be final."

(b) Section 6 of the Victory Liberty Loan Act (U.S.C., title 31, sec. 767; Supp. VII, title 31, secs. 767–767a) is amended by striking out the words "for refunding purposes", together with the preceding comma, at the end of the first sentence of subsection (a).

(c) The Secretary of the Treasury is authorized to issue gold certificates in such form and in such denominations as he may determine, against any gold held by the Treasurer of the United States, except the gold fund held as a reserve for any United States notes and Treasury notes of 1890. The amount of gold certificates issued and outstanding shall at no time exceed the value, at the legal standard, of the gold so held against gold certificates.

Sec. 15. As used in this Act the term "United States" means the Government of the United States; the term "the continental United States" means the States of the United States, the District of Columbia, and the Territory of Alaska; the term "currency of the United States" means currency which is legal tender in the United States, and includes United States notes, Treasury notes of 1890, gold certificates, silver certificates, Federal Reserve notes, and circulating notes of Federal Reserve banks and national banking associations; and the term "person" means any individual, partnership, association, or corporation, including the Federal Reserve Board, Federal Reserve banks, and Federal Reserve agents. Wherever reference is made in this Act to equivalents as between dollars or currency of the United States and gold, one dollar or one dollar face amount of any currency of the United States equals such a number of grains of gold, nine tenths fine, as, at the time referred to, are contained in the standard unit of value, that is, so long as the President shall not have altered by proclamation the weight of the gold dollar under the authority of section 43, title III, of the Act approved May 12, 1933, as heretofore and by this Act amended, twenty-five and eight tenths grains of gold, nine tenths fine, and thereafter such a number of grains of gold, nine tenths fine, as the President shall have fixed under such authority.

Sec. 16. The right to alter, amend, or repeal this Act is hereby expressly reserved. If any provision of this Act, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provision to other persons or circumstances, shall not be affected thereby.

Sec. 17. All Acts and parts of Acts inconsistent with any of the provisions of this Act are hereby repealed.

Approved, January 30, 1934.

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PRESIDENT'S MESSAGE RE GOLD

73d Congress, 2d Session } SENATE { Document No. 114

IMPROVEMENT OF MONETARY SYSTEM

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

REQUESTING

CERTAIN ADDITIONAL LEGISLATION TO IMPROVE THE FINANCIAL AND MONETARY SYSTEM OF THE UNITED STATES

January 11 (calendar day, January 15), 1934.—Read; referred to the Committee on Banking and Currency and ordered to be printed

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To the Congress:

In conformity with the progress we are making in restoring a fairer price level and with our purpose of arriving eventually at a less variable purchasing power for the dollar, I ask the Congress for certain additional legislation to improve our financial and monetary system. By making clear that we are establishing permanent metallic reserves in the possession and ownership of the Federal Government, we can organize a currency system which will be both sound and adequate.

The issuance and control of the medium of exchange which we call "money" is a high prerogative of government. It has been such for many centuries. Because they were scarce, because they could readily be subdivided and transported, gold and silver have been used either for money or as a basis for forms of money which in themselves had only nominal intrinsic value.

In pure theory, of course, a government could issue mere tokens to serve as money—tokens which would be accepted at their face value if it were certain that the amount of these tokens were permanently limited and confined to the total amount necessary for the daily cash needs of the community. Because this assurance could not always or sufficiently be given, governments have found that reserves or bases of gold and silver behind their paper or token currency added stability to their financial systems.

There is still much confusion of thought which prevents a world-wide agreement creating a uniform monetary policy. Many advocate gold as the sole basis of currency; others advocate silver; still others advocate both gold and silver whether as separate bases, or on a basis with a fixed ratio, or on a fused basis.

We hope that, despite present world confusion, events are leading to some future form of general agreement. The recent London agreement in regard to silver was a step, though only a step, in this direction.

At this time we can usefully take a further step, which we hope will contribute to an ultimate world-wide solution.

Certain lessons seem clear. For example, the free circulation of gold coins is unnecessary, leads to hoarding, and tends to a possible weakening of national financial structures in times of emergency. The practice of transferring gold from one individual to another or from the Government to an individual within a nation is not only unnecessary but is in every way undesirable. The transfer of gold in bulk is essential only for the payment of international trade balances.

Therefore it is a prudent step to vest in the government of a nation the title to and possession of all monetary gold within its boundaries and to keep that gold in the form of bullion rather than in coin.

Because the safe-keeping of this monetary basis rests with the Government, we have already called in the gold which was in the possession of private individuals or corporations. There remains, however, a very large weight in gold bullion and coins which is still in the possession or control of the Federal Reserve banks.

Although under existing law there is authority, by Executive act, to take title to the gold in the possession or control of the Reserve banks, this is a step of such importance that I prefer to ask the Congress by specific enactment to vest in the United States Government title to all supplies of American-owned monetary gold, with provision for the payment therefor in gold certificates. These gold certificates will be, as now, secured at all times dollar for dollar by gold in the Treasury—gold for each dollar of such weight and fineness as may be established from time to time.

Such legislation places the right, title, and ownership to our gold reserves in the Government itself; it makes clear the Government's ownership of any added dollar value of the country's stock of gold which would result from any decrease of the gold content of the dollar which may be made in the public interest. It would also, of course, with equal justice, cast upon the Government the loss of such dollar value if the public interest in the future should require an increase in the amount of gold designated as a dollar.

The title to all gold being in the Government, the total stock will serve as a permanent and fixed metallic reserve which will change in amount only so far as necessary for the settlement of international balances or as may be required by a future agreement among the nations of the world for a redistribution of the world stock of monetary gold.

With the establishment of this permanent policy, placing all monetary gold in the ownership of the Government as a bullion base for its currency, the time has come for a more certain determination of the gold value of the American dollar. Because of world uncertainties, I do not believe it desirable in the public interest that an exact value be now fixed. The President is authorized by present legislation to fix the lower limit of permissible revaluation at 50 percent. Careful study leads me to believe that any revaluation at more than 60 percent of the present statutory value would not be in the public interest. I, therefore, recommend to the Congress that it fix the upper limit of permissible revaluation at 60 percent.

That we may be further prepared to bring some greater degree of stability to foreign exchange rates in the interests of our people, there should be added to the present power of the Secretary of the Treasury to buy and sell gold at home and abroad, express power to deal in foreign exchange as such. As a part of this power, I suggest that, out of the profits of any devaluation, there should be set up a fund of $2,000,000,000 for such purchases and sales of gold, foreign exchange, and Government securities as the regulation of the currency, the maintenance of the credit of the Government, and the general welfare of the United States may require.

Certain amendments of existing legislation relating to the purchase and sale of gold and to other monetary matters would add to the convenience of handling current problems in this field. The Secretary of the Treasury is prepared to submit information concerning such changes to the appropriate committees of the Congress.

The foregoing recommendations relate chiefly to gold. The other principal precious metal—silver—has also been used from time immemorial as a metallic base for currencies as well as for actual currency itself. It is used as such by probably half the population of the world. It constitutes a very important part of our own monetary structure. It is such a crucial factor in much of the world's international trade that it cannot be neglected.

On December 21, 1933, I issued a proclamation providing for the coinage of our newly mined silver and for increasing our reserves of silver bullion, thereby putting us among the first nations to carry out the silver agreement entered into by 66 governments at the London Conference. This agreement is distinctly a step in the right direction and we are proceeding to perform our part of it.

All of the 66 nations agreed to refrain from melting or debasing their silver coins, to replace paper currency of small denominations with silver coins, and to refrain from legislation that would depreciate the value of silver in the world markets. Those nations producing large quantities of silver agreed to take specified amounts from their domestic production and those holding and using large quantities agreed to restrict the amount they would sell during the 4 years covered by the agreement.

If all these undertakings are carried out by the governments concerned, there will be a marked increase in the use and value of silver.

Governments can well, as they have in the past, employ silver as a basis for currency, and I look for a greatly increased use. I am, however, withholding any recommendation to the Congress looking to further extension of the monetary use of silver because I believe that we should gain more knowledge of the results of the London agreement and of our other monetary measures.

Permit me once more to stress two principles. Our national currency must be maintained as a sound currency which, insofar as possible, will have a fairly constant standard of purchasing power and be adequate for the purposes of daily use and the establishment of credit.

The other principle is the inherent right of government to issue currency and to be the sole custodian and owner of the base or reserve of precious metals underlying that currency. With this goes the prerogative of government to determine from time to time the extent and nature of the metallic reserve. I am confident that the Nation will well realize the definite purpose of the Government to maintain the credit of that Government and, at the same time, to provide a sound medium of exchange which will serve the needs of our people.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
January 15, 1934.

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PRESIDENT'S MESSAGE RE GOLD

NEWLY MINED SILVER PROCLAMTION

December 21, 1933

COINAGE OF SILVER

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

WHEREAS, by paragraph (2) of section 43, Title III, of the Act of Congress, approved May 12, 1933 (Public No. 10), the President is authorized "By proclamation to fix the weight of the gold dollar in grains nine-tenths fine and also to fix the weight of the silver dollar in grains nine-tenths fine at a definite fixed ratio in relation to the gold dollar at such amounts as he finds necessary from his investigation to stabilize domestic prices or to protect the foreign commerce against the adverse effect of depreciated foreign currencies, and to provide for the unlimited coinage of such gold and silver at the ratio so fixed, * * *"; and

WHEREAS, from investigations made by me, I find it necessary, in aid of the stabilization of domestic prices and in accordance with the policy and program authorized by Congress, which are now being administered, and to protect our foreign commerce against the adverse effect of depreciated foreign currencies, that the price of silver be enhanced and stabilized; and

WHEREAS, a resolution presented by the Delegation of the United States of America was unanimously adopted at the World Economic and Monetary Conference in London on July 20, 1933, by the representatives of sixty-six Governments, which in substance provided that said Governments will abandon the policy and practice of melting up or debasing silver coins; that low valued silver currency be replaced with silver coins and that no legislation should be enacted that will depreciate the value of silver; and

WHEREAS, a separate and supplemental agreement was entered into, at the instance of the representatives of the United States, between China, India, and Spain, the holders and users of large quantities of silver, on the one hand, and Australia, Canada, Mexico, Peru, and the United States on the other hand, as the chief producers of silver, wherein China agreed not to dispose of any silver derived from the melting up or debasement of silver coins, and India agreed not to dispose of over 35,000,000 ounces of silver per annum during a period of four years commencing January 1, 1934, and Spain agreed not to dispose of over 5,000,000 ounces of silver annually during said period, and both of said Governments agreed that at the end of said period of four years they would then subject themselves to the general resolution adopted at the London Conference, and in consideration of such limitation it was agreed that the Governments of the five producing countries would each absorb from the mines in their respective countries a certain amount of sil-

NEWLY MINED SILVER PROCLAMTION

December 21, 1933

ver, the total amount to be absorbed by said producing countries being 35,000,000 ounces per annum during the four years commencing the 1st day of January, 1934; that such silver so absorbed would be retained in each of said respective countries for said period of four years, to be used for coinage purposes or as reserves for currency, or to otherwise be retained and kept off the world market during such period of time, it being understood that of the 35,000,000 ounces the United States was to absorb annually at least 24,421,410 ounces of the silver produced in the United States during such period of time.

NOW, THEREFORE, finding it proper to cooperate with other Governments and necessary to assist in increasing and stabilizing domestic prices, to augment the purchasing power of peoples in silver-using countries, to protect our foreign commerce against the adverse effect of depreciated foreign currencies, and to carry out the understanding between the sixty-six Governments that adopted the resolution hereinbefore referred to; by virtue of the power in me vested by the Act of Congress above cited, the other legislation designated for national recovery, and by virtue of all other authority in me vested;

I, FRANKLIN D. ROOSEVELT, President of the United States of America, do proclaim and direct that each United States coinage mint shall receive for coinage into standard silver dollars any silver which such mint, subject to regulations prescribed hereunder by the Secretary of the Treasury, is satisfied has been mined, subsequently to the date of this proclamation, from natural deposits in the United States or any place subject to the jurisdiction thereof. The Director of the Mint, with the voluntary consent of the owner, shall deduct and retain of such silver so received fifty per cent as seigniorage and for services performed by the Government of the United States relative to the coinage and delivery of silver dollars. The balance of such silver so received, that is, fifty per cent thereof, shall be coined into standard silver dollars and the same, or an equal number of other standard silver dollars, shall be delivered to the owner or depositor of such silver. The fifty per cent of such silver so deducted shall be retained as bullion by the Treasury and shall not be disposed of prior to the thirty-first day of December, 1937, except for coining into United States coins.

The Secretary of the Treasury is authorized to prescribe regulations to carry out the purposes of this proclamation. Such regulations shall contain provisions substantially similar to the provisions contained in the regulations made pursuant to the Act of Congress, approved April 23, 1918, (40 Statutes at Large, Page 535), known as the Pittman Act, with such changes as he shall determine prescribing how silver mined, subsequently to the date of this proclamation from natural deposits in the United States or any place subject to the jurisdiction thereof, shall be identified.

This proclamation shall remain in force and effect until the thirty-first day of December, 1937, unless repealed or modified by Act of Congress or by subsequent proclamation.

The present ratio in weight and fineness of the silver dollar to the gold dollar shall, for the purposes of this proclamation, be maintained until changed by further order or proclamation.

Notice is hereby given that I reserve the right by virtue of the authority vested in me to revoke or modify this proclamation as the interest of the United States may seem to require.

IN WITNESS WHEREOF I have hereunto set my hand and caused the seal of the United States to be affixed.

DONE at the City of Washington this 21st day of December, in the year of our Lord nineteen hundred and thirty-three, and of the Independence of the United States of America the one hundred and fifty-eighth.

FRANKLIN D. ROOSEVELT.

By the President:
WILLIAM PHILLIPS,
Acting Secretary of State.

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FOR THE PRESS

October 22, 1933.

Address of the President delivered by radio from the White House

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CAUTION: This address is for release in editions of all newspapers appearing on the streets NOT EARLIER THAN 10 o'clock P. M., Eastern Standard Time, without further notice of release.

STEPHEN EARLY
Assistant Secretary to the President

It is three months since I have talked with the people of this country about our national problems; but during this period many things have happened, and I am glad to say that the major part of them have greatly helped the well-being of the average citizen.

Because, in every step which your government is taking we are thinking in terms of the average of you - in the old words "the greatest good to the greatest number"- we, as reasonable people cannot expect to bring definite benefits to every person or to every occupation or business, or industry or agriculture. In the same way no reasonable person can expect that in this short space of time, during which new machinery had to be not only put to work, but first set up, that every locality in every one of the 48 states of the country, could share equally and simultaneously in the trend to better times.

The whole picture, however - the average of the whole territory from coast to coast - the average of the whole population of 120,000,000 people - shows to any person willing to look - facts and action of which you and I can be proud.

In the early spring of this year there were actually and proportionately more people out of work in this country than in any other nation in the world. Fair estimates showed 12 or 13 millions unemployed last March. Among those there were, of course, several millions who could be classed as normally unemployed - people who worked occasionally when they felt like it, and others who preferred not to work at all. It seems, therefore, fair to say that there were about 10 millions of our citizens who earnestly, and in many cases hungrily, were seeking work and could not get it. Of these, in the short space of a few months, I am convinced that at least 4 millions have been given employment - or, saying it another way, 40% of those seeking work have found it.

That does not mean, my friends that I am satisfied, or that you are satisfied that our work is ended. We have a long way to go but we are on the way.

How are we constructing the edifice of recovery —— the temple which, when completed, will no longer be a temple of money changers or of beggars, but rather a temple dedicated to and maintained for a greater social justice, a greater welfare for America —— the habitation of a sound economic life. We are building, stone by stone, the columns which will support that habitation. Those columns are many in number and though, for a moment the progress of one column may disturb the progress on the pillar next to it, the work on all of them must proceed without let or hindrance.

We all know that immediate relief for the unemployed was the first essential of such a structure and that is why I speak first of the fact that three hundred thousand young men have been given employment and are being given employment all through this winter in the Civilian Conservation Corps camps in almost every part of the Nation.

So, too, we have, as you have, expended greater sums in cooperation with states and localities for work relief and home relief than ever before —— sums which during the coming Winter cannot be lessened for the very simple reason that though several million people have gone back to work, the necessities of those who have not yet obtained work is more severe than at this time last year.

Then we come to the relief that is being given to those who are in danger of losing their farms or their homes. New machinery had to be set up for farm credit and for home credit in every one of the thirty-one hundred counties of the United States and every day that passes is saving homes and farms to hundreds of families. I have publicly asked that foreclosures on farms and chattels and on homes be delayed until every mortgagor in the country shall have had full opportunity to take advantage of Federal credit. I make the further request which many of you know has already been made through the great federal credit organizations that if there is any family in the United States about to lose its home or about to lose its chattels, that family should telegraph at once either to the Farm Credit Administration or the Home Owners Loan Corporation in Washington requesting their help.

Two other great agencies are in full swing. The Reconstruction Finance Corporation continues to lend large sums to industry and finance with the definite objective of making easy the extending of credit to industry, commerce and finance.

The program of public works in three months has advanced to this point: Out of a total appropriated for public works of three billion three hundred million, one billion eight hundred million has already been allocated to Federal projects of all kinds and literally in every part of the United States and work on these is starting forward. In addition three hundred millions have been allocated to public works to be carried out by states, municipalities and private organizations, such as those undertaking slum clearance. The balance of the public works money, nearly all of it intended for state or local projects, waits only on the presentation of proper projects by the states and localities themselves. Washington has the money and is waiting for the proper projects to which to allot it.

Another pillar in the making is the Agricultural Adjustment Administration. I have been amazed by the extraordinary degree of cooperation given to the Government by the cotton farmers in the South, the wheat farmers of the West, the bobacco farmers of the southeast, and I am confident that the corn hog farmers of the middle west will come through in the same magnificent fashion. The problem we seek to solve had been steadily getting worse for twenty years but during the last six months we have made more rapid progress than any nation has ever made in a like period of time. It is true that in July farm commodity prices had been pushed up higher than they are today, but that push came in part from pure speculation by people who could not tell you the difference between wheat and rye, by people who had never seen cotton growing, by people who did not know that hogs were fed on corn —— people who have no real interest in the farmer and his problems.

In spite, however, of the speculative reaction from the speculative advance, it seems to be well established that during the course of the year 1933 the farmers of the United States will receive 33% more dollars for what they have produced than they received in the year 1932. Put in another way, they will receive $400 in 1933, where they received $300 the year before. That, remember, is for the average of the country, for I have reports that some sections are not any better off than they were a year ago. This applies among the major products, especially to cattle raising and the dairy industry. We are going after those problems as fast as we can.

I do not hesitate to say in the simplest, clearest language of which I am capable, that although the prices of many products of the farm have gone up and although many farm families are better off than they were last year, I am not satisfied either with the amount or the extent of the rise, and that it is definitely a part of our policy to increase the rise and to extend it to those products which have as yet felt no benefit. If we cannot do this one way we will do it another. Do it, we will.

Standing beside the pillar of the farm - the A. A. A. - is the pillar of industry - the N. R. A. Its object is to put industry and business workers into employment and to increase their purchasing power through increased wages.

It has abolished child labor. It has eliminated the sweat shop. It has ended sixty cents a week paid in some mills and eighty cents a week paid in some mines. The measure of the growth of this pillar lies in the total figures of reemployment which I have already given you and in the fact that reemployment is continuing and not stopping. The secret of N. R. A. is cooperation. That cooperation has been voluntarily given through the signing of the blanket codes and through the signing of specific codes which already include all of the greater industries of the nation.

In the vast majority of cases, in the vast majority of localities - the N. R. A. has been given support in unstinted measure. We know that there are chisellers. At the bottom of every case of criticism and obstruction we have found some selfish interest, some private axe to grind.

Ninety per cent of complaints come from misconception. For example, it has been said that N.R.A. has failed to raise the price of wheat and corn and hogs; that N.R.A. has not loaned enough money for local public works. Of course, N.R.A. has nothing whatsoever to do with the price of farm products, nor with public works. It has to do only with industrial organization for economic planning to wipe out unfair practices and to create reemployment. Even in the field of business and industry, N.R.A. does not apply to the rural communities or to towns of under twenty-five hundred population, except in so far as those towns contain factories or chain stores which come under a specific code.

It is also true that among the chisellers to whom I have referred, there are not only the big chisellers but also petty chisellers who seek to make undue profit on untrue statements.

Let me cite to you the example of the salesman in a store in a large eastern city who tried to justify the increase in the price of a cotton shirt from one dollar and a half to two dollars and a half by saying to the customer that it was due to the cotton processing tax. Actually in that shirt there was about one pound of cotton and the processing tax amounted to four and a quarter cents on that pound of cotton.

At this point it is only fair that I should give credit to the sixty or seventy million people who live in the cities and larger towns of the nation for their understanding and their willingness to go along with the payment of even these small processing taxes, though they know full well that the proportion of the processing taxes on cotton goods and on food products paid for by city dwellers goes one hundred per cent towards increasing the agricultural income of the farm dwellers of the land.

The last pillar of which I speak is that of the money of the country in the banks of the country. There are two simple facts.

First, the Federal Government is about to spend one billion dollars as an immediate loan on the frozen or non-liquid assets of all banks closed since January 1, 1933, giving a liberal appraisal to those assets. This money will be in the hands of the depositors as quickly as it is humanly possible to get it out.

Secondly, the Government Bank Deposit Insurance on all accounts up to $2500 goes into effect on January first. We are now engaged in seeing to it that on or before that date the banking capital structure will be built up by the Government to the point that the banks will be in sound condition when the insurance goes into effect.

Finally, I repeat what I have said on many occasions, that ever since last March the definite policy of the Government has been to restore commodity price levels. The object has been the attainment of such a level as will enable agriculture and industry once more to give work to the unemployed. It has been to make possible the payment of public and private debts more nearly at the price level at which they were incurred. It has been gradually to restore a balance in the price structure so that farmers may exchange their products for the products of industry on a fairer exchange basis. It has been and is also the purpose to prevent prices from rising beyond the point necessary to attain these ends. The permanent welfare and security of every class of our people ultimately depends on our attainment of these purposes.

Obviously, and because hundreds of different kinds of crops and industrial occupations in the huge territory that makes up this Nation are involved, we cannot reach the goal in only a few months. We may take one year or two years or three years.

No one who considers the plain facts of our situation believes that commodity prices, especially agricultural prices, are high enough yet.

Some people are putting the cart before the horse. They want a permanent revaluation of the dollar first. It is the Government's policy to restore the price level first. I would not know, and no one else could tell, just what the permanent valuation of the dollar will be. To guess at a permanent gold valuation now would certainly require later changes caused by later facts.

When we have restored the price level, we shall seek to establish and maintain a dollar which will not change its purchasing and debt paying power during the succeeding generation. I said that in my message to the American delegation in London last July. And I say it now once more.

Because of conditions in this country and because of events beyond our control in other parts of the world, it becomes increasingly important to develop and apply the further measures which may be necessary from time to time to control the gold value of our own dollar at home.

Our dollar is now altogether too greatly influenced by the accidents of international trade, by the internal policies of other nations and by political disturbance in other continents. Therefore the United States must take firmly in its own hands the control of the gold value of our dollar. This is necessary in order to prevent dollar disturbances from swinging us away from our ultimate goal, namely, the continued recovery of our commodity prices.

As a further effective means to this end, I am going to establish a government market for gold in the United States. Therefore, under the clearly defined authority of existing law, I am authorizing the Reconstruction Finance Corporation to buy gold newly mined in the United States at prices to be determined from time to time after consultation with the Secretary of the Treasury and the President. Whenever necessary to the end in view, we shall also buy or sell gold in the world market.

My aim in taking this step is to establish and maintain continuous control.

This is a policy and not an expedient.

It is not to be used merely to offset a temporary fall in prices. We are thus continuing to move towards a managed currency.

You will recall the dire predictions made last Spring by those who did not agree with our common policies of raising prices by direct means. What actually happened stood out in sharp contrast with those predictions. Government credit is high, prices have risen in part. Doubtless prophets of evil still exist in our midst. But government credit will be maintained and a sound currency will accompany a rise in the American commodity price level.

I have told you tonight the story of our steady but sure work in building our common recovery. In my promises to you both before and after March 4th, I made two things plain: First, that I pledged no miracles and, second, that I would do my best.

I thank you for your patience and your faith. Our troubles will not be over tomorrow, but we are on our way and we are headed in the right direction.

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REPORT ON LONDON ECONOMIC CONFERENCE

TREATY INFORMATION

BULLETIN NO. 47

AUGUST 1933

REPORT ON LONDON ECONOMIC CONFERENCE

THE DEPARTMENT OF STATE

TREATY INFORMATION

BULLETIN NO. 47

AUGUST 31, 1933

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REPORT ON LONDON ECONOMIC CONFERENCE

PUBLICATION No. 503

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ARBITRATION, CONCILIATION, AND JUDICIAL SETTLEMENT

PERMANENT COURT OF INTERNATIONAL JUSTICE[1]

Venezuela

The American Consul at Geneva reported by a telegram dated August 10, 1933, that the instrument of ratification by Venezuela of the protocol concerning the revision of the Statute of the Permanent Court of International Justice, signed September 14, 1929, was deposited with the Secretariat on August 4, 1933.

ARTICLE 36 OF THE STATUTE OF THE PERMANENT COURT OF INTERNATIONAL JUSTICE

Germany

According to a circular letter dated July 24, 1933, from the League of Nations, the instrument of ratification of the declaration of acceptance by Germany of the optional clause provided in the protocol of signature concerning the Statute of the Permanent Court of International Justice, signed December 16, 1920, was deposited with the Secretariat on July 5, 1933.

ARMAMENT REDUCTION

LONDON NAVAL TREATY OF 1930

Great Britain

By a note dated July 25, 1933, the British Embassy at Washington informed the Secretary of State of the laying down of the keel of H.M.S. *Amphion.*

By a note dated August 3, 1933, the Acting Secretary of State was informed by the British Embassy at Washington of the laying down of the keels of H.M.S. *Phaeton*, *Fame*, and *Firedrake.*

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[1] See Bulletin No. 44, May 1933, p. 2.

The particulars of the vessels furnished in accordance with the provisions of article 10 of the London naval treaty are given as follows:

Amphion

Classification: Cruiser
Date of laying keel: June 26, 1933
Standard displacement: 7,000 tons (7,112 metric tons)
Length at water line: 555 feet
Extreme beam at or below water line: 56 feet 8 inches
Mean draft at standard displacement: 15 feet 8 inches
Caliber of largest gun: 6 inches

Phaeton

Classification: Cruiser
Date of laying keel: July 8, 1933
Standard displacement: 7,000 tons (7,112 metric tons)
Length at water line: 555 feet
Extreme beam at or below water line: 56 feet 8 inches
Mean draft at standard displacement: 15 feet 8 inches
Caliber of largest gun: 6 inches

Fame

Classification: Destroyer
Date of laying keel: July 5, 1933
Standard displacement: 1,375 tons (1,397 metric tons)
Length at water line: 326 feet
Extreme beam at or below water line: 33 feet 3 inches
Mean draft at standard displacement: 8 feet 6 inches
Caliber of largest gun: 4.7 inches

Firedrake

Classification: Destroyer
Date of laying keel: July 5, 1933
Standard displacement: 1,375 tons (1,397 metric tons)
Length at water line: 326 feet
Extreme beam at or below water line: 33 feet 3 inches
Mean draft at standard displacement: 8 feet 6 inches
Caliber of largest gun: 4.7 inches

WASHINGTON NAVAL TREATY OF 1922

Great Britain

The British Ambassador at Washington communicated to the Acting Secretary of State, by a note dated July 25, 1933, the particulars of two 55-foot coastal motor boats under construction for the Chinese Government by Messrs. J. I. Thornycroft & Co., Ltd., Smith Square, London, S.W.1.

The particulars furnished in accordance with the provisions of article XVI of the Washington naval treaty of 1922, are given as follows:

Date of signing contract: February 17, 1932
Date of laying keel: May 8, 1933
Standard displacement: 13.5 tons (13.71 metric tons)
Length at water line: 53 feet 9 inches
Extreme beam at or below water line: 11 feet
Mean draft at standard displacement: 2 feet 1½ inches at step

By a note dated August 9, 1933, the British Embassy at Washington informed the Secretary of State, in accordance with the provisions of article XVI of the Washington naval treaty of 1922, of the particulars of three submarines which are being constructed for the Portuguese Government by Messrs. Vickers-Armstrong, Ltd., at Barrow-in-Furness. The particulars are given as follows:

Date of signing contract: March 9, 1933
Date of laying keels: May 12, 1933
Standard displacement: 776 tons (788.6 metric tons)
Length at water line: 227 feet
Extreme beam at or below water line: 21 feet 9½ inches
Mean draft at standard displacement: 12 feet 1 inch

By a note dated August 16, 1933, the British Embassy at Washington informed the Secretary of State, in accordance with the provisions of article XVI of the Washington naval treaty of 1922, of the particulars of the training ship *Almirante Saldanha*, which is being constructed for the Brazilian Government by Messrs. Vickers-Armstrong, Ltd., Naval Construction Works, Barrow-in-Furness. The particulars are as follows:

Date of signing contract: February 7, 1933
Date of laying keel: June 10, 1933
Standard displacement: 2,713 tons (2,758 metric tons)
Length at water line: 262 feet 5 inches
Extreme beam at or below water line: 52 feet 2 inches
Mean draft at standard displacement: 15 feet 8½ inches

By a note dated August 28, 1933, the British Embassy at Washington informed the Secretary of State, in accordance with the provisions of article XVI of the Washington naval treaty of 1922, of the completion of the destroyer *Vouga*, constructed for the Portuguese Government by Messrs. Yarrow & Co., Ltd., Scotstown, Glasgow.[2] The particulars are as follows:

Date of completion: June 24, 1933
Standard displacement: 1,282 tons (1,305 metric tons)
Length at water line: 319 feet
Extreme beam: 30 feet ½ inches
Mean draft at standard displacement: 9 feet 11 inches

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[2] See Bulletin No. 26, November 1931, p. 4.

INTERNATIONAL LAW

PROTOCOLS ADOPTED AT THE CONFERENCE FOR THE CODIFICATION OF INTERNATIONAL LAW, THE HAGUE, 1930.[5]

Sweden

By a communication dated July 19, 1933, the Secretary General of the League of Nations informed the Secretary of State of the deposit on July 6, 1933, of the instrument of ratification by Sweden of the convention on certain questions relating to the conflict of nationality laws and the protocol relating to military obligations in certain cases of double nationality, signed at The Hague on April 12, 1930.

The ratification of the convention is given subject to the reservation made by Sweden at the time of signature:

> "The Swedish Government declares that it does not accept the provisions of the second sentence of Article 11, as binding upon it in the case where the wife, as referred to in the article, after recovering the nationality of her country of origin, fails to establish her ordinary residence in that country."[6]

CONVENTION AND CODE OF INTERNATIONAL PRIVATE LAW[7]

According to information received from the Director General of the Pan American Union the following countries not hitherto reported in the bulletin have deposited their instruments of ratification of the convention and code of international private law:

Brazil, August 3, 1929
Cuba, April 20, 1928
Dominican Republic, March 12, 1929
El Salvador, November 13, 1931
Panama, October 26, 1928

MUTUAL GUARANTEES

CONVENTIONS DEFINING AGGRESSION

On July 3, 1933, a convention defining aggression was signed in London by the plenipotentiaries of Afghanistan, Estonia, Latvia, Persia, Poland, Rumania, Russia, and Turkey.

The convention is in substance identical with the definition of aggression adopted by the security committee of the General Disarmament Conference which was based on the proposal of the Soviet delegation and reported on May 24, 1933, to the General Committee by Mr. Politis, of Greece, Chairman of the Committee.

The text of the convention in French with translation is printed in the section of this bulletin headed "Texts of Treaties and Agreements."

A second convention defining aggression was signed in London on July 4, 1933, between Czechoslovakia, Rumania, and Yugoslavia, countries of the Little Entente, Russia, and Turkey. This convention is understood to be identical with the convention signed on July 3, 1933, with the exception of the provisions of article IV, which provides that the convention remain open for adherence by all other countries. The Department of State is not yet in receipt of an official copy of this convention.

The American Legation at Kansas reported by a despatch dated July 21, 1933, that a convention defining aggression was signed by the representatives of Lithuania and Russia in London on July 5, 1933. This convention is similar to the two conventions signed on July 3 and 4, 1933.

The American Legation at Helsingfors reported by a despatch dated July 25, 1933, that the Finnish Representative at Moscow signed on July 22 a protocol of adherence to the convention defining aggression, or the so-called "Pact of the East".

RESTRICTION OF WAR

CONVENTION FOR THE AMELIORATION OF THE CONDITION OF THE WOUNDED AND SICK OF ARMIES IN THE FIELD—CONVENTION RELATING TO THE TREATMENT OF PRISONERS OF WAR[8]

Belgium

By a note dated July 27, 1933, the Chargé d'Affaires *ad interim* of Belgium informed the Secretary of State, in conformity with paragraph 2, article 10, of the Geneva convention of July 27, 1929, for the amelioration of the condition of the wounded and the sick of armies in the field, that the Red Cross of Belgium is authorized to lend its assistance to the Medical Corps of the Belgian Army in case of war.

Egypt

The Secretary of State was informed by the Swiss Minister at Washington in a communication dated August 10, 1933, of the de-

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[5] See Bulletin No. 38, November 1932, p. 1.
[6] Official translation of the League of Nations.
[7] See Bulletin No. 45, June 1933, p. 4.
[8] See Bulletin No. 45, June 1933, p. 6.

posit of the instruments of ratification by Egypt of the convention for the amelioration of the condition of the wounded and sick of armies in the field and the convention relating to the treatment of prisoners of war, signed at Geneva July 27, 1929.

The instruments of ratification were deposited on July 25, 1933, and will become effective six months from that date, namely, January 25, 1934, in accordance with the terms of articles 33 and 92, respectively, of the conventions.

Great Britain—India—New Zealand

In compliance with the provisions of article 85 of the convention relating to the treatment of prisoners of war, signed at Geneva July 27, 1929, the Swiss Minister at Washington transmitted to the Secretary of State with a note dated May 23, 1932, a copy of the official translation of this convention as adopted by the British Government, British Treaty Series No. 37 (1931). The enactment of special legislation is not considered necessary to insure the application to the United Kingdom of the provisions of the code on prisoners of war.

This translation, the Minister's note also added, had been adopted by the Government of India as the official translation.

By a note dated July 27, 1933, the Swiss Minister at Washington informed the Secretary of State that the Government of New Zealand had adopted as the official translation of the convention relating to the treatment of prisoners of war of July 27, 1929, the English text as adopted by the British Government.

PROTOCOL CONCERNING THE PROHIBITION OF THE USE IN WARFARE OF ASPHYXIATING, POISONOUS, OR OTHER GASES, AND OF BACTERIOLOGICAL METHODS OF WARFARE[7]

Lithuania

The American Ambassador to France transmitted to the Secretary of State with a despatch dated July 20, 1933, a certified copy of the *procès-verbal* of the deposit of the instrument of ratification by Lithuania of the protocol concerning the prohibition of the use in warfare of asphyxiating, poisonous, or other gases, and bacteriological methods of warfare, signed at Geneva June 17, 1925.

The instrument of ratification was deposited with the Ministry for Foreign Affairs of France on June 15, 1933.

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[7] See Bulletin No. 36, September 1932, p. 3.

POLITICAL

AGREEMENT BETWEEN THE UNITED STATES AND HAITI CONCERNING THE HAITIANIZATION OF THE GARDE, WITHDRAWAL OF MILITARY FORCES FROM HAITI AND FINANCIAL ARRANGEMENT

On August 7, 1933, an agreement in two sections was signed between the United States and Haiti. The first section concerns the Haitianization of the Garde d'Haiti and the withdrawal of the United States Marine Brigade from Haiti. The second section concerns the adjustment of the financial guaranties stipulated in the protocol of 1919 and the loan contract of 1922.

The agreement provides that the Garde, the local constabulary, will be completely Haitianized and turned over to Haitian officers by October 1, 1934, and that the Marine Brigade will be withdrawn from Haiti within a period of 30 days from October 1, 1934. A military mission, to be composed of not more than seven members among the American officers who have served in Haiti, is provided for if it is considered desirable by the President of Haiti to complete the instruction, training, and discipline of the Garde. The services of this mission can be terminated upon 60 days' notice given by either party.

The financial arrangement, which is to enter into effect on January 1, 1934, provides that there shall be a Fiscal Representative and a Deputy Fiscal Representative, appointed by the President of Haiti upon nomination by the President of the United States to carry on the services of the present Financial Adviser-General Receiver and of the Deputy General Receiver. The Fiscal Representative will have under his control and direction the customs service and the application of the laws relative thereto, as the customs revenues constitute the principal pledge to the holders of the bonds of the 1922 loan. In carrying out his duties the Fiscal Representative may not employ more than 18 Americans among his employees and assistants.

The Internal Revenue Service is to be placed in the charge of a Haitian Director with a personnel exclusively Haitian. In view of the fact that under normal conditions the operation of the sinking fund will result in retirement of the outstanding series of the loan authorized by the law of June 26, 1922, approximately by the year 1944, both Governments agree that the loan shall be considered closed and no additional series shall be issued. The Haitian Government may retire the bonds issued in accord with the protocol of October 3, 1919, in advance of their due date, if an arrangement satisfactory to the holders of the bonds can be reached. In this case the provisions of the financial arrangement will become null and void and of no effect upon the completion of the funding operation.

The agreement also provides that any controversy which may arise between the two Governments on the subject of the clauses of the agreement shall be submitted to arbitration in case it cannot be settled through diplomatic channels, in accordance with the arbitration treaty of January 7, 1909, between the two countries.

The text of the agreement, which will shortly be published as Executive Agreement Series No. 46, has also been published in *Press Releases*, Weekly Issue No. 203, August 19, 1933, p. 103.

HUMANITARIAN

SLAVERY

INTERNATIONAL SLAVERY CONVENTION [1]

Turkey

According to information received from the League of Nations under date of August 5, 1933, the Minister for Foreign Affairs of Turkey notified the Secretary General of the accession of Turkey to the international slavery convention, signed at Geneva September 25, 1926. The accession is effective as from July 24, 1933.

WOMEN AND CHILDREN

INTERNATIONAL CONVENTION FOR THE SUPPRESSION OF TRAFFIC IN WOMEN AND CHILDREN [2]

Denmark

According to information contained in a communication from the League of Nations dated August 2, 1933, the convention for the suppression of traffic in women and children, signed at Geneva September 30, 1921, entered into effect for Denmark on January 1, 1933. A declaration made at the time of the deposit of the instrument of ratification by Denmark made the entry into force of the convention subject to the coming into force of the Danish penal code of April 15, 1930. On July 10, 1933, the Government of Denmark informed the Secretary General of the League of Nations that in consequence of the entry into force of the penal code on January 1, 1933, the convention became effective, as regards Denmark, from the same date.

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[1] See Bulletin No. 42, March 1933, p. 9.
[2] See Bulletin No. 43, April 1933, p. 15.

ECONOMIC

AGRICULTURE

WHEAT CONFERENCE

At the request of the four principal wheat-exporting countries (Argentina, Australia, Canada, and the United States), the Secretary General of the League of Nations on August 12, 1933, invited, in addition to these four countries, the following wheat-importing and exporting countries to be represented at a conference to meet in London on August 21: Austria, Belgium, Bulgaria, Czechoslovakia, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Holland, Hungary, Irish Free State, Italy, Latvia, Lithuania, Norway, Poland, Portugal, Rumania, Russia, Spain, Sweden, Switzerland, Turkey, and Yugoslavia.

This conference, at the request of its initiators, was held within the framework of the Monetary and Economic Conference. The object of the conference was to conclude an international agreement on the production and trade in wheat on the basis of the conversations which began at Geneva on May 10, 1933, between the four principal exporting states, and which were continued in London in June and July at the time of the Monetary and Economic Conference, first between the same countries and then with the help of other exporting countries and of certain wheat-importing countries.

Two agreements were concluded, one between the importing countries, the other between the exporting countries. The texts of both agreements will be printed in *Treaty Information* when received by the Department of State.

AVIATION

COMMERCIAL AVIATION CONVENTION [1]

Honduras

By a note dated August 5, 1933, the Ambassador of Cuba transmitted to the Secretary of State a communication addressed to him by the Acting Secretary of State of Cuba, by which the latter advised the Government of the United States of the deposit on July 18, 1933, of the instrument of ratification by Honduras of the commercial aviation convention, adopted at the Sixth International Conference of American States, Habana, February 20, 1928.

THIRD INTERNATIONAL CONFERENCE ON PRIVATE AERIAL LAW

The Third International Conference on Private Aerial Law was held at Rome, Italy, from May 15 to 29, 1933. The delegates to the conference had before them for consideration the draft conventions relating to (1) precautionary attachment of aircraft and (2) liability for damages caused by aircraft to third parties on the surface, adopted at the seventh annual session of the International Technical Committee of Aerial Legal Experts, held in Stockholm, Sweden, in July 1932.[2] The drafts adopted at Stockholm were revised at the Rome conference. Translations of the conventions as adopted at Rome are printed in the section of this bulletin headed "Texts of Treaties and Agreements."

COMMERCE

INTERNATIONAL MONETARY AND ECONOMIC CONFERENCE

TARIFF TRUCE [3]

A *corrigendum* dated August 1, 1933, to the Journal of the Monetary and Economic Conference, No. 39, July 28, 1933, deletes the word "Siam" from the list contained in the latter of the parties

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[1] See Bulletin No. 45, June 1933, p. 9.
[2] See Bulletin No. 36, September 1932, pp. 6, 13–18.
[3] See Bulletin No. 46, July 1933, p. 11.

to the tariff truce resolution of May 12, 1933. After making the correction indicated, this official record reads as follows:

- Abyssinia
- Afghanistan
- Albania
- Argentine Republic
- Austria
- Belgium
- Bolivia
- Brazil
- United Kingdom of Great Britain and Northern Ireland
- Bulgaria
- Canada
- Chile
- China
- Cuba
- Czechoslovakia
- El Salvador
- Free City of Danzig
- Denmark
- Dominican Republic
- Ecuador
- Egypt
- Estonia
- Finland
- France
- Germany
- Greece
- Guatemala
- Haiti
- Hungary
- Iceland
- India
- Iraq
- Irish Free State
- Italy
- Japan
- Latvia
- Lithuania
- Luxemburg
- Mexico
- Netherlands
- New Zealand
- Nicaragua
- Norway
- Paraguay
- Persia
- Peru
- Poland
- Portugal
- Rumania
- Spain
- Sweden
- Switzerland
- Turkey
- Union of South Africa
- United States of America
- Union of Soviet Socialist Republics
- Uruguay
- Venezuela
- Yugoslavia

FINANCE

Silver Agreement

Pursuant to a resolution adopted on July 20, 1933, by subcommittee II (Permanent Measures) of the monetary and financial commission of the Monetary and Economic Conference, an agreement was signed on July 22, 1933, by the delegates of India, China, and Spain as holders of large stocks or users of silver, and by the delegates of Australia, Canada, the United States of America, Mexico, and Peru as principal producers of silver. The text of the agreement is printed in full in the section of this bulletin headed "Texts of Treaties and Agreements."

Article 2 of the agreement provides that "the Governments of Australia, Canada, the United States, Mexico and Peru, during the existence of this agreement, shall not sell any silver, and shall also in

the aggregate purchase, or otherwise arrange for withdrawing from the market, thirty five million fine ounces of silver from the mine production of such countries in each calendar year for a period of four years commencing with the calendar year 1934. The said Governments undertake to settle by agreement the share in the said thirty five million fine ounces which each of them shall purchase or cause to be withdrawn."

In accordance with the provisions of this article, separate agreements were signed by these countries allotting to each its share of the said 35 million fine ounces of silver to be purchased or withdrawn. The text of the allotment agreement signed by the United States of America is printed in full in the section of this bulletin headed "Texts of Treaties and Agreements." The allotment agreements signed by Australia, Canada, Mexico, and Peru are identical in text with the exception of the allotment to each country of the amounts to be withdrawn or purchased by it, which were agreed upon as follows:

Australia	652,365 fine ounces
Canada	1,672,802 fine ounces
Mexico	7,159,108 fine ounces
Peru	1,095,325 fine ounces
United States	24,472,410 fine ounces

LABOR

Convention Concerning the Creation of Minimum Wage Fixing Machinery

Norway

According to information received from the League of Nations under date of July 19, 1933, the ratification by Norway of the convention concerning the creation of minimum wage fixing machinery, adopted by the International Labor Conference at its eleventh session (Geneva, May 30–June 21, 1928), was registered with the Secretariat on July 7, 1933.

Convention Concerning the Marking of the Weight on Heavy Packages Transported by Vessels

Germany

According to information received from the League of Nations under date of July 14, 1933, the instrument of ratification by Germany of the convention concerning the marking of the weight on heavy packages transported by vessels, adopted by the International Labor Conference at its twelfth session (Geneva, May 30–June 21, 1929), was registered with the Secretariat on July 5, 1933.

Italy

According to information contained in a communication from the League of Nations under date of July 27, 1933, the instrument of ratification by Italy of the convention concerning the marking of the weight on heavy packages transported by vessels, adopted by the International Labor Conference at its twelfth session (Geneva, May 30–June 21, 1929), was registered with the Secretariat on July 18, 1933.

NAVIGATION

International Load Line Convention [4]

Siam

By a note dated August 28, 1933, the British Embassy at Washington informed the Secretary of State that the accession of Siam to the international load line convention, signed at London July 5, 1930, was notified to the British Foreign Office on July 11, 1933, and will take effect on October 11, 1933.

POSTAL

Universal Postal Convention [5]

Venezuela

By a despatch dated August 14, 1933, the American Legation at Caracas reported that the President of Venezuela signed on February 6, 1933, and the National Congress approved on July 16, 1933, the universal postal convention and the protocol concerning the transportation of regular mails by air, signed at London June 28, 1929.

Postal Union of the Americas and Spain [5]

Venezuela

The Spanish Ambassador at Washington transmitted to the Secretary of State with a note dated August 4, 1933, the certificate of the act of deposit of the instrument of ratification by Venezuela of the convention of the Postal Union of the Americas and Spain and the agreements relating to parcels post and postal money orders, signed at Madrid November 10, 1931. The deposit took place on July 7, 1933.

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[4] See Bulletin No. 46, July 1933, p. 31.

[5] See Bulletin No. 44, May 1933, p. 17.

Parcel Post Agreement between the United States and Greece

On August 8, 1933, the President approved and ratified the parcel post agreement and the regulations pertaining thereto between the United States and Greece, signed at Washington August 1, 1933, and at Athens July 14, 1933.

TELECOMMUNICATIONS

International Radio Convention

Colombia

The American Legation at Bogotá transmitted to the Secretary of State in a despatch dated August 14, 1933, a copy of Decree No. 1340 of 1933, by which the President of Colombia ratified the international radio convention and the regulations annexed thereto, signed at Washington November 25, 1927. The decree was signed on July 30, 1933.

North and Central American Regional Radio Conference [6]

The North and Central American Regional Radio Conference, which met at Mexico City on July 10, adjourned on August 9, 1933. Delegations from Canada, Costa Rica, Cuba, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and the United States participated at the conference and adopted recommendations relating to the allocation of the frequencies between 1,600 and 6,000 kilocycles. The recommendations concerning those frequencies, which are largely used for communication purposes, are too lengthy to be reproduced here. The recommendations adopted on broadcasting are as follows:

I. The participating governments shall make observations and measurements necessary to determine the conditions under which each of them receives the signals of the broadcasting stations of other countries as well as its own with the object that at a later time the specifications and characteristics of the stations to operate on different frequencies can be duly considered.

II. The present width of 10 kc for broadcast channels shall be maintained.

III. The frequencies of the carrier waves for broadcasting shall be assigned in multiple numbers of 10.

IV. In the participating countries the broadcasting stations shall control the frequency of operation in such a way that the frequency of the emitted wave shall not differ more than 50 cycles per second, plus or minus, from the nominal frequency assigned.

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[6] See Bulletin No. 45, June 1933, p. 40.

V. The participating countries shall exchange information respecting the assignment of frequency to end the alteration of power of broadcasting stations in their respective countries.

VI. Directional antennae, the synchronization of stations and other technical means shall be employed where possible in order to reduce the number of frequencies required for a certain number of stations.

VII. The assignment of frequencies for broadcasting to the various participating countries shall be left pending for the time being.

TEXTS OF TREATIES AND AGREEMENTS

SILVER AGREEMENT

Memorandum of Heads of Agreement entered into by the Delegates of India, China and Spain as holders of large stocks or users of silver, and of Australia, Canada, the United States, Mexico and Peru as principal producers of silver, at the Monetary and Economic Conference held in London, July, 1933.

Whereas, at a meeting of the Sub-Commission II (Permanent Measures) of the Monetary and Financial Commission of the Monetary and Economic Conference held on Thursday, July 20th, 1933, the following Resolution was unanimously adopted.

"Be it resolved to recommend to all the Governments parties to this Conference:

"(*a*) That an agreement be sought between the chief silver producing countries and those countries which are the largest holders or users of silver with a view to mitigating fluctuations in the price of silver; and that the other nations not parties to this agreement should refrain from measures which could appreciably affect the silver market;

"(*b*) That the Governments parties to this Conference shall refrain from new legislative measures which would involve further debasement of their silver coinage below a fineness of 800/1000;

"(*c*) That they shall substitute silver coins for low value paper currency insofar as the budgetary and local conditions of each country will permit;

"(*d*) That all of the provisions of this Resolution are subject to the following exceptions and limitations:

"The requirements of such provisions shall lapse on April 1st, 1934, if the agreement recommended in paragraph (*a*) does not come into force by that date, and in no case shall extend beyond January 1st, 1938;

"Governments may take any action relative to their silver coinage that they may deem necessary to prevent the flight or destruction of their silver coinage by reason of a rise in the bullion price of the silver content of their coin above the nominal or parity value of such silver coin," and, WHEREAS, the Governments of India and Spain may desire to sell certain portions of their silver holdings, and it will be to their advantage that the countries which are large producers of silver should absorb silver as herein provided, to offset such sales, and,

WHEREAS, it is to the advantage of the large producing countries named in Article 2 that the sales of silver from monetary stocks be limited as herein provided, and

WHEREAS, it is to the advantage of China that sales from monetary stocks of silver be offset by purchases as herein provided, with a view to its effective stabilisation;

NOW, THEREFORE, it is agreed between the parties hereto:

1. (*a*) That the Government of India shall not dispose by sale of more than one hundred and forty million fine ounces of silver during a period of four years, commencing with January 1st, 1934. The disposals during each calendar year of the said four year period shall be based on an average of thirty five million fine ounces per year, it being understood, however, that, if in any year, the Government of India shall not dispose of thirty five million fine ounces, the difference between the amount actually disposed of and thirty five million fine ounces may be added as additional disposals in subsequent years. Provided further that the maximum amount disposed of in any year shall be limited to fifty million fine ounces.

(*b*) Notwithstanding anything previously stated in this Article, it is understood that if the Government of India should after the date of this agreement sell silver to any Government for the purpose of transfer to the United States Government in payment of war debts such silver shall be excluded from the scope of this agreement;

(*c*) Provided, however, that when the total of the disposals referred to in paragraph (*a*) above plus the sales referred to in paragraph (*b*) above by the Government of India under this agreement shall amount to one hundred and seventy five million fine ounces, the obligation of the parties hereto shall cease.

2. That the Governments of Australia, Canada, the United States, Mexico and Peru, during the existence of this agreement, shall not sell any silver, and shall also in the aggregate purchase, or otherwise arrange for withdrawing from the market, thirty five million fine ounces of silver from the mine production of such countries in each calendar year for a period of four years commencing with the calendar year 1934. The said Governments undertake to settle by agreement the share in the said thirty five million fine ounces which each of them shall purchase or cause to be withdrawn.

3. That the silver purchased or withdrawn in accordance with Article 2 above shall be used for currency purposes (either for coinage or for currency reserves), or be otherwise retained from sale during said period of four years.

4. That the Government of China shall not sell silver resulting from demonetised coins for a period of four calendar years commencing January 1st, 1934.

5. That the Government of Spain shall not dispose by sale of more than twenty million fine ounces of silver during a period of four years commencing January 1st, 1934. The disposals during each calendar year of the said four year period shall be based on an average of five million fine ounces per year; it being understood, however, that if in any year the Government of Spain shall not dispose of five million fine ounces, the difference between the amount actually disposed of and five million fine ounces may be added as additional disposals in subsequent years; provided further that the maximum amount disposed of in any year shall be limited to seven million fine ounces.

6. That the Governments concerned will exchange all such information as may be necessary with regard to the measures to fulfil the provisions of this memorandum of agreement.

7. That it is understood, that subject to the provisions of Article 8, the undertakings of each party to the present memorandum of agreement are conditional upon the fulfilment of the undertakings of every other party thereto.

8. That this memorandum of agreement is subject to ratification by the Governments concerned. The instruments of ratification shall be deposited not later than the 1st April, 1934, with the Government of the United States. It shall come into force as soon as the ratifications of all the Governments concerned are received provided that all the ratifications are received before the 1st April, 1934. A notice by any Government that the affirmative action necessary to carry out the purposes of this agreement has been taken will be accepted as an instrument of ratification. Nevertheless, if one or more of the Governments enumerated in Article 2 fail to ratify by the 1st April, 1934, the agreement shall come into force at that date if the other Governments mentioned in Article 2 which have ratified notify the other Governments which ratify that they are prepared to purchase, or cause to be withdrawn, in the aggregate the amount of silver mentioned in Article 2. The Government of the United States is requested to take such steps as may be necessary for the purpose of the conclusion of this agreement.

IN WITNESS WHEREOF the undersigned have signed the present memorandum of agreement.

Done at London this 22nd day of July, 1933, in a single copy which shall be deposited in the archives of the Government of the United States.

S. M. Bruce
Delegate of Australia.
Edgar N. Rhodes
Delegate of Canada.
W. W. Yen
Delegate of China.
Key Pittman
Delegate of United States of America.
George Schuster
Delegate of India.
Eduardo Suárez
Delegate of Mexico.
F. Tudela
Delegate of Peru.
L. Nicolau d'Olwer
Delegate of Spain.

Allotment Agreement Signed by the United States

In connection with the attached memorandum of heads of agreement[1] entered into by the Delegates of India, China and Spain as holders of large stocks or users of silver, and of Australia, Canada, the United States, Mexico and Peru, as principal purchasers of silver, it is understood that the Government of the United States shall purchase or otherwise arrange for withdrawing from the market, as in the attached memorandum of agreement provided, twenty-four million, four hundred and twenty-one thousand, four hundred and ten, fine ounces of silver in each calendar year beginning with the calendar year 1934.

This understanding is conditioned upon similar undertakings being entered into by the Governments of Australia, Canada, Mexico and Peru whereby those Governments agree to purchase or otherwise arrange for withdrawing from the market of amounts of fine ounces of silver which, with the obligation hereby entered into, will make in the aggregate thirty-five million fine ounces of silver annually.

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[1] *Supra.*

It is understood that this agreement and the similar agreements to be entered into by the Delegates of the Governments of Australia, Canada, Mexico, and Peru, are subject to the following general provisions:

1. That every provision of this agreement shall terminate on January 1[illegible]38.

2. That the absorption of silver referred to in this agreement means current mine production.

3. That when the Government of India shall have sold, transferred or otherwise disposed of Government stocks of silver to the net amount of one hundred and seventy-five million fine ounces, as provided in paragraph (*c*) of Article 1 of the attached memorandum of heads of agreement, the obligations of governments to purchase under this contract shall cease.

4. That this memorandum is subject to ratification by the proper governmental authorities of the United States whose delegate has executed this agreement, and the undersigned delegate undertakes to use his good offices to secure such action at the earliest possible date.

5. That this understanding shall come into force as soon as the ratifications of all the governments concerned are received, provided that all the ratifications are received before the 1st of April, 1934. A notice by any government, party to this understanding, that the affirmative action necessary to carry out the purposes of this understanding has been taken will be accepted as an instrument of ratification. Nevertheless, if one or more of the governments parties to this understanding have failed to ratify by the first of April, 1934, the understanding shall go into force and effect at that date if the other governments parties to this understanding have ratified the understanding and have given notice that they are prepared to purchase or cause to be withdrawn in the aggregate these thirty-five million fine ounces of silver. The Government of the United States is requested to take such steps as may be necessary for the purpose of the conclusion of this agreement.

In witness whereof, the undersigned have signed this memorandum of agreement.

Done at London this 26th day of July, 1933, in a single copy which shall be deposited in the archives of the Government of the United States.

Key Pittman
Delegate of the United States.

CONVENTION FOR THE UNIFICATION OF CERTAIN RULES RELATING TO THE PRECAUTIONARY ATTACHMENT OF AIRCRAFT[1]

His Majesty the King of Albania, the President of the German Reich, the President of the United States of America, the Federal President of the Republic of Austria, His Majesty the King of the Belgians, the President of the United States of Brazil, the President of the Republic of Chile, the President of the Nationalist Government of the Republic of China, the President of the Republic of Colombia, the President of the Republic of Cuba, His Majesty the King of Denmark and Iceland, the President of the Republic of Ecuador, the President of the Republic of El Salvador, the President of the Spanish Republic, the President of the Republic of Finland, the President of the French Republic, His Majesty the King of Great Britain, Ireland and the British Territories beyond the Seas, Emperor of India, the President of the Republic of Guatemala, the President of the Hellenic Republic, the President of the Republic of Honduras, His Most Serene Highness the Regent of the Kingdom of Hungary, His Majesty the King of Italy, His Majesty the Emperor of Japan, the President of the Republic of Lithuania, the President of the United States of Mexico, the President of the Republic of Nicaragua, His Majesty the King of Norway, Her Majesty the Queen of the Netherlands, the President of the Republic of Poland, the President of the Republic of Portugal, His Majesty the King of Rumania, the President of the Dominican Republic, the Captains Regent of the Most Serene Republic of San Marino, His Holiness the Sovereign Pontiff, His Majesty the King of Sweden, the Swiss Federal Council, the President of the Czechoslovak Republic, the President of the Republic of Turkey, the Central Executive Committee of the Union of Soviet Socialist Republics, the President of the United States of Venezuela, His Majesty the King of Yugoslavia,

having recognized the advantage of adopting certain uniform rules concerning the precautionary attachment of aircraft,

have to this end named their respective plenipotentiaries,

who, being thereto duly authorized, have concluded and signed the following Convention:

ARTICLE 1

The High Contracting Parties agree to take the necessary measures to put into force the rules established by the present Convention.

ARTICLE 2

(1) By precautionary attachment within the meaning of the present Convention shall be understood any act, whatever it may be called, whereby an aircraft is seized, in a private interest, through the medium of agents of justice or of the public administration, for the benefit either of a creditor, or of the owner, or of the holder of a lien on the aircraft, where the attaching claimant cannot invoke a judgment and execution, obtained beforehand in the ordinary course of procedure, or an equivalent right of execution.

(2) In case the applicable law gives the creditor who holds the aircraft without the consent of the operator the right of detention, the exercise of this right shall, for the purposes of the present Convention, be the same as precautionary attachment and be governed by the régime contemplated in the present Convention.

ARTICLE 3

(1) The following aircraft shall be exempt from precautionary attachment:

(*a*) Aircraft assigned exclusively to a Government service, the postal service included, commerce excepted;

(*b*) Aircraft actually put in service on a regular line of public transportation and indispensable reserve aircraft;

(*c*) Any other aircraft assigned to transportation of persons or property for hire, when it is ready to depart for such transportation, except in a case involving a debt contracted for the trip which it is about to make or a claim arising in the course of the trip.

(2) The provisions of the present article shall not apply to a precautionary attachment made by the owner of an aircraft who has been dispossessed of the same by an unlawful act.

ARTICLE 4

(1) In case attachment is not prohibited or in case the aircraft is exempt from attachment and the operator does not invoke such exemption, an adequate bond shall prevent the precautionary attachment or give a right to immediate release.

(2) The bond shall be adequate if it covers the amount of the debt and the costs and is assigned exclusively to payment of the creditor, or if it covers the value of the aircraft in case this is less than the amount of the debt and costs.

ARTICLE 5

In every case a judgment shall be rendered on a suit for release of the precautionary attachment in a summary and rapid procedure.

ARTICLE 6

(1) If an aircraft has been attached which is exempt from attachment according to the provisions of the present Convention, or if the debtor has had to furnish bond to prevent the attachment or

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[1] Translation by the Department of State.

to obtain the release thereof, the attaching claimant shall be liable in accordance with the law of the forum for the resulting damage to the operator or the owner.

(2) The same rule shall apply in case a precautionary attachment has been made without just cause.

Article 7

The present Convention shall not apply to precautionary measures prescribed in bankruptcy proceedings, nor to precautionary measures taken in case of violation of customhouse, penal or police regulations.

Article 8

The present Convention shall not prevent the application of international conventions between the High Contracting Parties which provide for more liberal exemptions from attachment.

Article 9

(1) The present Convention shall apply on the territory of any one of the High Contracting Parties to any aircraft registered in the territory of another High Contracting Party.

(2) The expression "territory of a High Contracting Party" includes any territory under the sovereign power, suzerainty, protection, mandate or authority of the said High Contracting Party, for which the latter is a party to the Convention.

Article 10

The present Convention shall be drawn up in French in one original copy which shall remain deposited in the archives of the Ministry for Foreign Affairs of the Kingdom of Italy, and of which a duly certified copy shall be sent by the Government of the Kingdom of Italy to each of the Governments concerned.

Article 11

(1) The present Convention shall be ratified. The instruments of ratification shall be deposited in the archives of the Ministry for Foreign Affairs of the Kingdom of Italy, which shall notify each of the governments concerned of the deposit thereof.

(2) As soon as five ratifications shall have been deposited, the Convention shall come into force between the High Contracting Parties which shall have ratified it, ninety days after the deposit of the fifth ratification. Each ratification which shall be deposited subsequently shall take effect ninety days after such deposit.

(3) It shall be the duty of the Government of the Kingdom of Italy to notify each of the Governments concerned of the date on which the present Convention comes into force.

Article 12

(1) The present Convention, after its coming into force, shall be open for accession.

(2) The accession shall be effected through a notification addressed to the Government of the Kingdom of Italy, which shall inform each of the Governments concerned.

(3) The accession shall take effect ninety days after the notification made to the Government of the Kingdom of Italy.

Article 13

(1) Any one of the High Contracting Parties may denounce the present Convention through a notification made to the Government of the Kingdom of Italy, which shall at once notify each of the Governments concerned.

(2) The denunciation shall take effect six months after notification thereof and shall operate only with respect to the party making the denunciation.

Article 14

(1) The High Contracting Parties may, at the time of signature, deposit of the ratifications, or accession, declare that the acceptance which they give to the present Convention shall not apply to all or to any part of their colonies, protectorates, overseas territories, mandated territories or any other territory under their sovereignty, authority or suzerainty.

(2) The High Contracting Parties may subsequently notify the Government of the Kingdom of Italy that they intend to render the present Convention applicable to all or any part of their colonies, protectorates, overseas territories, mandated territories or any other territory under their sovereignty, authority or suzerainty so excluded from their original declaration.

(3) They may, at any time, notify the Government of the Kingdom of Italy that they intend to have the present Convention cease to apply to all or to any part of their colonies, protectorates, overseas territories, mandated territories, or any other territory under their sovereignty, authority or suzerainty.

(4) The Government of the Kingdom of Italy shall inform each of the Governments concerned of the notifications made in accordance with the last two paragraphs.

Article 15

Any of the High Contracting Parties shall be entitled, not earlier than two years after the coming into force of the present Convention, to call for a meeting of another international conference in order to consider any improvements which might be made in the present Convention. To this end it shall communicate with the Government of the French Republic, which will take the necessary measures in preparation for such conference.

The present Convention, done at Rome, May 29, 1933, shall remain open for signature until January 1, 1934.

In testimony whereof, the plenipotentiaries have signed the present Convention.

For Germany:
Reinhold Richter
Dr. Wegerdt
Dr. Albrecht
Dr. Jur. Otto Riese

For the United States of America:

The Delegation of the United States of America declares that the Convention shall apply only within the continental limits of the United States of America exclusive of the territory of Alaska.

John C. Cooper, Jr.
Jaeckel
John Jay Ide.

For Austria:
Gruenebaum
Strobele

For Belgium:
H. De Vos

For Brazil:
Alcibiades Peçanha
Trajano Madeiros do Paço

For Denmark:
L. Ingerslev
Knud Gregersen

For El Salvador:
A. Sandoval

For Spain:
Juan F. de Ranero
Alejandro Arias Salgado

For France:
A. de Lapradelle
George Ripert

For Great Britain and North Ireland:
A. H. Dennis
A. W. Brown

For India:
A. H. Dennis
A. W. Brown

For Guatemala:
J. Herrera
Federico G. Muerga

For Italy:
A. Giannini

For Lithuania:
V. Carneckis

For Norway:
M. Mjoellner

For Poland:
León Babinski

For Rumania:
D. I. Ghika
Al. Cantacuzino Pascanu
Et. Veron

For San Marino:
Gozi

For Switzerland:
F. Hess
Clerc

For Czechoslovakia:
Szalatnay
Dr. Jur. Netík

For Turkey:
H. Vassif 8/6/33

CONVENTION FOR THE UNIFICATION OF CERTAIN RULES RELATING TO DAMAGES CAUSED BY AIRCRAFT TO THIRD PARTIES ON THE SURFACE[1]

His Majesty the King of Albania, the President of the German Reich, the President of the United States of America, the Federal President of the Republic of Austria, His Majesty the King of the Belgians, the President of the United States of Brazil, the President of the Republic of Chile, the President of the Nationalist Government of the Republic of China, the President of the Republic of Colombia, the President of the Republic of Cuba, His Majesty the King of Denmark and Iceland, the President of the Republic of Ecuador, the President of the Republic of El Salvador, the President of the Spanish Republic, the President of the Republic of Finland, the President of the French Republic, His Majesty the King of Great Britain, Ireland and the British Territories beyond the Seas,

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[1] Translation by the Department of State.

Emperor of India, the President of the Republic of Guatemala, the President of the Hellenic Republic, the President of the Republic of Honduras, His Most Serene Highness the Regent of the Kingdom of Hungary, His Majesty the King of Italy, His Majesty the Emperor of Japan, the President of the Republic of Lithuania, the President of the United States of Mexico, the President of the Republic of Nicaragua, His Majesty the King of Norway, Her Majesty the Queen of the Netherlands, the President of the Republic of Poland, the President of the Republic of Portugal, His Majesty the King of Rumania, the President of the Dominican Republic, the Captains Regent of the Most Serene Republic of San Marino, His Holiness the Sovereign Pontiff, His Majesty the King of Sweden, the Swiss Federal Council, the President of the Czechoslovak Republic, the President of the Republic of Turkey, the Central Executive Committee of the Union of Soviet Socialist Republics, the President of the United States of Venezuela, His Majesty the King of Yugoslavia,

having recognized the advantage of regulating in a uniform manner the liability for damages caused by aircraft to third parties on the surface,

have to this end named their respective plenipotentiaries,

who, being thereto duly authorized, have concluded and signed the following Convention:

Article 1

The High Contracting Parties agree to take the necessary measures in order to put into force the rules established by the present Convention.

Article 2

(1) The damage caused by an aircraft in flight to persons or property on the surface shall give a right to compensation by the mere fact that it is established that the damage exists and that it was caused by the aircraft.

(2) This provision shall be applicable to the following:

(*a*) Damage caused by any body whatever falling from the aircraft, even in the case of regulation jettison of ballast or jettison made in a case of necessity;

(*b*) Damage caused by any person on board the aircraft, except in the case of an act intentionally committed by a person who is not a member of the crew, not connected with the operations, without the operator or his agents having been able to prevent it.

(3) The aircraft is considered as in flight from the beginning of the operations of departure until the end of the operations of arrival.

Article 3

The liability contemplated in the preceding article cannot be reduced or avoided except in the case where the negligence of the injured party caused the damage or contributed thereto.

Article 4

(1) The liability contemplated in Article 2 shall attach to the operator of the aircraft.

(2) Any person who has the right of disposal of, and uses the aircraft on his own account shall be termed operator of the aircraft.

(3) In case the operator's name is not inscribed on the aeronautic register or any other official document, the owner shall be presumed to be the operator subject to proof to the contrary.

Article 5

Any person who, without having the right to dispose of the aircraft, makes use of it without the consent of the operator shall be liable for the damage caused, and the operator who has not taken the proper measures to avoid the unlawful use of his aircraft shall be jointly liable with him, each of them being bound on the conditions and within the limits of the present Convention.

Article 6

In case of damage caused on the surface by two or more colliding aircraft, the operators of such aircraft shall be jointly and severally liable to the injured third parties, each one of them being bound on the conditions and within the limits of the present Convention.

Article 7

The preceding provisions shall not prejudge the question as to whether the operator of the aircraft shall or shall not have recourse against the author of the damage.

Article 8

(1) The operator shall be liable for each accident for an amount not to exceed a sum determined at the rate of 250 francs per kilogram of weight of the aircraft. By the weight of the aircraft shall be understood the weight of the aircraft with the full maximum load, as shown on the certificate of airworthiness or any other official document.

(2) However, the limit of the operator's liability cannot be less than 600,000 francs nor more than 2,000,000 francs.

(3) One-third of this value shall be assigned to compensation for damages caused to property and the other two-thirds to compensation

for damages caused to persons, provided that in this last case the compensation contemplated cannot exceed 200,000 francs per person injured.

Article 9

If several persons have suffered damages in the same accident and if the total amount to be paid as compensation exceeds the limits contemplated in Article 8, a proportional reduction in each one's rights must be made in such manner that the total shall not exceed the above-mentioned limits.

Article 10

(1) The persons who have suffered damages in the same accident must assert their rights or give notice of their claims to the operator within the maximum period of six months from the day of the accident.

(2) This period having expired, settlement of the compensation may properly be made; the interested parties having permitted the above period to elapse without asserting their rights or giving notice of their claims shall not be able to exercise their rights except on such amount as shall not have been distributed.

Article 11

If different injured third parties act in accordance with the provisions of the preceding articles and Article 16 before courts situated in different countries, the defendant may submit a statement, before each of them, of the total amount of the claims and moneys due, with a view to preventing the limits of his liability from being exceeded.

Article 12

(1) Any aircraft entered on the register of a territory of one High Contracting Party, in order to navigate above the territory of another High Contracting Party, must be insured against the damages considered in the present Convention, within the limits determined in Article 8 above, with a public insurance institution or an insurer authorized for this risk in the territory of registry of the aircraft.

(2) The domestic legislation of any High Contracting Party may substitute for the insurance, wholly or in part, another guarantee for the risks considered in the present Convention:

(*a*) in the form of a cash deposit made in a public fund or a bank authorized for this purpose in the territory of registry of the aircraft;

(*b*) in the form of a guarantee given by a bank authorized for this purpose in the territory of registry of the aircraft.

Said cash deposit and said guarantee must be brought up to their full amount as soon as the sums which they represent become subject to reduction by the amount of a payment for compensation.

(3) The insurance, the cash deposit and the bank guarantee must be especially and preferentially assigned to payment of the compensations due on account of the damages contemplated in the present Convention.

Article 13

(1) The kind, extent and duration of the sureties contemplated in Article 12 above shall be evidenced either in an official certificate or by an official notation on one of the ship's papers. Said certificate or document must be produced whenever required by the public authorities or upon the request of any party concerned.

(2) Said certificate or said document shall serve to attest the situation of the aircraft with respect to the obligations of the present Convention.

Article 14

The operator shall not be entitled to avail himself of the provisions of the present Convention which limit his liability:

(*a*) if it is proved that the damage was caused by gross negligence or wilful misconduct on the part of the operator and his agents, unless the operator proves that the damage was due to an error in piloting, operation or navigation, or, in a matter affecting his agents, that he has taken all the proper measures to prevent the damage;

(*b*) if he has not furnished one of the sureties prescribed in the present Convention, or if the sureties furnished are not in force or do not cover the operator's liability for the damage caused within the terms and limits of the present Convention.

Article 15

In case the operator of more than one aircraft furnishes the surety prescribed in the present Convention in the form of a cash deposit or a bank guarantee, the surety shall be deemed to cover the full limit of his liability for all the aircraft operated, if the deposit or the guarantee amounts to a sum arrived at by reducing the amount of the surety which he should furnish for the total number of his aircraft by one-third in case he operates two aircraft, and by one-half in case he operates three or more. Furthermore it shall be deemed to cover the full limit of liability for all the aircraft if it amounts to the sum of 2,000,000 francs for two aircraft or 3,000,000 francs for three or more.

Article 16

The following have competent jurisdiction over suits for damages in the territory of any one of the High Contracting Parties, as the claimant may elect: the judicial authorities of the defendant's domicile and those of the place where the damage was caused, without prejudice to the injured third party's right of direct action against the insurer in a case in which it can be exercised.

Article 17

(1) Such suits shall be barred after one year from the day of the damage. If the injured party proves that he could not have known either of the damage or the identity of the person liable, the period of limitation shall begin from the day when he could have had knowledge thereof.

(2) In every case, the suit shall be barred after three years from the day when the damage was caused.

(3) The manner of calculating the period of limitation as well as the causes of suspension and interruption of the period shall be determined by the law of the court before which the suit is brought.

Article 18

In the case of the death of the person liable, an action for damages lies in accordance with the terms of this Convention against those legally representing his estate.

Article 19

The sums stated in francs in the present Convention are considered to refer to the French franc containing 65½ milligrams of gold of a fineness of 900/1000. They may be converted into any national currency in round numbers.

Article 20

(1) The present Convention shall be applicable whenever any damage has been caused on the surface in the territory of one High Contracting Party by an aircraft registered in the territory of another High Contracting Party.

(2) The expression "territory of one High Contracting Party" shall include, for the purposes of the present Convention, any territory under the sovereign power, suzerainty, protection, mandate or authority of the said High Contracting Party for which the latter is a party to the Convention.

Article 21

The present Convention shall not apply to military, customhouse or police aircraft.

Article 22

The present Convention shall not apply to damages caused on the surface compensation for which is governed by a transportation contract or a labor contract entered into between the injured party and the one upon whom liability falls under the terms of the present Convention.

Article 23

The present Convention shall be drawn up in French in a single copy which shall remain deposited in the archives of the Ministry for Foreign Affairs of the Kingdom of Italy, and of which a duly certified copy shall be sent by the Government of the Kingdom of Italy to each of the Governments concerned.

Article 24

(1) The present Convention shall be ratified. The instruments of ratification shall be deposited in the archives of the Ministry for Foreign Affairs of the Kingdom of Italy, which shall notify each of the Governments concerned of the deposit thereof.

(2) As soon as five ratifications shall have been deposited, the Convention shall come into force as between the High Contracting Parties which shall have ratified it ninety days after the deposit of the fifth ratification. Any ratification which is deposited subsequently shall take effect ninety days after such deposit.

(3) It shall be the duty of the Government of the Kingdom of Italy to notify each of the Governments concerned of the date on which the present Convention comes into force.

Article 25

(1) The present Convention, after coming into force, shall be open for accession.

(2) Accession shall be made through a notification addressed to the Government of the Kingdom of Italy, which shall inform each of the Governments concerned thereof.

(3) The accession shall take effect ninety days after the notification to the Government of the Kingdom of Italy.

Article 26

(1) Any one of the High Contracting Parties may denounce the present Convention by a notification addressed to the Government of the Kingdom of Italy which shall at once inform each of the Governments concerned thereof.

(2) The denunciation shall take effect six months after the notification of the denunciation and shall operate only with respect to the party making the denunciation.

Article 27

(1) The High Contracting Parties may, at the time of signature, deposit of the ratifications or accession, declare that the acceptance which they give to the present Convention shall not apply to all or to any part of their colonies, protectorates, overseas territories, mandated territories or any other territory under their sovereignty, authority or suzerainty.

(2) The High Contracting Parties may subsequently notify the Government of the Kingdom of Italy that they intend to render the present Convention applicable to all or to any part of their colonies, protectorates, overseas territories, mandated territories or any other territory under their sovereignty, authority or suzerainty, so excluded from their original declaration.

(3) They may, at any time, notify the Government of the Kingdom of Italy that they intend to have the present Convention cease to apply to all or any part of their colonies, protectorates, overseas territories, mandated territories or any other territory under their sovereignty, authority or suzerainty.

(4) The Government of the Kingdom of Italy shall notify each of the Governments concerned of notifications made in accordance with the last two paragraphs.

ARTICLE 28

Any High Contracting Party shall be entitled not earlier than two years after the coming into force of the present Convention to call for the meeting of another international Conference in order to consider any improvements which might be made in the present Convention. To this end it shall communicate with the Government of the French Republic which shall take the necessary measures in preparation for such Conference.

The present Convention, done at Rome, May 29, 1933, shall remain open for signature until January 1, 1934.

IN TESTIMONY WHEREOF the Plenipotentiaries have signed the present Convention.

For Germany:
Reinhold Richter
Dr. Wegerdt
Dr. Albrecht
Dr. Jur. Otto Riese

For the United States of America:

The Delegation of the United States of America declares that the Convention shall apply only within the continental limits of the United States of America exclusive of the territory of Alaska.

John C. Cooper, Jr.
Jaeckel
John Jay Ide

For Austria:
Gruenebaum
Strobele

For Belgium:
H. De Vos

For Brazil:
Alcibiades Peçanha
Trajano Madeiros do Paço

For Denmark:
L. Ingerslev
Knud Gregersen

For El Salvador:
A. Sandoval

For Spain:
Juan F. de Ranero
Alejandro Arias Salgado

For France:
A. de Lapradelle
George Ripert

For Great Britain and North Ireland:
A. H. Dennis
A. W. Brown

For India:
A. H. Dennis
A. W. Brown

For Guatemala:
J. Herrera
Federico G. Murga

For Italy:
A. Giannini

For Lithuania:
V. Carneckis

For Norway:
M. Mjoellner

For Poland:
León Babinski

For Rumania:
D. I. Ghika
Al. Cantacuzino Pascanu
Et. Veron

For San Marino:
Gozi

For Switzerland:
F. Hess
Clerc

For Czechoslovakia:
SZALATNAY
DR. JUR. NETÍK

For Turkey:
H. VASSIF 8/6/33

CONVENTION DEFINING AGGRESSION[1]

Sa Majesté le Roi d'Afghanistan, le Président de la République d'Estonie, le Président de la République de Lettonie, Sa Majesté Impériale le Shah de Perse, le Président de la République de Pologne, Sa Majesté le Roi de Roumanie, le Président de la République de Turquie, et le Comité Central Exécutif de l'Union des Républiques Soviétiques Socialistes;

Désireux de renforcer la paix existante entre leurs pays;

Considérant que le Pacte Briand-Kellogg, dont ils sont signataires, interdit toute agression;

Estimant nécessaire, dans l'intérêt de la sécurité générale, de définir de manière aussi précise que possible l'agression afin de prévenir toute prétexte pour sa justification;

Constatant que tous les Etats ont également droit à l'indépendance, à la sécurité, à la défense de leurs territoires, et au libre développement de leurs institutions;

Animés du désir, dans l'intérêt de la paix générale, d'assurer à tous les peuples l'inviolabilité du territoire de leur pays;

Jugeant utile, dans l'intérêt de la paix générale, de mettre en vigueur entre leurs pays des règles précises définissant l'agression, en attendant que ces dernières deviennent universelles,

Ont décidé, dans ces buts, de conclure la présente Convention, et ont dûment autorisé à cet effet:

Sa Majesté le Roi d'Afghanistan: Ali Mohammed Khan, Ministre de l'Instruction Publique.

Le Président de la République d'Estonie: M. le Dr. Oskar Kallas, Envoyé Extraordinaire et Ministre Plénipotentiaire à Londres;

Le Président de la République de Lettonie: M. Waldemaras Salnais, Ministre des Affaires Etrangères;

Sa Majesté Impériale le Shah de Perse: Fatollah Khan Noury Esfandiary, Chargé d'Affaires à Londres;

Le Président de la République de Pologne: M. Edouard Raczynski, Délégué permanent auprès de la Société des Nations, Envoyé Extraordinaire et Ministre Plénipotentiaire;

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[1] The publication of a text in this bulletin does not imply that the United States is, contemplates becoming, or is eligible to become a party.

Sa Majesté le Roi de Roumanie: M. Nicolas Titulesco, Ministre des Affaires Etrangères;

Le Président de la République de Turquie: Tevfik Rüstü-bey, Ministre des Affaires Etrangères;

Le Comité Central Exécutif de l'Union des Républiques Soviétiques Socialiste: M. Maxime Litvinoff, Commissaire du Peuple aux Affaires Etrangères;

Lesquels ont convenu des dispositions suivantes:

ARTICLE PREMIER

Chacune des Hautes Parties Contractantes s'engage à accepter dans ses rapports mutuels avec chacune des autres et à partir du jour de la mise en vigueur de la présente Convention la définition de l'agression telle qu'elle a été expliquée dans des rapport du Comité pour les questions de sécurité en date du 24 Mai 1933 (Rapport Politis) à la Conférence pour la réduction et la limitation des armements, rapport fait à la suite de la proposition de la Délégation Soviétique.

ARTICLE II

En conséquence, sera reconnu comme agresseur dans un conflit international, sous réserve des accords en vigueur entre les parties en conflit, l'Etat qui, le premier, aura commis l'une des actions suivantes:

1. Déclaration de guerre à un autre Etat;
2. Invasion par ses forces armées, même sans déclaration de guerre, du territoire d'un autre Etat;
3. Attaque par ses forces terrestres, navales ou aériennes, même sans déclaration de guerre, du territoire, des navires, ou des aéronefs d'un autre Etat;
4. Blocus naval des côtes ou des ports d'un autre Etat;
5. Appui donné à des bandes armées qui, formées sur son territoire, auront envahi le territoire d'un autre Etat, ou refus, malgré la demande de l'Etat envahi, de prendre, sur son propre territoire, toutes les mesures en son pouvoir pour priver lesdites bandes de toute aide ou protection.

ARTICLE III

Aucune considération d'ordre politique, militaire, économique ou autre ne pourra servir d'excuse ou de justification à l'agression prévue à l'Article II. (A titre d'exemple voir l'Annexe.)

ARTICLE IV

La présente Convention sera ratifiée par les Hautes Parties Contractantes conformément à la législation de chacune d'entre elles.

Les instruments de ratification seront déposés par chacune des Hautes Parties Contractantes auprès du Gouvernement de l'Union des Républiques Soviétiques Socialistes.

Aussitôt que les instruments de ratification auront été déposés par deux des Hautes Parties Contractantes, la présente Convention entrera en vigueur entre ces deux Parties. Elle entrera en vigueur pour toutes les autres Hautes Parties Contractantes à mesure que ces dernières déposeront à leur tour leurs instruments de ratification.

Chaque dépôt des instruments de ratification sera immédiatement notifié par le Gouvernement de l'Union des Républiques Soviétiques Socialistes à tous les signataires de la présente Convention.

Article V

La présente Convention a été signée en huit exemplaires dont chacune des Hautes Parties Contractantes en a reçu un.

En foi de quoi les Plénipotentiaires énumérés ci-dessus ont signé la présente Convention et y ont apposé leurs sceaux.

Fait à Londres, le 3 juillet 1933.

Ali Mohammed Khan, Oscar Kallas, Waldemaras Salnais, Fatolla Khan Nury Esfandiary, Edouard Raczynski, Nikolas Titulesco, Tevfik Rüstü-bey, Maxim Litvinov.

Annexe à l'Article III de la Convention relative à la définition de l'agression

Les Hautes Parties Contractantes signataires de la Convention relative à la définition de l'agression,

Désirant, sous la réserve expresse de ne restreindre en rien la portée absolue de la règle posée à l'Article III de ladite Convention, fournir certaines indications de nature à déterminer l'agresseur.

Constatent qu'aucun acte d'agression au sens de l'Article II de ladite Convention ne pourra, entre autres, être justifié par l'une des circonstances suivantes:

A. *La situation intérieure d'un Etat*, par exemple sa structure politique, économique ou sociale; les défauts allégués de son administration; les troubles provenant de grèves, révolutions, contre-révolutions ou guerre civile.

B. *La conduite international d'un Etat*, par exemple la violation ou le danger de violation des droits ou intérêts matériels ou moraux d'un Etat étranger ou de ses ressortissants; la rupture des relations diplomatiques ou économiques; les mesures de boycottage économique ou financier; les différends relatifs à des engagements économiques, financiers ou autres envers des Etats étrangers; les incidents de frontière ne rentrant pas dans un des cas d'agression indiqués dans l'Article II.

Les Hautes Parties Contractantes sont d'autre part d'accord pour reconnaître que la présente Convention ne devra jamais servir à

légitimer les violations du droit des gens qui pourraient être impliquées dans les circonstances comprises dans l'énumeration ci-dessus.

[Signatures]

Protocole de Signature

Il est convenu entre les Hautes Parties Contractantes que si ultérieurement un ou plusieurs des autres Etats immédiatement voisins de l'Union des Républiques Soviétiques Socialistes adhère à la présente Convention, cette adhésion lui ou leur conférera les mêmes droits et imposera les mêmes obligations que ceux des signataires originaires.

[Signatures]

[Translation]

His Majesty the King of Afghanistan, the President of the Republic of Estonia, the President of the Republic of Latvia, His Imperial Majesty the Shah of Persia, the President of the Republic of Poland, His Majesty the King of Rumania, the President of the Republic of Turkey and the Central Executive Committee of the Union of the Soviet Socialist Republics,

Being desirous of strengthening the peace existing between their countries,

In view of the fact that the Briand-Kellogg Pact, to which they are signatories forbids all aggression,

Believing that it is necessary, in the interest of the general security, to define aggression as precisely as possible in order to prevent any pretext for its justification;

Being aware that all states have an equal right to independence, to security, to the defense of their territories, and to the free development of their institutions,

Animated by the desire, in the interest of general peace, to assure to all peoples the inviolability of the territory of their countries;

Deeming it expedient, in the interests of the general peace to put into effect, as between their countries, precise rules defining aggression, pending the time when such rules shall become universal,

Have decided, for these purposes, to conclude the present convention, and have thereunto duly authorized:

His Majesty the King of Afghanistan: Ali Mohammed Khan, Minister of Public Instruction;

The President of the Republic of Estonia: Dr. Oskar Kallas, Envoy Extraordinary and Minister Plenipotentiary at London;

The President of the Republic of Latvia: Mr. Waldemaras Salnais, Minister of Foreign Affairs;

His Imperial Majesty the Shah of Persia: Fatollah Khan, Noury Esfandiary, Chargé d'Affaires at London;

The President of the Republic of Poland: Mr. Edouard Raczynski, Permanent Delegate to the League of Nations, Envoy Extraordinary and Minister Plenipotentiary;

His Majesty the King of Rumania: Mr. Nicolas Titulesco, Minister of Foreign Affairs;

The President of the Republic of Turkey: Tevfik Rüstü-bey, Minister of Foreign Affairs;

The Central Executive Committee of the Union of Soviet Socialist Republics: Mr. Maxime Litvinoff, People's Commissar for Foreign Affairs;

Who have agreed upon the following provisions:

ARTICLE I

Each of the High Contracting Parties undertakes to accept in its mutual relations with each of the others and from the day that the present convention enters into effect the definition of aggression as it was explained in the report of the committee on questions of security under date of May 24, 1933 (Politis Report) to the Conference for Reduction and Limitation of Armaments, a report made following the proposal of the Soviet Delegation.

ARTICLE II

Consequently, the state which shall first have committed one of the following acts shall be, subject to the agreements in effect between the parties to the dispute, considered as the aggressor:

1. Declaration of war on another state;
2. Invasion by its armed forces, even without a declaration of war, of the territory of another state;
3. Attack by its land, naval, or aerial forces, even without a declaration of war, on the territory, the vessels, or the aircraft of another state;
4. Naval blockade of the coasts or the ports of another state;
5. Support given to armed bands which, having been organized on its territory, shall have invaded the territory of another state, or the refusal, despite the request of the state invaded, to take, on its own territory, all measures in its power to deprive such bands of any aid or protection.

ARTICLE III

No consideration of a political, military, economic or other nature shall serve as an excuse or justification for the aggression as specified in Article II. (For an example see the Annex.)

ARTICLE IV

The present convention shall be ratified by the High Contracting Parties, in conformity with the laws of each of them.

The instruments of ratification shall be deposited by each of the High Contracting Parties with the Government of the Union of the Soviet Socialist Republics.

As soon as the instruments of ratification shall have been deposited by two of the High Contracting Parties, the present convention shall enter into effect between those two parties. As each of the other High Contracting Parties deposits in turn, instruments of ratification the convention shall enter into force for it.

Each deposit of the instruments of ratification shall immediately be notified by the Government of the Union of the Soviet Socialist Republics to all the signatories to the present convention.

ARTICLE V

The present convention has been signed in eight copies of which each of the High Contracting Parties has received one.

In faith whereof the Plenipotentiaries mentioned above have signed the present convention and have affixed their seals thereto.

Done at London, July 3, 1933.

ALI MOHAMMED KHAN, OSCAR KALLAS, WALDEMARAS SALNAIS, FATOLLA KHAN NURY ESFANDIARY, EDOUARD RACZYNSKI, NIKOLAS TITULESCO, TEVFIK RÜSTÜ-BEY, MAXIM LITVINOV.

Annex to Article III of the Convention relative to the Definition of Aggression

The High Contracting Parties signatory to the convention relative to the definition of aggression,

Being desirous, subject to the express reservation of not in any way restricting the absolute scope of the rule laid down in article III of the said convention, of providing certain indications of a nature to determine which is the aggressor state.

Note that no act of aggression within the meaning of article II of the said convention can, among others, be justified by one of the following circumstances:

A. *The domestic situation in a state,* for example its political, economic, or social structure; alleged defects in its administration; disturbances arising from strikes, revolutions, counter-revolutions, or civil war.

B. *The international conduct of a state,* for example violation or danger of violation of material or moral rights or interests of a foreign state or of its nationals; rupture of diplomatic or economic relations; economic or financial boycott measures; differences relative to economic, financial, or other engagements with respect to foreign states; frontier incidents not included in one of the cases of aggression indicated in article II.

The High Contracting Parties agree, moreover, in recognizing that the present convention must never serve to legitimate the violations of international law that might be involved under the circumstances comprised in the above list.

[Signatures]

Protocol of Signature

It is agreed among the High Contracting Parties that if subsequently one or several of the other states, immediate neighbors of the Union of Soviet Socialist Republics, should adhere to the present convention, such adherence shall confer on them the same rights and impose on them the same obligations as those of the original signatories.

[Signatures]

RECENT PUBLICATIONS

During August, the following publication of direct interest in connection with *Treaty Information* was published by the Department of State and may be secured from the Superintendent of Documents, Government Printing Office, Washington, D.C.:

Papers Relating to the Foreign Relations of the United States: 1918, Supplement 2—The World War. Publication No. 476. lxxix+862 pp. $1.50 (cloth).

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(COPY)

DEPARTMENT OF STATE

FOR THE PRESS July 3, 1933

The Secretary of State, Mr. Cordell Hull, at London, in his capacity as Secretary of State, today made public the following message to him from the President of the United States, dated July 2, 1933:

"I would regard it as a catastrophe amounting to a world tragedy if the great Conference of Nations, called to bring about a more real and permanent financial stability and a greater prosperity to the masses of all nations, should, in advance of any serious effort to consider these broader problems, allow itself to be diverted by the proposal of a purely artificial and temporary experiment affecting the monetary exchange of a few nations only. Such action, such diversion, shows a singular lack of proportion and a failure to remember the larger purposes for which the Economic Conference originally was called together.

"I do not relish the thought that insistence on such action should be made an excuse for the continuance of the basic economic errors that underlie so much of the present world wide depression.

"The world will not long be lulled by the specious fallacy of achieving a temporary and probably an artificial stability in foreign exchange on the part of a few large countries only.

"The sound internal economic system of a nation is a greater factor in its well being than the price of its currency in changing terms of the currencies of other nations.

"It is for this reason that reduced cost of government, adequate government income, and ability to service government debts are all so important to ultimate stability. So too, old fetishes of so-called international bankers are being replaced by efforts to plan national currencies with the objective of giving to those currencies a continuing purchasing power which does not greatly vary in terms of the commodities and need of modern civilization. Let me be frank in saying that the United States seeks the kind of a dollar which a generation hence will have the same purchasing and debt paying power as the dollar value we hope to aggain in the near future. That objective means more to the good of other nations than a fixed ratio for a month or two in terms of the pound or franc.

"Our broad purpose is the permanent stabilization of every nation's currency. Gold or gold and silver can well continue to be a metallic reserve behind currencies but this is not the time to dissipate gold reserves. When the world works out concerted policies in the majority of nations to produce balanced budgets and living within their means, then we can properly discuss a better distribution of the world's gold and silver supply to act as a reserve base of national currencies. Restoration of world trade is an important partner, both in the means and in the result. Here also temporary exchange fixing is not the true answer. We must rather mitigate existing embargoes to make easier the exchange of products which one nation has and the other nation has not.

"The Conference was called to better and perhaps to cure fundamental economic ills. It must not be diverted from that effort."

Extract from New York Times report of unprinted speech of Franklin D. Roosevelt delivered at Butte, Montana, September 20, 1932.

"All prosperity springs from the soil. Agriculture and mining - these are fundamental.

"I am glad Senator Walsh read to you the platform of the two parties on silver. The difference between the Republican and Democratic platforms on the money question is not a difference of alleged purpose, but it is a difference of attitude and method.

"But, remember well, that attitude and method - the way we do things, is nearly always the measure of our sincerity. It is so in this case.

"The Republican leaders say that when an international conference is called by someone else, they will participate. We promise on our own initiative to call such a conference. This I propose to do without delay or evasion, when I go to Washington next March.

"I believe in American initiative in this and in all other important matters of world-wide concern. You and I know the manner in which different parts of the United States are interdependent, and you and I are coming to recognize the interdependence of all nations in the world in such matters.

"The improvement of conditions in the mining industry will be attained by no single panacea. I want to be fair and honest with you as I was with the farmers at Topeka the other day and say that with problems of such many-sided importance the way out is difficult. Particularly is this true of the problems of improving the condition of silver and the restoration of trade on the Pacific.

"It must be done with the pledge of the platform in mind that sound currency be maintained at all regards. This must and shall be done.

"I pledge to you and I pledge myself to the farmers, willing hands and a sincere purpose. This is, my friends, the issue of the campaign, on the one side cynical and unsympathetic acceptance of things as they are - on the other, determination and faith in the possibility of change, of progress and of a new deal."

Extract from speech of Governor Franklin D. Roosevelt, delivered at Salt Lake City, Utah, September 17, 1932 on the question "The Railroads - Republican Mistakes and Democratic Remedies."

"And one of the greatest of these questions of international relationship is that of money, of gold and silver. I am glad to note that the administration in Washington has at last come to recognize the existence of silver.

"To move in the direction of consideration of this question is thoroughly in accord with the Democratic platform: 'We favor a sound currency to be preserved at all hazards and an international monetary conference called on the invitation of our government to consider the rehabilitation of silver and related questions.'

"The elements of this question have changed profoundly in the past generation. The economists of the world have come to recognize that the problem of money is largely one of international concern. I propose to speak of this in more detail very shortly, outlining the difference between the platforms and policies of the two major parties."

MEMORANDUM CONCERNING SILVER QUESTION AND THE DEMOCRATIC PARTY

Extract from the Platform adopted by the Democratic National Convention of 1932.

"We advocate a sound currency to be preserved at all hazards and an international monetary conference called on the invitation of our government to consider the rehabilitation of silver and related questions."

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REPUBLICAN NATIONAL PLATFORM

Statements on Silver

"We favor the participation by the United States in an international conference to consider matters relating to monetary questions, including the position of silver, exchange problems, and commodity prices, and possible cooperative active action concerning them."

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: November 11, 1935

TO Mrs. Klotz

FROM Mr. Haas HH

At the 9:30 group meeting this morning Secretary Morgenthau requested me to have Miss Lonigan work up a formula which could be used as a basis for government contributions to the States when all "relief" is turned back to the States as has already been done in some instances.

Secretary Morgenthau suggested that Miss Lonigan discuss the matter with Miss Roche; Mr. Bain, Executive Secretary of the Social Security Board; Aubrey Williams, Works Progress Administration; and Mr. Altmeyer, Member of the Social Security Board.

A report is to be ready for the Secretary by Thursday, November 14, 1935.

November 11, 1935

At the 9:30 group meeting this morning, the following were present:

Secretary Morgenthau
Mrs. Klotz
Mr. Oliphant
Mr. Gaston
Miss Roche
Mr. Haas

The Secretary said that he had been giving a good deal of thought and worrying a great deal about a plan for handling the relief situation so that the President might have something definite on which to work and something that could be defended as perfectly sound in place of the present scrambled arrangement of agencies.

His present idea was that all the money for Federal construction ought to come out of a single fund. If the President decides to ask for $500,000,000 for this purpose, it should be handled by one agency. He didn't much care whether it was Procurement or some other agency, but it should be handled on a separate basis independent of relief and handled as one project. It was ridiculous to have constructions funds parceled out among so many agencies of the Government.

He thought relief funds ought also to be handled by a single agency and it seemed to him that the Social Security Board would be the proper agency to do the work. Unemployment Insurance is in its infancy and it is the expectation that as this work grows in importance it will gradually take up the relief load, so it is entirely logical to have the same agency take over the present relief responsibility. As the one function grows, the others will dwindle. H.M.,Jr. said Hopkins should be in this picture.

He asked Mr. Haas what was being done to decide on a fair basis of allocation of relief funds to the States. Mr. Haas said that Mr. Bain and Mr. Altmeyer were already doing some investigation along this line. The Secretary asked Mr. Haas to instruct Miss Lonigan to see Miss Roche and to get in contact, through her, with Altmeyer and

Bain to work out a plan of allocation on some fair basis. The Secretary added that it was perfectly asinine to talk about immediate balancing of the budget. Everybody knew that it could not be balanced now with any decent attention to human needs, but what we could do is to put the relief plans on a really business-like basis for the first time. He felt that the President was groping for a sound solution of this dilemma and that we could do him a great favor by presenting a plan which would be business-like and which he could defend as orderly administration to replace the present "jack-ass" arrangement.

After the regular group meeting was over and Miss Roche had left, Eli Frank, Jr., Clarence Opper and Harold Graves joined the Secretary and members of his staff to discuss the pending Canadian-United trade agreement, particularly with reference to the fact that the Secretary had no knowledge that reduction of liquor taxes (import duties) had been approved in the Treasury Department. Mr. Haas then produced his memorandum, dated June 20, 1935, with a foot-note in pencil, dated June 22, to this effect: "Mr. Haas took up with Secretary at staff meeting; Secty. said he had no objection. Mr. Haas informed Collado." A copy of this memorandum is attached hereto as are copies of other memoranda on the subject, and a letter to Secretary Hull, stating the Treasury's position as of today which is, briefly, that the Treasury will not object to the reduction since it does not appear that there will be any legal effect upon the cases now pending against Canadian distillers.

The Secretary criticised the character of the Treasury's representation at the State Department on trade agreement conferences, saying it had been very "loose." He instructed Mr. McReynolds to get for him a list of each Treasury employee who is on an interdepartmental committee or in any way representing the Treasury outside of the Department. He wants to know to whom each reports and through what channels those reports are received. He said he considered that the job of representing the Treasury at the State Department on trade agreements was a full-time job for a very competent person. He said that the misunderstanding on the present trade agreement was no fault of George Haas because Haas has been burdened with a million things and had had to spend part of his time representing us, which was practically humanly impossible.

It is Mr. Morgenthau's idea to get Mr. Wooley, President of the American Radiator Company, a man of 70 or 71 years, wealthy, well informed, and sympathetic with the President. He would like very much to have this gentleman come to the Treasury for a year and represent us on these committees at the State Department, which would be a solution of the whole problem.

MEMORANDUM

Mr. McReynolds requested an opportunity to discuss with the Secretary the problem of Treasury relationship with the Social Security Board, particularly with respect to accounts and records that will be required in connection with the old-age benefits.

Mr. McReynolds pointed out that since this involved a monthly report from practically all employers of the amount earned during that period by somewhere between 35 and 40 million persons, it was a matter of primary importance, if the system is to actually operate, that the records be obtained with as little disturbance to the employers themselves as possible and with the minimum of routine on the part of the Government. Looking to this end he suggested that the conclusion seemed unescapable that the Treasury could obtain the information required in connection with the assessment of taxes required by law with less effort on the part of the employer than would be required if the employer must report the earnings to the Social Security Board as well as make returns to the Treasury for tax purposes.

After some discussion, Mr. McReynolds was authorized to discuss the matter again with the Social Security Board and ascertain what the Board's desires were in the matter.

(Mr. McReynolds reported later that the Board has decided to undertake the collection and maintenance of these accounts and records).

Copy

November 11, 1935

Dear Mr. Secretary:

I attach the text of the statement which Mr. Oliphant read to Mr. Hickerson over the telephone, this morning, of the Treasury Department's conclusion following the examination of the question of reduction of the duty on certain Canadian whiskies.

Very truly yours,

(Signed) H. Morgenthau, Jr.

The Honorable

The Secretary of State.

Inclosure.

nmc

It is not apparent that there could be any legal effect upon pending cases against Canadian distillers resulting from the proposed trade agreements with Canada. The possibility, however, exists that from a negotiating, diplomatic or psychological standpoint, the Canadians may feel that the consummation of the agreement will be an indication of the abandonment on the part of the United States of its intention further to press these cases. To avoid this, it is suggested that the United States make it clear, at the time the agreement is signed, that it, of course, assumes that the Canadian Government will cooperate in such cases to the extent of making records and other information available to the United States as provided by existing treaty; and that the objective of pending legislation affecting the right to import products of the Canadian distillers involved in such cases is not to be considered inconsistent with the agreement.

November 11, 1935.

To Secretary Morgenthau

From Mr. Haas

Effect on Customs Revenue of the Proposed Trade Agreement with Canada

Tariff paragraph	Commodity (condensed definition in some cases)	Change in revenue
1	Acetic acid (over 65% acid)	- $100,000
2	Vinyl acetate, polymerized or unpolymerized	- 15,000
71	Acetylene black	- 3,000
302 (i)	Ferrosilicon (8-30% silicon)	- 8,000
401	Lumber - Douglas fir and western hemlock	+ 30,000
401	Lumber - Spruce, pine, eastern hemlock, larch	- 280,000
1803 (1)	Lumber, n.s.p.f.	- 20,000
402	Maple, birch and beech flooring	- 1,000
503	Maple sugar	- 25,000
710	Cheese, cheddar	+ 120,000
717 (a)	Fish, fresh or frozen:	
	Halibut	- 20,000
	Salmon	- 30,000
	Swordfish, not including frozen	- 8,000
	Eels	- 2,000
719	Fish, pickled or salted:	
	(1) Salmon	- 7,000
720 (a)	Fish, smoked or kippered:	
	(2) Herring, whole or beheaded, not further advanced	- 2,000
734	Apples, green or ripe	- 1,500
763	Grass seeds:	
	Alfalfa	- 2,000
	Alsike clover	0
	Sweet clover	0
	Timothy	- 10,000
	Blue grass	- 4,000
773	Turnips and rutabagas	- 90,000
779	Hay	- 20,000

Secretary Morgenthau - 11/11/35 - 2

Tariff para-graph	Commodity (Condensed definition in some cases)	Change in revenue
302 (d)	Ferromanganese, 1-3 percent carbon	- $100,000*
302 (e)	Ferromanganese and spiegeleisen, not over 1 percent carbon	- 4,000
717 (a)	Fish, fresh or frozen: Lake fish (8 species)	- 60,000
720 (a)	Fish, smoked or kippered: (3) Herring, skinned, boned, etc.	- 1,300
721 (b)	Razor clams, canned	Negligible
29	Cobalt oxide	- 20,000
201 (a)	Firebrick, n.s.p.f.	- 1,500
203	Limestone not suitable for building stone	- 2,000
203	Lime, n.s.p.f.	- 4,000
203	Lime, hydrated	- 500
207	Feldspar, crude	- 1,000
209	Talc, ground (valued at not over $12.50 per ton)	- 7,000
214 (also 204	Basic refractory material, n.s.p.f.	- 70,000
302 (m)	Ferrotitanium, ferrovanadium, ferrouranium	Negligible
353	Electric cooking stoves and ranges	Negligible
412	Ice Hockey sticks	Negligible
711	Poultry, live	0
714	Horses, valued not over $150	- 30,000
719	Fish, pickled or salted:	---
	(5) Alewives	- 10,000
726	Oats, hulled	- 3,000
732	Cereal breakfast foods	- 14,000
736	Blueberries, frozen or preserved	- 12,000
1402	Pulp-board in rolls for wall board	Negligible
1502	La crosse sticks	- 2,500
1502	Ice skates	- 3,000
1519 (c)	Silver or black fox furs	- 1,200
1530(b)(4)	Patent leather	- 1,000
1541	Pipe organs for use in churches and similar places	+ 25,000
701	Calves (live cattle weighing less than 175 lbs.)	+ 500,000
701	Cattle weighing 700 pounds or more	+ 350,000
707	Cream	

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* If the Brazilian agreement goes into effect there will be an additional loss of revenue of $60,000.

Tariff paragraph	Commodity (condensed definition in some cases)	Change in revenue
771	Seed potatoes	- $40,000
	Total change in revenue without whisky reduction	+ $68,500
802	Scotch and Irish type whiskies	- $4,000,000
802	Canadian and American type whiskies (see memorandum) Range 0 to -	$7,500,000

November 11, 1935.

To Secretary Morgenthau

From Mr. Haas

Subject: Arguments for and Against the Proposed Reduction in the Duty on Whisky

The considerations of chief moment with respect to the proposed reduction, in the trade agreement with Canada, of the duty on whisky from $5 to $2.50 a gallon, appear to be as follows:

<u>In favor of the reduction</u>:

1. Such a reduction would be of appreciable aid in securing a satisfactory trade agreement. The Canadian Cabinet places considerable importance upon this measure, viewing it as a significant means of improving their balance-of-payments position. Moreover, political pressure is being exerted by the owners of stocks of American whisky in Canada.

2. The present duty of $5 a gallon equalled an average ad valorem rate, in 1934, of 101 per cent. Not only is the rate of duty very high, but it was enacted during the prohibition period, with no regard to economic considerations, which now are paramount.

2. A lowering of the price of bonded whisky by some 60 cents a quart, and of blended whiskies by 10 cents or more, could reasonably be expected to result from the reduction of the duty. American stocks of bonded whisky are still very low; the price of this type of liquor is dictated by the price of the imported varities, while producers of blended and straight whiskies have been able to secure some advantage from this situation.

<u>Against the reduction</u>:

1. Little increase in employment in Canada could be expected to result from the duty reduction, since Canadian distillers are no longer producing American-type whisky, and are not planning to do so in the future, their product being no better and no lower in cost than the same article of American make.

2. Reduction would cause some loss (a) to those domestic interests which own the present limited stocks of aged whisky of domestic origin, and (b) to certain domestic producers of young whisky who benefit from the passing situation in that they get a better price than can be expected to continue in the future. Such loss, however, would probably be small, and certainly temporary, since with the accumulation of domestic stocks of aged whisky, the prices of both types may be expected to fall.

3. A probable loss in revenue of several million dollars. (Discussed more fully below, under "Further considerations.")

Further considerations:

1. The outcome with respect to customs revenue is in some doubt. If, as Mr. Berkshire of the Bureau of Internal Revenue seems to think, reduction of the duty leads to a considerable increase during the next year in imports of American whisky now in Canada, there would be little loss in customs revenue, which in turn would be largely or wholly offset by increased collections in internal revenue.

There are, however, reasons for disagreeing with this position. The essentials of the situation are these: (a) the present shortage of aged whisky will probably continue for a year or more, being rapidly eliminated thereafter; (b) present imports from Canada are almost entirely for blending purposes, only about 10 percent going directly into consumption as aged whisky.

Hence it appears justifiable to conclude, relative to imports for blending, first, that after a year or so, imports will be small, regardless of the duty, and second, that until the lapse of that period, imports are unlikely to be altered by the proposed duty reduction. A $2.50 rate of duty would cut the cost of blended whisky only about 12½ cents a quart, which could have but small effect on domestic consumption. Imports may be expected to be in sufficient volume, whether the duty is $5 or $2.50, to meet the needs - as long as the period of shortage exists - of domestic consumption.

So far as imports for direct consumption (in the form of bonded whisky) are concerned, even the full cost reduction of some 60 cents a quart (from a level of about $4) could hardly give rise to a sufficient increase in demand to have a significant effect on total imports, in view of the fact that but 10 percent thereof now goes directly into consumption.

We are led to the conclusion that there may be a considerable loss of revenue. Assuming a level of imports of some 4,000,000 gallons during the coming year at a $5 rate of duty (or slightly less than estimated 1934 imports), and the moderately higher level of 5,000,000 gallons if the rate is $2.50, the loss of customs revenue would be $7,500,000. Against this must be set an increase of $2,000,000 in internal revenue, derived from the sale of the additional million gallons. This leaves the net loss at $5,500,000.

It is to be noted that this loss of revenue, if it occurs, will be non-recurrent, coming to an end when the period of shortage in American stocks is over.

2. If it is possible so to reclassify whisky imports as to confine the duty reduction to Canadian whisky, the loss of revenue will be confined to this item. Otherwise Scotch and Irish whiskies, coming in at the lower rate of duty, would increase the loss by as much as $4,000,000 per annum, and this loss would recur from year to year.

This fact, together with the consideration that the United Kingdom would be pleased to secure a reduction on Scotch and Irish whiskies, indicates the desirability of making this reclassification. Extension of the duty reduction to those categories can then be used for bargaining purposes in connection with any trade agreement with the United Kingdom.

3. Though something has been made of it in the past, there seems little likelihood that a reduction in the duty on Canadian whisky would have much effect on smuggling, for the simple reason that this activity appears to be responsible for only small liquor movements at the present time.

TREASURY DEPARTMENT

Inter Office Communication

Date November 12, 1935

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Proposed Trade Agreement with Canada -- Concession on Whiskey

1. At the meeting of the Committee on Trade Agreements of June 13, 1935, it was decided that the concession on the duty on whiskey should be linked with a concession on anthracite coal by Canada. The minutes of the meeting read in part:

> "Whiskey (Par. 802). The negotiators should be prepared to concede to Canada a duty of $2.50 per gallon for the life of the agreement upon the assumption that in consideration of the benefits which will be received from a generalization of the duty reduction on whiskey, the United Kingdom will consent to a modification of the preference on coal enjoyed under the Ottawa agreements. A removal or a substantial modification of such preference will be required if Canada is to grant the concession on coal desired by the United States........"

2. Anthracite coal is bound in the Canadian-United Kingdom trade agreement. Imports from the United Kingdom are duty free, imports from the United States enter at 50 cents per short ton, and the preferential margin is guaranteed. To make any concession to the United States on this item, Canada must obtain the consent of the United Kingdom.

3. Canada is the only export market for United States anthracite. The effect of the Canadian-United Kingdom agreement has been to decrease markedly the imports of anthracite from the United States and to increase those from the United Kingdom. This is shown in the following table:

Imports of Anthracite Coal into Canada from the United States and the United Kingdom

	United States	United Kingdom
(1) Duty Free from Both Countries		
Calendar year 1928	3,211,941 tons	529,240 tons
Calendar year 1929	3,172,942 tons	729,458 tons
Calendar year 1930	2,945,954 tons	996,127 tons
January-May 1931	965,011 tons	174,401 tons
(2) United States 40 cents, United Kingdom Free		
June-December 1931	1,254,983 tons	701,963 tons
January-November 1932	1,556,581 tons	1,323,133 tons
(3) United States 50 cents, United Kingdom Free		
December 1932	134,911 tons	67,445 tons
Calendar year 1933	1,404,331 tons	1,603,071 tons
Calendar year 1934	1,754,275 tons	1,613,424 tons

4. The United States negotiators had requested the removal of the duty during the five or six month period ending April 30th of each year, and either the reduction of the duty to 25 cents during the rest of the year or, if necessary, the maintenance of the present 50 cent duty during this period.

5. The Canadian Government informs us that it has not already secured and cannot secure the consent of the United Kingdom in time to conclude the trade agreement with the United States during the next few days. It had been planned, therefore, to make the concession on whiskey limited to Canadian and American types only, excluding Scotch and Irish whiskies.

6. On November 11, 1935, the Treasury approved the concession on Canadian and American type whiskies only.

7. The only way in which the concession can be limited to Canadian and American type whiskies is by the reclassification: "Whiskey aged not less than four years in charred oak barrels." The State Department feels that this reclassification constitutes a discriminatory classification, thus violating the principles of most-favored-nation treatment. The Canadians insist on the concession on Canadian and American types of whiskey at least. It appears, therefore, that it will be necessary to make the concession on all whiskies in order to conclude the trade agreement with Canada. The Canadians have offered to take up the question of anthracite coal with the United Kingdom and to attempt to secure the latter's consent to a reduction, but can promise no definite results.

8. It is estimated (see memorandum of November 11, 1935) that the loss of revenue resulting from the concession on Canadian and American type whiskies would range from zero to $7,500,000 during the calendar year 1936 and that thereafter it would be zero. It is estimated that the loss of revenue from the reduction on Scotch and Irish type whiskies from all countries will be $4,000,000 additional each year that the concession is in force.

9. The State Department is obtaining the vote on this matter of each of the Departments represented on the Committee on Trade Agreements, and is desirous of obtaining the Treasury's decision this afternoon.

June 20, 1935

To Secretary Morgenthau

From Mr. Haas

Subject: Reduction in the tariff on whisky approved by the Trade Agreements Committee in connection with the proposed trade agreement with Canada.

(1) The Trade Agreements Committee has approved a reduction in the tariff on whisky from $5.00 to $2.50 per proof gallon. This concession has been linked with the request that Canada reduce the duty on anthracite coal in the following way: The present rates on anthracite coal are bound in the Canadian trade agreement with England and any reduction must have the consent of the latter. As England values her preferential duty she will not easily give it up. Since 40 percent of the whisky imports into the United States in 1934 were from England, she would obtain considerable benefit from a concession on the duties on whisky. It is proposed to use this as a means to secure her consent to the coal concession. If the attempt is unsuccessful, it is proposed to reclassify, giving the lower duty only to Canadian and American type whiskies.

(2) Reasons for making the concession:

(a) The concession would be a help in obtaining the anthracite coal concession.
(b) The average ad valorem equivalent of the duty was 101 percent in 1934.
(c) The reduction might tend to check smuggling.
(d) A reduction in the prices of imported whisky and of blended whisky, containing a proportion of the imported product, would benefit consumers.
(e) Canada has stocks of American type whisky properly aged amounting to 8 million gallons. There are but very small stocks of properly aged whisky in the United States.

(3) Reasons against making the concession:

(a) It is believed that all the Canadian stocks of American type whisky will come into the United States regardless of the duty. Consequently, the reduction will not stimulate imports.
(b) The Canadian distillers have stopped producting American type whisky and will not again make any. Consequently, this concession will not tend to increase employment in Canada.

(c) The Canadian stocks are owned or controlled by large interests which maintain plants in the United States, and which import the aged whisky for blending purposes. It is, therefore, doubtful whether the duty reduction would be reflected in a price reduction. Probably the duty reduction would go to the owners of the Canadian stocks.

(d) Imports of all whiskies during 1934 were 5.6 million proof gallons. The duty collected amounted to $28,000,000. The proposed concession would cut this revenue in half, thus involving a loss of $14,000,000. Against this loss there are possible gains resulting from a reduction of administrative costs and increased duty collections, due to a decrease in smuggling, and a possible increase in imports from England. It seems likely, however, that there will be a loss of revenue of at least $10,000,000.

(e) This loss of revenue seems to be too much to pay for an anthracite concession which will probably not be secured. It seems to be the sense of the Trade Agreements Committee that they will grant the concession to the Canadian and American type whiskies regardless of the anthracite concession. In this case the loss of revenue would amount to about $8,000,000.

(f) There is an objection on moral grounds in that this American type whisky was distilled during the prohibition period for the express purpose of being smuggled into this country.

(Penciled notes: 6/22 Mr. Haas took up with Secty. at Staff meeting: Secty. said he had no objection, Mr. Haas informed Collado.)

November 11, 1935.

To: Secretary Morgenthau

From: Mr. Haas

Subject: History of the Reduction of the Duty on Whisky

1. At a meeting of the Committee on Trade Agreements on May 22, 1935, the question of a reduction in the duty on gin was considered in connection with the Netherlands. While the discussion was taking place, the Treasury's representative, Mr. Collado, who at that time was not acquainted with the Treasury's position, telephoned Mr. Haas for instructions. Since Mr. Haas was out, he telephoned to Mr. Frank. It was decided that he should oppose the reduction. The minutes of the meeting read in part:

> "Mr. Collado, representing the Treasury, voted against the motion to approve the concession recommended with respect to gin."

2. The Committee on Trade Agreements took up the proposed agreement with Canada in June. The Canadians requested a reduction in the duty on whisky from $5 to $2.50 per proof gallon. Mr. Collado took this matter up with Mr. Haas and was instructed to oppose the reduction. The following statement is quoted from the minutes of the meeting of June 13, 1935:

> "Whiskey (Par. 802). The negotiators should be prepared to concede to Canada a duty of $2.50 per gallon for the life of the agreement upon the assumption that in consideration of the benefits which will be received from a generalization of the duty reduction on whiskey, the United Kingdom will consent to a modification of the preference on coal enjoyed under the Ottawa agreements. A removal or a substantial modification of such preference will be required if Canada is to grant the concession on coal desired by the United States. Mr. Collado, representing the Treasury, voted against this action of the Committee, pointing out that a reduction in the duty would not greatly increase imports and would result in a substantial loss of revenue. It was argued, however, that the proposed reduction in duty would tend to check smuggling which deprives the Government of substantial customs revenue and for the suppression of which a considerable amount of Government funds is expended."

3. Mr. Collado, in a memorandum to Mr. Haas dated June 18, 1935, summarized the arguments presented at the meeting of the Committee. The same memorandum was submitted by Mr. Haas to the Secretary, dated June 20, 1935.

4. Some time thereafter, Mr. Haas told Mr. Collado that the Treasury would not oppose reductions in the duties on alcoholic beverages. Mr. Haas told Mr. Collado not to reverse formally the Treasury's vote in the reduction on whisky, but to tell Mr. Grady, the chairman of the Committee, unofficially.

5. At the meeting of November 1, 1935, it was mentioned that the United Kingdom would not consent to the modification on anthracite coal. At the close of the meeting, Mr. Collado asked Mr. Carr, the secretary of the Committee, what action was contemplated on Irish and Scotch whiskies as a result of this denial. Mr. Carr referred Mr. Collado to Mr. Hickerson of the State Department, who had left the meeting. The next day, Mr. Collado telephoned Mr. Hickerson. The latter said that he had discussed the whole question of the reduction on whisky with the Secretary, that he had told the Secretary that there would be increased revenue due to increased imports and the elimination of smuggling, and that he had the Secretary's approval. It may be noted that the Bureau of Customs states that there is practically no smuggling of whisky from Canada since the Canadian stocks are owned by large firms, such as Hiram Walker and Seagram's, which have large interests in this country as well.

(This statement prepared by Mr. Collado)

November 8, 1935.

To: Secretary Morgenthau

From: Mr. Haas

Subject: Meeting of Trade Agreements Committee, November 7, 1935

Report on negotiations with Canada:

The Trade Agreements Committee was favored with a report on the present status of negotiations with the Canadian delegation by Mr. Hickerson of the State Department. After calling attention to the fact that if an agreement is consummated the United States will, under the most-favored-nation clause, receive considerable reduction in duties on some 700 commodities, Mr. Hickerson proceeded to outline the present situation with respect to agricultural commodities. These now occupy a focal position in the discussions.

The Canadian delegates indicate a willingness on the part of their country to abandon arbitrary valuations on all products except fruits and vegetables. While they could give no guarantee against a re-imposition of present arbitrary additions to invoice values, they stated that action of this sort would be taken, if at all, only after a full hearing before the Canadian Tariff Commission.

On fruits and vegetables the Canadian negotiators indicate a willingness to reduce the present arbitrary additions by 25 percent and to reduce the current level of duties by 50 percent on almost all products in this class. On several of these products, notably tomatoes, a complete abandonment of arbitrary valuation is suggested.

If these concessions, of very considerable importance to our exporters of agricultural products, are to be granted by Canada, it appears absolutely essential that the United States undertake to liberalize the present provisions with respect to cattle, seed potatoes, and cream. As modest concessions on these commodities, which he regarded as sufficient to promise the attainment of an agreement most favorable to this country, Mr. Hickerson suggested the following:

Cattle. A reduction of the duty from 3 cents to 2 cents per pound, this reduction to apply to a volume of imports equal to 3/4 percent of the annual slaughter of cattle and calves during the period 1928-1932. (This would permit entry into this country from Canada of approximately 155,000 head.) The application of the same provisions to calves was suggested. (In effect this would permit the entry of some 52,000 head.) A similar recommendation with respect to dairy cattle was also recommended, with a limit of 20,000 head.

Seed potatoes. Reduction of the present duty of 75 cents per 100 pounds to 45 cents, this reduction to be allowed on 750,000 bushels, was regarded as a concession acceptable to Canada. Exception from this reduction would be made during the Cuban growing season.

Cream. Reduction of the duty from the present level of 56.6 cents per gallon to 35 cents, imports subject to this reduced duty not to exceed 1½ million gallons.

No action was required by the Committee on these suggestions, since equal or more generous ones had already been approved. The Committee felt that the gains to American exporters of agricultural products involved in the Canadian concessions were of sufficient importance to outweigh any possible loss to producers of the three products which are of such importance to Canada.

Action taken:

In response to a request from the Negotiating Committee to authorize reductions on certain additional products, the following action was taken:

Acetic acid. Reduction of duty from the present level of 2 cents per pound to 1½ cents authorized.

Sperm whale oil. Reduction of duty authorized from the present level of 5 cents per gallon to a level equal to the difference between American and Canadian costs (according to the findings of the Tariff Commission), though not to less than 2½ cents per gallon.

Harness and saddlery leather. Reduction authorized from present duty of 12½ percent to the level of the compensatory duty, but not below 10 percent.

Pulp board in rolls (of a special type). Reduction authorized from present duty of 10 percent to 5 percent, subject to investigation by the Tariff Commission.

Lead pigments: litharge. Reduction authorized from 2½ cents per pound to 2.1 cents, provided investigation shows Canada to be the principal potential supplier.

Grains, unfit for human consumption, and mixed grains. Binding at 10 percent authorized.

Undressed furs of which Canada is the principal supplier. Binding on the free list authorized.

Requests for concessions on the following products were denied: anhydrous sodium sulphate, sheep and lambs, binding twine, and cobalt linoleate.

November 11, 1935.
Monday.

H.M.Jr: Judge?

Judge Hoyt: Yes.

H.M.Jr: I just heard from the President and I talked to him about this matter which we're both interested in.

H.: Yes.

H.M.Jr: And he said that under the circumstances that he didn't see that we could do a larger personnel at this time.

H.: Yes.

H.M.Jr: And that we should give you all the assistance that we could which I said I'd offered you.

H.: Yes.

H.M.Jr: And then go ahead and prepare your budget for Congress.

H.: Yes.

H.M.Jr: So that's about the way it is.

H.: All right, sir.

H.M.Jr: And all I can say again is that anything that you want that we've got we'll be glad to let you have it.

H.: Well Mr. Secretary I appreciate your courtesy very much indeed and I hope you know that I do.

H.M.Jr: I think you're in a very difficult position.

H.: Yes.

H.M.Jr: And especially coming down here under the impression that you were going to have one kind of Commission and you find you have another and you find you haven't any money.

H.: Yes.

H.M.Jr: So you have all of my sympathy.

H.: (Laughter) Thank you very much and I appreciate everything you've done personally very much indeed.

H.M.Jr: Thank you Judge

H.: Yes.

H.M.Jr: Goodbye.

H.: All right goodbye.

November 11th

I spoke to the President about Judge Hoyt and told him that the Treasury General Counsel held that it was his opinion that all of the money which we are now paying Judge Hoyt's organization is illegal. The President said, "why are you doubting that as long as Comptroller McCarl said it was all right" to which I replied, "Wwell even McCarl may be wrong some times."

I then presented the President the attached memorandum signed by myself also a memorandum from Hoyt to me - both of which he returned to me. He agreed that we should let matters rest until Congress meets. He then made a statement which rather surprised me by saying "of course you should not oppose on the Hill Judge Hoyt's wishes that he wants his own General Counsel. You agree that he should have his General Counsel" and I said, "I would rather not agree to it as I want to think it over but I can assure you that when the matter goes on the Hill that we will present a united front the way we always do".

I outline my theories on the organization to handle the unemployment problem and also methods of paying, to the President and, on the whole, he took my suggestions very well. I said to him that I did not want to go ahead and work along these lines unless he was sympathetic - and he was sufficiently so because he told me to go ahead for this week and take it up with him next Monday and then he made the following detailed suggestions and comments.

He said, "in considering the federal government matching monies with the states remember that no State Legislators meet in 1936." Next he said, he was thinking along the following lines:

1. That he would get from Congress enough money for relief to last until January, 1937, to take care of the unemployed employables.

2. That he would suggest to Congress that either they pass a bill in the spring of 1936 which would authorize us to match our contributions with the states or to wait and announce that we will pass a bill in January, 1937, authorizing the federal government to match monies with the states.

Enlarging on my suggestion he said that the next move would be to take FERA and make it a section of the Social Security Commission. The Social Security Commission will then have the following functions:

1. To administer the old age security.

2. Unemployment insurance.

3. A new division which would simply give the money to the states on a matching basis with federal inspectors to see that the money only went to the employables who are out of work.

The foregoing statements by the President on top of what I outlined to our own group this morning and then outlined to him pretty definitely lays out a policy along the lines that I was thinking and seems very sound to me.

Before he left this subject, I said, "do you know that the United States Employment Service has fallen down in a number of places"? and he said, "yes". I said, "how about putting that service under the Social Security Commission"? At first, he said, "no". Then I said, "logically it belongs there" and he replied, "yes, but we can't overlook personalities". I said, "however, if we could you agree that this service belongs with Social Security Commission" and he said, "yes".

Next he said instead of asking Congress to give him new powers for reorganizing departments he would send a message to Congress for authority to appoint a Board to study reorganization of all departments and most likely put a man like Owen D. Young at the head of it and, he said, for example, "you would not object if we transferred the Health Service out of the Treasury to some other Department" and I replied, "not at all". He said I would like to get this Board going plus the Board on housing that I talked to you and Peter Grimm and Frank Walker about". (At the time we gave him Grimm's suggestion for a commission to study housing between now and December 15th the President said he would rather have that commission appointed late next spring and work while the campaign was on as he thought it would furnish good campaign material).

He then asked me how I felt about these floods of gold coming here. I said, "there is nothing that we could do about it as,if I showed the slightest worry,it would upset everybody. He then asked me to have a study made to show how the gold that was coming here was being used and to break it down into three divisions:

1. What proportion went to pay for balance of trade.
2. What proportion was sent here for safe keeping.
3. How much gold came here for the purchase of securities.

I then showed him the letter from Parker Gilbert and he was a little too sneery about a letter from J. P. Morgan and, after reading it, he said, "ah ha, again the war has broken out between J. P. Morgan and the Chase Crowd ". By the Chase crowd he meant the Rockefellers.

I told him that I had informed Eccles that I did not want anything done about increasing reserve requirements until after February 1st and the President said, "you better stay on your 24 hour basis because you do not know when you may have to do something quickly."

I said, "that was all right, but with our financing coming along I certainly did not want to do anything until after December 15th". He allowed that that was all right. I informed him that we would need one billion dollars new cash on December 15th and this came as a surprise to him. He said, "how are you thinking of raising it " and I said, "by offering a long-term bond and most likely a five year note". He then told me that he wished we would make an estimate for him on how long we thought Italy could hold out financially. He told me, in confidence, that it was the opinion of Mr. Hirst, of the London Economist and the British government, that after the final sanctions went into effect, on November 18th, that Italy could not hold out for more than three months. He said he understood that Laval concurred in this opinion. The President differed with these people and said that as long as Italy was winning he felt that they could hold out indefinitely. He wants us to give him, as quickly as possible, our estimate.

He seems to be considerably worried about the kind of publicity he is going to get on the Canadian treaty and wanted to know if we had anybody who could work with the State Department in helping them prepare the publicity. I told him that Gaston was the best person I had. He told me to tell Gaston to get in touch with Phillips. He said, "for example, the farmers in northern New York and Vermont will raise hell when they learn that a lot of Canadian cream is going to be permitted to come into the United States with the possible temporary drop in United States cream." He said, "the way to explain the theory is, namely, if Canada sends us one million dollars worth of extra cream Canada will buy from the city one million dollars worth of extra dresses and manufactured goods." I was unkind enough to say "how do you know they will buy these dresses in New York or in United States cities"? and he said, "they will buy them somewhere".

The President and I then had a long discussion about where we should locate a storage house for silver. He has in mind the Rogers Estate adjoining him. This estate consists of 640 acres, half of it between the river and the Albany Post road and the other half east of the Albany post road. On the eastern side of the post road is one of the oldest experiments in New York State in forestry and he would like to see the United States government continue this project. I realized that this is something that he wants but, I said, "do you not think people are going to joke about your having one million ounces, so to speak, in your backyard". He could not see this at all. He said, "they might criticize our buying an estate, from close friends of his. Personally I think the government would be very much criticized if they bought a 640 acre estate, next to the President, for this purpose. I promised to take it up with him again next week and suggested that he sound out other people to see how they react.

I spoke to him about appointing Marvin Jones to a vacancy in the Federal Court in the northern district of Texas. He said he knew about this but it would be very difficult for him because another Texan, who was very helpful to him in Chicago, wanted this position but he would try and see if he could work it out.

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I told him that Filene's scheme to finance, with RFC money, a chain of co-operative retail stores was, in my opinion, at this time, cock-eyed. He agreed with me.

Wm. Filene's Sons Company
Washington, Summer, Hawley, Franklin Streets
Boston

Office of President

November 12, 1935

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

Dear Mr. Morgenthau:

A few months ago I incorporated the Consumer Distribution Corporation with a paid-in capital of one million dollars. It was organized for the purpose of promoting and managing a Chain of Cooperative Department Stores, each store of which will be wholly owned by the consumers in the trading area served by the store. The Consumer Distribution Corporation will charge a fee for exercising management and control and handling the centralized buying for each store, out of which reserves will be set up to study the causes of high prices, as the British Cooperatives did, and for other purposes helpful to cooperation. At the end of five years an impartial board, friendly to cooperation, will decide if the time is right to turn over the Corporation to the cooperative units. In any event, at the end of ten years the cooperatively-owned stores must acquire ownership of the Corporation. All profits from operations of each store in the Chain will go, after suitable reserves are set up, to the cooperative shareholders in proportion to their purchases and in the form of patronage dividends.

All of the capital of the Consumer Distribution Corporation has been furnished by me, and I have fixed the condition that the interest cannot exceed five per cent and shall be paid only if earned. I have made it impossible for me to obtain any capital appreciation by a provision that when the capital is repaid, the amount shall not exceed that originally paid in and that it shall be paid to a trust fund created for the purpose of promoting cooperation.

With my associates and a Board of Directors, which will shortly be completed, I am now prepared to actively proceed with the launching of the Chain through the acquisition of existing stores, once I have assurance of there being sufficient funds available for this purpose. We will need enough stores so that the volume of their combined purchases will be large enough to give us the advantages of chain stores and large department store groups. One store in New York has been offered to us and we have retained management counsel to investigate other stores. A report on one desirable store is available as a sample of our method of determining whether purchase is desirable. It is my belief that the R. F. C. may properly and legally supply the financing necessary, for the reasons which are discussed at greater length in a supplementary memorandum attached. The initial financing calls for approximately fifteen million dollars and, as soon as we are assured of its availability, we shall begin to buy the needed stores and, through better management methods, increase their volume and the number of employees. It is for the purpose of securing this financing that I am meeting with you today at the suggestion of the President.

Sincerely yours

Edward A. Filene

Edward A. Filene

Enclosure

November 12, 1935

I told Coolidge and Haas today that the President yesterday asked me to give him the best estimate we have on how long Italy can last. He has indirect information that they can only last three months.

I know that Cochran is in Geneva and, as I remember it, I told him to go to England next. I asked Coolidge to call up Phillips at the State Department and tell him that I wanted Cochran to go to Italy and secure the information that the President wants -- that is, how long from November 18, the date on which the sanctions go into effect, do they think Italy can last. I want Phillips to send an order to Cochran at once and tell him that I want a report within ten days and to be sure and ask him to give me an opinion and the facts on which his opinion was based.

November 12, 1935

At the 9:30 conference this morning, Mr. Grimm again brought up the question of "Little Eva" (EHFA) and said that the matter is coming up again today and had reached the point where it will be necessary for Mr. Morgenthau to see the President about it.

Mr. McReynolds pointed out that the amount involved, $15,000,000, would go directly from the 4-billion-8 emergency appropriation to REA and that REA is authorized to use that in financing the electrical and plumbing projects. He was very definite that he was correct. Mr. Grimm said it must have all been changed very recently.

Mr. Morgenthau told Mr. Grimm that as long as the set-up on this $15,000,000 is straight financially, that's as far as his interest goes; that he knows that Stewart MacDonald has an appointment with the President tomorrow and if he, MacDonald, wants to bring up the question of these two agencies overlapping, that's one thing, but as Secretary of the Treasury he does not want to interfere since McReynolds tells him that the $15,000,000 goes directly from the emergency appropriation to REA.

Mr. Oliphant told Mr. Morgenthau that he is handling the matter that Iregy talked to him about yesterday; that is, they are going to ask Moody whether he is going to try the cases in New Orleans and if he does not want to, they will get someone else. Mr. Morgenthau definitely asked that Woodcock be left out of the picture. Mr. Oliphant also reported that Jackson will be back next month and will have his own crowd back with him; also, that Jackson has been very successful.

Mr. Gaston said that Forbes Watson had planned a series of art lectures over the country and that he had told Watson it is our policy in the Treasury that a Treasury employee is supposed to give his full time to the Treasury and if he makes any speeches at all he cannot accept payment for them.

November 12, 1935

This great flow of gold is disturbing the President and myself at this time. What disturbs me is that the turn in foreign exchange may come next September or October due to the change in conditions in Europe and the gold would begin to move out of this country entirely due to European conditions, but coming at that time the politicians here would claim that it was moving out of this country because financial interests were worried that Roosevelt was going to be reelected.

My idea is that if we gradually built up a supply of $100,000,000 of gold in London and there were a few sudden dips, we could sell this gold at that time and check a rush of gold out of the United States. This would take care of the political angle. However, I would not do it for that reason if it was not sound international finance to do it, irrespective of its political effect.

H.M.,Jr. called the President and told him that he thought his speech was magnificent; that he spoke to Phillips about having Gaston help him and Phillips was delighted. He also gave him the gist of the above idea. He told him that whenever gold sells below $35.00 an ounce in London he would like to begin to buy gold in London until we accumulate $100,000,000 worth and if there are flurries we can gradually sell it. It will stop the big rush coming this way and stop flurries when it begins to leave here. By buying in London it seeks its own level abroad. He would only buy gold below $35.00 and only sell it above. The President said it was a very good idea providing it can be worked out technically.

November 12, 1935.

To: Secretary Morgenthau

From: Mr. Haas

Subject: Confidential Reserve Board Data on Excess Reserves

1. Which banks hold the $3 billions of excess reserves?

(a) On October 30, New York and Chicago member banks held about $1,700 millions; all other member banks held about $1,300 millions.

(b) A better breakdown is available for the daily average of excess reserves during September, when total excess reserves averaged $2,628 millions; New York and Chicago member banks held $1,423 millions; member banks in 61 other large cities (called reserve city banks), $734 millions; and all other member banks, called country banks, $471 millions.

2. If required reserves were increased by 50 percent, how many banks would need new funds? (Answers based on June 29,1935 Call Report)

(a) About one-third of the member banks (2,041 out of 6,410) would be short an aggregate amount of $328 millions of legal reserves.

1,854 country banks would be short a total of $46.2 millions.
158 reserve city banks would be short a total of $130 millions
5 Chicago banks would be short a total of $1.7 millions.
24 New York City banks would be short a total of $150.0 millions.

(b) All but 125 of these 2,041 banks, however, have balances with correspondent banks sufficient to enable them to comply with the increased reserve requirements without, presumably, borrowing from the reserve banks or selling securities. The data do not indicate the aggregate reserve deficiencies of the 125 banks without adequate correspondent balances.

3. If required reserves were increased by 25 percent, how many banks would need new funds? (Answer based on June 29, 1935 Call Report)

(a) About 14 percent of the member banks (897 out of 6,410) would be short an aggregate amount of $99 millions of legal reserves.

794 country banks would be short a total of $15.5 millions.
86 reserve city banks would be short a total of $45.9 millions.
2 Chicago banks would be short a total of $0.5 millions.
15 New York City banks would be short a total of $37.5 millions.

(b) All but 45 of these 897 banks, however, have balances with correspondent banks sufficient to enable them to comply with the increased reserve requirements without, presumably, borrowing from the reserve banks or selling securities. The data do not indicate the aggregate reserve deficiencies of the 45 banks without adequate correspondent balances.

4. What is the location of banks whose reserves would be deficient under a 25 and 50 percent increase, respectively, in legal reserve requirements?

Apart from the New York City and Chicago figures cited above, the information is available only by Federal Reserve districts, as summarized in the following table:

	If required reserves were increased 25%		If required reserves were increased 50%	
	Number of banks with insufficient reserves	Additional reserves required	Number of banks with insuficient reserves	Additional reserves required
otal - all member banks	897	$99,377,000	2,041	$327,820,000
otal for each district:				
Boston	95	5,283,000	164	13,344,000
New York	145	46,882,000	288	172,388,000
Philadelphia	137	6,104,000	319	18,894,000
Cleveland	84	11,526,000	196	28,431,000
Richmond	51	2,604,000	130	8,921,000
Atlanta	45	2,259,000	113	8,758,000
Chicago	52	3,957,000	117	12,469,000
St. Louis	42	1,307,000	102	4,788,000
Minneapolis	54	755,000	136	2,141,000
Kansas City	53	3,234,000	133	11,742,000
Dallas	79	826,000	189	4,758,000
San Francisco	60	14,640,000	154	41,186,000

5. What further data are needed to determine the immediate effects upon the banking system of an increase of 25 and 50 percent, respectively, in required legal reserves?

(a) An analysis of the liquid assets held by banks with insufficient excess reserves.

(b) An analysis of the number, character, and local importance of the banks that would be embarrassed by an increase in legal reserve requirements.

6. Summary of reasons for and against raising reserve requirements at this time.

The summary submitted to Governor Eccles, a copy of which accompanied the figures analyzed above, contains nothing unfamiliar to you; and does not cover nearly as much of the ground as you have already considered.

CONFIDENTIAL

November 5, 1935.

REASONS FOR RAISING RESERVE REQUIREMENTS AT THIS TIME

Arguments for immediate action

1. Member bank reserves at the present time are $3,000,000,000 in excess of legal requirements. Further increases in excess reserves through gold imports, silver purchases, and through the ultimate use of the gold in the Stabilization Fund may be expected. Demand deposits of member banks are now higher than they ever were and they can be more than doubled on the basis of existing reserves. This would be injurious credit expansion. It will be necessary at some time to use the Board's powers for absorbing excess reserves. It is, therefore, not a question of whether or not the Federal Reserve System will have to act, but merely a question of the best timing of the action.

2. It would seem best to take measures for absorbing at least a portion of existing excess reserves before the banks have had an opportunity to expand their activities on the basis of these reserves. The banks are being urged by the Government actively to seek opportunities for extending additional credit and thereby to facilitate recovery. To let them proceed and later, when many of them may no longer have excess reserves, to put them in debt by increasing requirements or selling securities may lay the System open to the charge of inconsistency. Action at such a time, furthermore, might cause banks to liquidate loans

or investments and might start a deflationary movement. Early action would avoid these difficulties.

3. Gradual advances in reserve requirements started at this time when reserves are ample would be less likely to result in losing members from the Federal Reserve System than would drastic action at a later date.

4. Banks are now in such a position that an advance in reserve requirements would not inconvenience them and would not act as a restraint on business recovery.

5. Action at the present time may have a good psychological effect, indicating that the System is alert to the situation and prepared to take the necessary steps to avoid inflation.

Arguments for raising requirements

6. The preceding arguments would apply equally to selling securities and to raising reserve requirements, but raising reserve requirements would have the advantage of making use of a new method which was not available prior to the passage of the Banking Act of 1935. Previously reserves could not be advanced, except by the declaration of an emergency and with approval of the President. The use of this method now enables the System to say that it could not have acted sooner because of lack of authority.

7. Raising reserve requirements would have the additional advantage over selling Government securities that it would not have any unfavorable effect on the market for these securities.

8. It would also have the advantage of not diminishing the earning assets of the Federal reserve banks, which may become a serious matter if these banks should be put in a position where they would have to go to Congress for appropriations.

9. It may be a good general policy to use changes in reserve requirements as a method of readjusting the banking position to new conditions, such as the present unprecedented reserves, and to use the traditional methods of open market operations and discount rates as the instruments for direct influence on expansion or contraction of credit.

By raising reserve requirements gradually to a point where excess reserves would not be very large, the Reserve banks would be placed in a position to use open-market sales, which are more flexible, to counteract inflationary tendencies.

November 5, 1935.

REASONS AGAINST RAISING RESERVE REQUIREMENTS AT THIS TIME

1. There is at this time no indication of an expansion of credit and, therefore, no real occasion for taking any action of a restraining character.

2. Federal Reserve policy should depend in part on its psychological effect. For that reason it ought to be extremely simple. The public should know that when the Federal Reserve System does anything in the direction of restraint that this constitutes a policy of restraint. A simple understanding of red and green signals of credit policy is an advantage which may be lost or impaired by actions that require more or less subtle explanation.

3. The System's powers for counteracting the enormous volume of excess reserves now in existence and in prospect are limited. The open-market portfolio is $2,400,000,000 and the maximum by which reserve requirements may be raised amounts to a similar figure. Excess reserves might become larger than could be counteracted by both of these instruments. Their full utilization, furthermore, particularly the sale of Government securities in large volume, may be a difficult matter. For this reason, it might be better policy to husband the System's resources in order to be in a position to utilize them to the maximum effect when the need comes.

4. Action at the present time might, even though it should not, result in a more hesitant attitude on the part of banks and might, therefore, retard recovery.

CONFIDENTIAL

To: Chairman Eccles
Date: November 1, 1935

From: Mr. Smead
Subject: Excess reserves of member banks.

On October 30 excess reserves of member banks amounted to $3,011,000,000, or about $600,000,000 above the amount reported for June 29, 1935*, and about $380,000,000 more than average daily excess reserves for the month of September, when they amounted to $2,628,000,000. The average daily excess reserves during the month of September of central reserve city, reserve city, and country banks, in each Federal Reserve district, were as follows:

Federal Reserve Districts	Central reserve city banks	Reserve city banks	Country banks
Boston		$125,000,000	$43,000,000
New York	$1,177,000,000	3,000,000	81,000,000
Philadelphia		75,000,000	32,000,000
Cleveland		129,000,000	43,000,000
Richmond		56,000,000	31,000,000
Atlanta		21,000,000	25,000,000
Chicago	246,000,000	74,000,000	69,000,000
St. Louis		54,000,000	23,000,000
Minneapolis		25,000,000	35,000,000
Kansas City		50,000,000	41,000,000
Dallas		20,000,000	32,000,000
San Francisco		102,000,000	16,000,000
Total	$1,423,000,000	$734,000,000	$471,000,000

Excess reserves of New York and Chicago banks on October 30 were about $200,000,000 and $90,000,000, respectively, above the September averages. Later figures for reserve city and for country banks separately are not available, but the combined aver-

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*Calculated in accordance with the formula used since the passage of the Banking Act of 1935.

age for these two classes of banks for the month of September, $1,205,000,000, was approximately $100,000,000 less than at present and not much above the figures for June 29.

The last date for which we have figures of required and excess reserves of each member bank is June 29, 1935, the date of the last call report. On the basis of the June 29 condition reports 129 member banks had deficiencies in reserves, 768 had excess reserves of 25 per cent or less, 1,144 banks had excess reserves amounting to between 26 and 50 per cent of required reserves, and 4,369 had excess reserves amounting to more than 50 per cent of required reserves. The following is a distribution of the number of central reserve city, reserve city, and country banks on June 29, 1935, according to the ratio of excess reserves to required reserves:

	Total number of member banks	Central reserve city banks		Reserve city banks	Country banks
		New York	Chicago		
Total number of member banks	6,410	38	18	329	6,025
Number with deficient reserves	129	*7	--	12	110
Number with excess reserves amounting to the following percentages of required reserves:					
25 per cent or less	768	8	2	74	684
26-50 per cent	1,144	9	3	72	1,060
51-100 per cent	1,529	7	5	69	1,448
101-200 per cent	1,278	4	6	50	1,218
Over 200 per cent	1,562	3	2	52	1,505

*On the basis of average figures for the semi-weekly reserve computation period ended October 25 no member bank in New York City had a deficiency in reserves, but 14 had excess reserves amounting to 25 per cent or less of required reserves.

It will be noted that 17 central reserve city banks, 86 reserve city banks, and 794 country banks did not have sufficient reserves to meet an increase of 25 per cent in requirements. These figures represent 30 per cent of the total number of central reserve city banks and 26 per cent of the total number of reserve city banks, but only 13 per cent of the total number of country banks.

In case reserve requirements were raised to 125 per cent or to 150 per cent of present requirements, there would be a certain number of banks which would not have sufficient excess reserves to meet the increase without drawing down their balances with other banks, selling securities, or borrowing from the Federal Reserve banks. The number of banks that would be in that position and the amount of additional reserves that they would have to secure is indicated by classes of banks and by Federal Reserve districts in the following table:

	If required reserves were increased 25%		If required reserves were increased 50%	
	Number of banks with insufficient reserves	Additional reserves required	Number of banks with insufficient reserves	Additional reserves required
otal - all member banks	897	$99,377,000	2,041	$327,820,000
Central reserve city banks:				
New York City	15	37,461,000	24	150,024,000
Chicago	2	510,000	5	1,734,000
Reserve city banks	86	45,910,000	158	129,859,000
Country banks	794	15,496,000	1,854	46,203,000
otal for each district:				
Boston	95	5,283,000	164	13,344,000
New York	145	46,882,000	288	172,388,000
Philadelphia	137	6,104,000	319	18,894,000
Cleveland	84	11,526,000	196	28,431,000
Richmond	51	2,604,000	130	8,921,000
Atlanta	45	2,259,000	113	8,758,000
Chicago	52	3,957,000	117	12,469,000
St. Louis	42	1,307,000	102	4,788,000
Minneapolis	54	755,000	136	2,141,000
Kansas City	53	3,234,000	133	11,742,000
Dallas	79	826,000	189	4,758,000
San Francisco	60	14,640,000	154	41,186,000

As indicated in the table, if reserve requirements were increased 25%, 897 banks would have to provide $99,000,000 of additional reserves; and if requirements were increased 50%, 2,041 banks would have to provide $328,000,000 of additional reserves.

Of the 897 banks which would have to increase their reserves to bring them up to 125 per cent of requirements, all but 45 had balances with correspondent banks sufficient to provide the additional reserves. Likewise, of the 2,041 banks that would have to increase their reserves to bring them up to 150 per cent of requirements, all but 125 had balances with correspondents sufficient to meet the increase. The extent to which such balances would be used for the purpose of meeting an increase in reserve requirements and the extent to which such an increase would be met by borrowing or by selling securities is impossible to tell from available information.

In the event of an increase in reserve requirements, a number of member banks in New York City would presumably have to either sell securities or borrow to meet the greater part of the additional requirements of $37,000,000, if requirements were increased 25 per cent, or $150,000,000 if requirements were increased 50 per cent. In the final analysis it is to be expected that the banks would liquidate some of their low-yield securities rather than borrow.

Member banks in reserve cities and country banks presumably would draw on their city correspondents for a large part of the additional reserves that they would be required to deposit with Federal Reserve banks. If this were done most of the withdrawals would be made from member banks in the large financial centers, particularly New York. The total amount which would be withdrawn from New York, however, even if reserve requirements were increased 50 per cent, would not be sufficient to bring about a drain of funds which New York banks could not easily meet. The amount of funds which might be withdrawn from New York to meet an increase of 50 per cent in reserve requirements is small compared with the huge volume of excess reserves now held by New York City banks in the aggregate.

Should you desire it at any time we can furnish you with excess reserves as of any Wednesday for each of the weekly reporting member banks in New York, Chicago and 99 other leading cities.

November 12, 1935

Haas and Graves came in and reported that they had "hit a snag" on the Canadian trade agreement because if it were signed in its present form it would constitute a discrimination against Great Britain on her Scotch and Irish whiskeys.

Haas estimated the loss in revenue would be $4,000,000 a year if Scotch and Irish whiskeys were also given the benefit of the reduction in tariff rates.

Mr. Morgenthau made the statement that stocks of four-year old whiskey in this country are very low; that the Scotch and Irish whiskeys are four or more years old while Canadian is anywhere from one to four years, and suggested that we specify in the trade agreement with Canada that all Canadian whiskey to be imported under the terms of the agreement must be at least four years old.

Mr. Graves thought we should have the State Department let the British Government know that we wanted to include Scotch and Irish whiskeys because of that Government's excellent cooperation with the United States in the latter's efforts to combat smuggling. Mr. Morgenthau agreed with this suggestion.

November 13, 1935

Ambassador Sze came in and said to the Secretary, "I saw Lochhead about the four points and I cabled home and Kung says that he wants to know if we could not make No. 3 a little different." Mr. Morgenthau inquired of the Ambassador, "What suggested changes would you make?" To which the Ambassador replied, "I do not know. The Yokohama Specie Bank made a big raid on the exchange fund and bought very heavily. We have at our disposal $50,000,000 of foreign exchange and gold, including $13,000,000 to come from you, and yesterday there nearly was a panic. Kung appeals to you and asks that you take more than 20,000,000 ounces almost immediately." Mr. Lochhead remarked that the next steamer sails on November 19.

Mr. Morgenthau told the Ambassador that if we put more than the normal amount of silver on and if there is an additional insurance rate over the usual rate because of the additional silver, then the Chinese should pay the extra insurance and the Ambassador said, "That would be fair."

Because of the political situation, the Chinese Ambassador suggested that if we can add "during the next twelve months" to No. 3, Kung would accept all of the other points.

The Secretary told the Ambassador that he wanted to call the President and asked Mr. Sze to leave the room, which he did.

HM,Jr., told the President the following: "The Chinese Ambassador is waiting in an outer office and he has now agreed to the four points which we asked him to submit to Kung and, very briefly, they are: that they will keep the money over here; that they will keep us fully informed; that they will only use the money for stabilization purposes. Yesterday the Yokohama Specie Bank raided the Chinese currency and China only has about $35,000,000 or $40,000,000 in gold and foreign exchange, and in order to fight it and hold it up, they want a commitment on the 100,000,000 ounces of silver. I told him I would talk to you. The first steamer that sails is the PRESIDENT COOLIDGE on November 19 and I question whether we can get more than 20,000,000 ounces on that and on November 26 we will take another 20,000,000 on the PRESIDENT JEFFERSON. The American steamers will divert their boats for us if and when we want to send more. The Chinese are desperate and I want to know if you want to take more at this time. There are the English and Canadian boats going."

The President asked whether we could get it over to the Philippines and HM,Jr., said he thought so. The President then made the suggestion that perhaps we could put this silver on our regular army transports.

The Secretary asked the President whether we should tell the "poor devils" that we will take up to 50,000,000 ounces and the President said yes.

At this point, Mr. Morgenthau called in the Chinese Ambassador. He told him that he and the President are friends of the Chinese and that with the President's approval he could make our commitment 50,000,000 ounces.

Mr. Morgenthau then told the Ambassador that he had received a cable from Buck, which he read to the Chinese Ambassador. (See Exhibit 1 attached.) He also told the Ambassador that Buck's cable is contrary to the actual conditions which the Chinese Ambassador related. He said, further, "In view of Buck's statements, which are contrary to yours, I want your word of honor that if I buy 50,000,000 ounces of silver that this is the document that we do business on." He referred to the four points. (See Exhibit 2 attached.) He said, "I am trying to make it as easy as possible for China, because we want to see you out of this trouble and I am willing to go through with this agreement on my word of honor and yours. I do not want any more changes. The President suggested that to hurry it up, it could be put on a steamer that goes from China to the Philippines. The only reason for doing it is that everybody seems to be against you and we will not ask for any trade preferences at this time."

HM,Jr., also said to Ambassador Sze, "I take it that on all of the silver that the Chinese wish to sell, they will give us the first chance and after we agree to buy these 50,000,000 ounces that you will not turn around and sell 50,000,000 ounces more to the English.

Mr. Sze asked for Buck's cable and Mr. Morgenthau asked Lochhead to paraphrase it and give the Ambassador a copy. Mr. Morgenthau then repeated to the Ambassador, "I want to repeat once more that this is the only agreement that I recognize. Furthermore, if China wants to sell any more silver, I want them to give us the first refusal."

Mr. Morgenthau told the Chinese Ambassador he would send these four points to Ambassador Johnson and ask him to show them to Buck.

The Ambassador left. HM,Jr., called McBride at the State Department and told him we had a very confidential cable to send to Ambassador Johnson in China and McBride said he would look after it.

EXHIBIT I

November 13, 1935

FROM: Shanghai, China

TO: The Secretary of the Treasury

From Buck. Referring to your telegram of 9th November: Kung appreciates your assistance but expressed disappointment in smallness of amount and stated that if China sells silver in the world market, such market will be disturbed. Therefore, better to have direct transaction with you stop. Apparently he is thinking of selling 200 million ounces period He feels price of silver will advance partly because of reference made to $1.29 per ounce in your Point 5 period. He stated a higher price for silver will help China greatly in supplying funds required for troop disbandment by means of credit balance project and for conservancy and industrial projects, and that such funds would strengthen the country and aid greatly in resisting Japan and would avoid complication of a loan stop. He emphasized that China would offer U. S. of America special trade advantages if funds could be provided through the high price for silver period.

I appreciate your confidence expressed in my newly assigned responsibility.

Nicol.

Memorandum Regarding Chinese Monetary Plan and Points on which the United States Treasury and the Chinese Minister of Finance are in Agreement

* * * * * *

(1) All proceeds from sales of silver to the United States Treasury will be used exclusively for stabilization of Chinese currency.

(2) That funds secured from sale of silver to the United States Treasury be kept on deposit in New York with agents of Central Bank of China (it is understood that both the National City Bank and the Chase National Bank be used for this purpose).

(3) That the United States Treasury representative in Shanghai (Professor Buck) will be given fullest information as to the disposition and employment of the Stabilization Funds and that the United States Treasury be kept fully informed during next twelve months as to monetary developments through him.

(4) That the United States Treasury agrees to purchase up to 50 million ounces of silver .999 fine at 65 5/8¢ per ounce less all the expenses of delivery to U. S. Mint at San Francisco, payment of this silver to be made upon delivery of the silver on board U. S. Steamship at Shanghai. free of any export tax or duty. This silver may be delivered by the Chinese Government on or before February 11, 1936.

(November 8, 1935)

Memorandum Regarding Chinese Monetary Plan and Points on Which the United States Treasury and the Chinese Minister of Finance are in Agreement

* * * * * *

(1) All proceeds from sales of silver to the United States Treasury will be used exclusively for stabilization of Chinese currency.

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(3) That the United States Treasury representative in Shanghai (Professor Buck) will be given fullest information as to the disposition and employment of the Stabilization Funds and that the United States Treasury be kept fully during next informed twelve months as to monetary developments through him.

(4) That the United States Treasury agrees to purchase up to ~~20~~ 50 million ounces of silver .999 fine at 65 5/8¢ per ounce less all the expenses of delivery to U. S. Mint at San Francisco, payment of this silver to be made upon delivery of the silver on board U. S. Steamship at Shanghai, free of any export tax or duty. This silver may be delivered by the Chinese Government on or before February 11, 1936.

Nov 8, 1935

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Memorandum Regarding Chinese Monetary Plan and Points on Which the United States Treasury and the Chinese Minister of Finance are in Agreement

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(3) That the United States Treasury representative in Shanghai (Professor Buck) will be given fullest information as to the disposition and employment of the Stabilization Funds and that the United States Treasury be kept fully informed during [illegible] as to monetary developments through him.

(4) That the United States Treasury agrees to purchase up to 20 million ounces of silver .999 fine at 65 5/8¢ per ounce less all the expenses of delivery to U. S. Mint at San Francisco, payment of this silver to be made upon delivery of the silver on board U. S. Steamship at Shanghai, free of any export tax or duty. This silver may be delivered by the Chinese Government on or before February 11, 1936.

Get date

Nov 8, 1935

November 13, 1935

In connection with my request, made yesterday, that Mr. Phillips of the State Department direct Cochran to go to Italy for certain information that I could furnish to the President, the following is the message sent to Cochran by the State Department:

"November 13,1935

FOR COCHRAN
FROM STATE DEPARTMENT

The Secretary of the Treasury would like to have you go to Italy in order to report on the current financial condition of Italy, its available resources for the conduct of the war, and the possible bearing of sanctions on the Italian financial and exchange position.

You are authorized to proceed to Italy for this purpose under the general authorization granted by the Treasury Department for you to travel in Europe on Treasury matters at the expense of the Treasury. You are furthermore directed to proceed in the first instance to Rome and to report to the Embassy on the purpose of your visit to Italy. You should consult with the Ambassador as to the course you should pursue to obtain the information you may consider advisable to have for your purpose and as to the persons whom you should see in Italy while you are there.

It would be advisable for you not to give any impression to anyone other than at the Embassy that you are in Italy for any particular purpose but should rather assume the attitude that this is one of your many trips out of Paris in the general line of your duties. You should, of course, be extremely careful in your conversations with the Italian officials not to make any predictions as to this Government's policy in the future with regard to the situation presented by the Italo-Ethiopia conflict and should remain within the limits of the statements of policy already announced by the President and the Secretary of State."

November 13th

Farley called me and wanted to know what we were doing about the various cases in Louisiana. I told him that we were going right ahead and asked what he wanted to know particularly so he sort of beat around the bush two or three times but what he was trying to find out was whether we were going to try and collect through a civil suit the back taxes owed us by Shushan or whether we were going to drop the cases. I told him the papers had already been served, that we were going to go ahead with all of the cases. He said two or three times, "that is all right". I said, "the only exception we were making was that we were going to attach Long's life insurance due Mrs. Long as the Louisiana State Treasury had a lot of money which they owed Long which would more than cover the taxes that we claim he owed us." Somebody certainly approached Farley to try to find out what we were doing about Abe Shushan - and he got his answer.

* * * * * * * * * * * * *

Based on the attached memorandum Helvering recommended that we postpone action on the case of Governor Eugene Talmadge until after March 15th - and I concurred.

I asked Helvering whether he gave out the information on the tax case of Mrs. Davey, wife of Governor Martin Davey of Ohio, and he told me that we never give out information of this kind. However, after we turn a case of this kind over to the Board of Tax Appeals it then becomes public information. Helvering also told me that we received a wire from the Secretary of the Davey Tree Company stating that they would not appear and enter judgment and that default judgment will be entered to-day.

I then discussed the Louisiana cases with Helvering and told him to keep his eyes and ears open on these tax cases; that all kinds of pressure was being brought to bear to have me discontinue our procedure but, of course, I told him that my answer to everybody is that we are going ahead. Helvering told me that the worst case of all will be that of Seymour Weiss. Helvering told me that Shushan owes us about $74,000 and that he is talking about taking it out of the jackpot to pay us.

Helvering also told me that he talked to Governor Moody yesterday and asked him for a definite answer and that he ought to have a telegram from him to-day.

I also told Helvering to see Farley and talk to him about the work that our Tax Collectors on relief rolls are doing in New York.

Copy

ELI-DW

October 31, 1935.

Mr. E. C. Palmer,
Special Agent in Charge,
Atlanta, Ga.

The Commissioner expects to return to town early next week and at that time I will discuss with him the proposals contained in your letter of October 30th, in reference to case SI-12741-F. In the meantime, I suggest that you defer taking any action in the matter.

(Signed) Elmer L. Irey

Elmer L. Irey,
Chief, Intelligence Unit.

TREASURY DEPARTMENT
Internal Revenue Service

telligence
Unit

P. O. Box 4144, Atlanta, Georgia
October 30, 1935

tlanta
I-12741-F

VIA AIR MAIL

<u>Personal
and
Confidential</u>

Chief, Intelligence Unit
Bureau of Internal Revenue
Washington, D. C.

In re: Governor Eugene Talmadge
Atlanta, Georgia

As result of the preliminary inquiries that I have made under the above numbered case, I have reached the conclusion that the principal vehicle of graft, if paid as alleged, is through the Georgia Highway Department.

I have made a confidential contact with one of the largest asphalt factors in the south. I am lead to believe that he is outstanding in his field, both from the standpoint of business volume and personal integrity. He is not aligned with the present state administration, but because of the scope of his contacts, I am confident that he is intimately familiar with conditions now existing in the Georgia Highway Department.

My informer advised me on October 29, 1935, that it would be a serious mistake to undertake an active investigation of the income tax liability of Governor Talmadge and his associates at this time. He indicated that the manipulations of the highway department did not reach their full swing until the current year, and that the income now being received will not be taxable until March 15, 1936. I have carefully considered this statement and find that the facts give some weight to the conclusion.

Governor Talmadge was inaugurated in January, 1933. During the remainder of that year the highway department was in a condition of some turmoil, and not susceptible to control by the Governor. That condition is indicated by the fact that on June 19, 1933, Governor Talmadge placed the highway department under martial law and discharged the members by use of the state militia. Mr. J. W. Barnett, the then Chairman of the State Highway Commission, was succeeded by Mr. J. J. Mangham.

Governor Talmadge was apparently unable to influence Mr. Mangham, and the latter was discharged by the Governor on November 22, 1933.

My informer advised that the conditions in the highway department were still somewhat unsettled in the following year of 1934, and that any graft payments that may have been made in that year were negligible as compared to the payments which are indicated for the present year.

It was also intimated by the informer that certain transactions are now in process of negotiation, which, if consummated will involve large sums of money. He feels that an active income tax investigation at this time would have the effect of placing the details of those transactions beyond the reach of the Government, and he is confident that if there is no untoward interruption in the negotiations, he will be in position to make disclosures of value to the Government.

I am inclined to give some credence to this position. I have discussed the matter with Mr. W. E. Page, Collector of Internal Revenue, and Mr. William Brusse, Internal Revenue Agent in Charge, Atlanta, Georgia, and they are also inclined to the thought that it may be the wise course to defer the investigation until after March 15, 1936.

I will thank you to consider the matter and advise whether you think it is of such importance as to warrant my appearance in Washington for a conference.

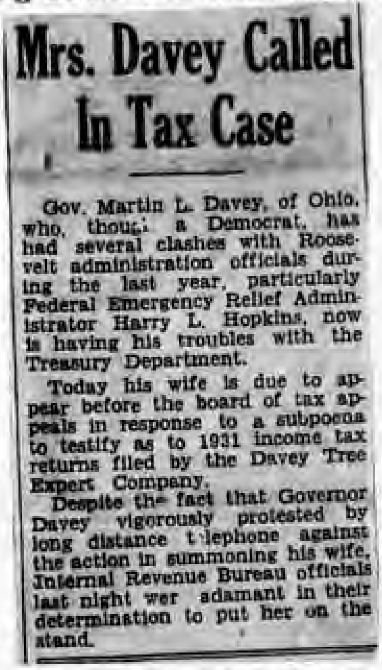
(Signed) E. C. Palmer

(E. C. Palmer)
Special Agent in Charge

ECP:CB

November 13, 1935

The President called Mr. Morgenthau on the telephone at a quarter past ten this morning and told him that he was very much disturbed about the Davey story. The following is a clipping from the Washington Herald:



Mrs. Davey Called In Tax Case

Gov. Martin L. Davey, of Ohio, who, though a Democrat, has had several clashes with Roosevelt administration officials during the last year, particularly Federal Emergency Relief Administrator Harry L. Hopkins, now is having his troubles with the Treasury Department.

Today his wife is due to appear before the board of tax appeals in response to a subpoena to testify as to 1931 income tax returns filed by the Davey Tree Expert Company.

Despite the fact that Governor Davey vigorously protested by long distance telephone against the action in summoning his wife, Internal Revenue Bureau officials last night were adamant in their determination to put her on the stand.

Mr. Morgenthau told him that he was 99% sure that the story did not come out of the Treasury as he knew that it was absolutely illegal for us to give out information of this sort. However, he had asked Commissioner Helvering to come in at a quarter of eleven, at which time he will get the whole story and will call the President after the meeting with Helvering.

He told the President that the reason he did not call him was because everything was very quiet and he did not think it was necessary to disturb him.

* * * * * * * * * * *

Mr. Farley called up and said our tax collectors from the relief rolls in New York are too "persnickety". Mr. Morgenthau agreed with Mr. Farley and told him he was going to send Helvering over so that he, Farley, could get the story direct from Helvering.

November 13th

Harold Graves came to the house at 7:45 a.m. and gave me the following figures. We had in the United States on July 1st in bond whiskey four years old and over 4,300,000 gallons. The first year that we put any amount of whiskey in bond was in 1934 when we put into bond a little over 60,000,000 million gallons and, of course, this year it will run double that amount. I had these figures mainly in mind as I had seen them some months ago when I recommended that we only reduce the tax on whiskey four years old or over.

Harold told me that Hickerson was more than pleased at my having telephoned him on Monday to say that the Treasury was wrong in our argument with him as to whether or not we knew last June that the State Department was considering reducing the tax on imported whiskey.

At the meeting with the President yesterday, on the budget, I did not like the way Bell acted. In the budget for the Department of Agriculture Bell included an item of 107 million dollars which is 30% of the estimated receipts of Customs for the next fiscal year. This money would go to Agriculture under the bill that Marvin Jones got through. I very carefully felt my way with the President but reminded him of our discussion over this piece of legislation and that how disturbed I was at the time and to my surprise and pleasure he added "how both of us were disturbed" and that at the time he was considering the legislation I had filed a memorandum of protest. (and this is where I felt my way very carefully) And while he had not promised me that he would have the legislation repealed still he did not say that he would not. I pointed out that this was earmarking funds, that these funds did not go through Buchanan's Committee of Appropriation, that Buchanan had been very much disturbed at the time and that I had agreed to the provisions in the AAA bill because we had to get Congress out of town.

I now suggested that this item be dropped out of Agriculture's budget and that a paragraph be included in his Budget Message urging the repeal of that part of the AAA act which turned over to Agriculture, without any limitations whatsoever, 30% of Customs' receipt. I told the President that I discussed this with Wallace and that I had even gone so far to suggest that the unexpended balance of the 90 million dollars, turned over to him this year, under what I call the Jones Act, should be refunded to the Treasury. The President followe me very closely and I watched every flicker of his eyelashes. To my great surprise, as I neared the end of my statement, Bell began to murmur protests and I got rather cross with him and, in front of the President said, "I cannot follow you Dan because at the time that this legislation was under consideration you were so terribly excited and opposed to it". He said, "that is right but I do not see what you can do about it now. They were figuring on using this money for curtailment of various agricultural or animal products." I snapped at him, "well that is the function of AAA" and he replied that AAA is in the U. S. Department of Agriculture. I said, "yes we are considering the budget of the regular Department of Agriculture and any money provided by Congress for the curtailment of agricultural production should go exclusively to AAA and nowhere else". I told them in discussing this whole question with Wallace that Wallace had informed me that if the case of AAA was lost before the Supreme Court and he had to raise money other than through the processing tax that he could get along with about 300 million dollars and I told the President that I would much rather raise this money through some form of taxation expressly for this purpose rather than have them get part of their money through Customs' receipts. The President agreed with me all along the line and, of course, it was a tremendous momentous decision, particularly if the President sticks to it.

On walking back to the Treasury Bell's Assistant, in the Treasury, who was with us, to show his pleasure, said something about "well we ought to pay for another trip for the Secretary to Europe if he can bring ideas home along these lines." So I said that I did not want to use up my influence at these conferences with the President over discussing hundreds of thousands of dollars but that an item of 107 million was worth fighting for. I turned to Bell and said, "Dan I just can't understand your position before the President, that you did not back me up" and he said, "well, I never for a moment drempt that the President would through that item out". I think that Dan did not like my taking the leadership in such an important matter and it is just too bad if he does not".

Another incident happened which shows which way the wind seems to be blowing. Bell said to the President, "I can't get Jesse Jones to submit his budget figures for the RFC (this is the second time that Bell has spoken to the President about this) The President said to Bell "tell him that I want him to give them to you" so I said, "Mr. President, you better write out a note telling Jones to do this", whereupon the President wrote a very strong note to Jesse Jones ordering to submit his figures to Bell.

As I walked out of the door I said to Bell, "I would like to have a photostat copy of this". Five seconds later he walked over and gave the slip to Kannee and said "mail it to Jones". Maybe he overlooked the fact that I wanted a copy but I do not think he did. Bell ought to have been most appreciative to me for getting him written instructions from the President to Jones because Jesse Jones' refusal had left Bell in a stupid position.

Also while we were leaving Bell asked the President when he wanted to see him and Buchanan leaving me completely out of the picture. They decided on Monday the 25th of November, if that was agreeable to Buchanan. The President smiled at me and I could interpret it as an invitation, although he didn't say anything. But I will take it up with him the next time I am with him alone for two reasons:

1. Unfortunately, I am beginning to have doubts about Bell and I think I better be around to look after the President's interest.

2. And I think that if I am not at the meeting it will look funny towards the public.

* * * * * * * * * *

The people in the Treasury and the Federal Reserve seem to think well of my idea to buy gold in London when it goes below $35.00 an ounce and build up a supply of gold there fore stabilization purposes.

For some time, George Harrison has been urging me to permit countries who are not on a gold standard to buy and sell gold to us. Up to now I have not seen any good reason for doing this but yesterday Cochran sent in cable No. 949 in which he says "both economist Jacobson and President Tripp remarked to me that the United States was really helping to consolidate the Sterlinb bloc through its policy of not releasing gold to other than countries on the gold standard. For example, the Central Bank of Sweden would like to increase its dollar holdings but prefers to operate through Sterling since it is certain of being able to convert such exchange into gold and, if desired, repatriate it later. Since America is accumulating so large a metallic stock it is suggested any effective distribution thereof will remain impossible so long as present restrictions upon export of gold to non-gold countries continues".

I am going to work on this suggestion now because it may be timely to make this next move, particularly if it will give countries like Sweden an opportunity to buy and sell direct without operating through Sterling.

COPY

June 26, 1935.

My dear Mr. Chairman:

Reference is made to H. R. 8492 entitled "An Act to Amend the Agricultural Adjustment Act, and for other purposes", passed by the House of Representatives June 18, 1935, and which it is my understanding your Committee has under consideration.

This Department is particularly interested in Section 31 of the proposed bill, which provides, inter alia:

> "There is authorized to be appropriated for each fiscal year an amount equal to 30 per centum of the gross receipts from duties collected under the customs laws during the period January 1 to December 31, both inclusive, preceding the beginning of such fiscal year."

Although the measure has not been referred to me for a report, I am calling to your attention provisions of this section, because it seems to me that they vitally affect the finances of the Government. I can not urge upon you too strongly my opposition to the enactment of this proposed bill for the reason that no provision has been made for the raising of the necessary revenue to meet an appropriation authorized to be made by this bill. On the basis of the customs receipts during the calendar year 1934, the appropriation may amount to approximately $90,000,000.

The foregoing is apart from the broad question of policy as to whether there should be at this time further import restrictions calculated to accentuate the imbalance of our foreign trade. On this point, I assume, your Committee will be advised through other channels of the Administration's general position.

Very truly yours,

/S/ Henry Morgenthau, Jr.
Secretary of the Treasury

Hon. Ellison D. Smith,
Chairman, Committee on
Agriculture and Forestry,
United States Senate,
Washington, D. C.

SAMcC:mg 6/25/35.

Copy

August 20, 1935.

TO THE PRESIDENT:

Section 32 of H. R. 8492 as agreed upon by the Senate and House conferees provides an appropriation for each fiscal year beginning with the fiscal year ending June 30, 1936 of an amount equal to 30% of the gross receipts from duties collected under the customs laws during the period January 1 to December 31, both inclusive, preceding the beginning of each fiscal year.

This section is highly objectionable for the following reasons:

(1) It appropriates directly instead of authorizing an appropriation, thus denying to the President the opportunity and right to inquire into the need for an appropriation and the submission of an estimate to the Congress as contemplated by the Budget and Accounting Act; likewise it deprives the Appropriations Committees of Congress of their right to consider and pass upon the need for an appropriation.

(2) It makes a permanent indefinite appropriation in direct opposition to the policy adopted by the enactment of the "Permanent Appropriation Repeal Act of 1934." The following excerpt from the report of the subcommittee of the Appropriations Committee which handled the Permanent Appropriation Repeal Act in the last Congress will be interesting in this connection:

> "It is maintained that neither by ethics, logic, nor by Constitutional authority has any one Congress the right of binding the hands of posterity by the enactment of laws mandatorily calling for automatic withdrawals from the Federal Treasury without annual examination, approval and supervision by succeeding Congresses. It is the conclusion of the Committee after hearing numerous witnesses that permanent appropriations are a vicious usurpation and invasion of the rights of sitting Congresses; that they complicate bookkeeping in the office of the Treasurer and the Division of Bookkeeping and Warrants of the Treasury Department; make auditing in the Comptroller General's office difficult; conceal from Congress many avenues of receipts and expenditures (which in itself is an invitation to extravagance), and for lack of proper annual disclosure, make the work of the Appropriation Sub-committees conjectural and uncertain ****."

The Committee further points out that appropriations of this character have been availed of as a means of foreclosing the right of each Congress to pass upon the appropriation needs of any project or beneficiary of this favorite device, and that by the use of them the doors of the Treasury are left wide open to administrative authorities to expend such amounts as they may deem necessary without Congress upon recommendation of its duly constituted committees in any wise passing either upon the element of need or reviewing the policies or purposes of those charged with the administration and expenditure of Government moneys.

(3) It places annually at the disposal of a single individual a sum ranging between approximately $90,000,000 for the fiscal year 1936 and an undetermined sum in subsequent years which, if our customs receipts aggregate as much as they did in 1927, will

amount to $180,000,000, to be expended by him "at such time, in such manner and in such amounts" as he may determine. This is a delegation of power and authority with a vengeance; it denies the President any authority whatever over the expenditure of huge sums of money in the operation of an executive agency.

(4) It provides for the expenditure annually for an undetermined number of years of large sums of money without any provision whatever being made for raising the revenue with which to finance such expenditures. There is a total lack of coordination between the funds that are made available and the purposes for which they are required.

(5) It provides for expenditures not contemplated in the Budget estimates for the fiscal year 1936 and will materially increase the deficit for that year as well as materially add to the annual expenditures for each year thereafter.

(6) The three purposes for which the fund may be used represent a new agricultural aid policy of such significance as to justify exhaustive debate and consideration in relation to the prevailing policy. For such an important policy to become law by the "back door" of conference committee agreement is to disregard the very fundamentals of legislative procedure.

Under the circumstances I believe the bill should be returned to the Congress without your approval to have this objectionable section removed.

November 14, 1935

Subsequent to the conference this forenoon with Coolidge, Oliphant and Lochhead, the attached memorandum was prepared and I agreed on it with Coolidge this afternoon.

Nov. 14. 1935

In purchasing gold in London, the price paid should be $35.00 per oz less all ~~not be higher than would allow for all~~ expenses of shipment to the United States.

$34.7559	Represents a price in London allowing for 1 1/2% interest per annum for time of shipment.
$34.7626 illion $	Represents a price in London allowing for 3/4 of 1% interest per annum for time of shipment.
$34.77	Represents a price in London allowing for no interest.

Originally, most New York banks figured on a rate of 1 1/2% per annum, but laterally a number of them are working on a basis of 3/4% per annum.

It would seem that the highest possible rate we could pay for gold in London would be $34.77, and at the present time the rate is about $34.7950. At the present time the movement of gold to the United States is from France and until such time as gold is being sold from hoarded stocks/or the British Equalization Fund in London it is not natural to suppose that the price will decline in the London market to a level at which it would be profitable to ship to the United States.

In engaging gold from Paris the banks figure that it is necessary to obtain French francs at the rate of 6.58 3/4¢. If gold was to be purchased in France and shipped to London with the possibility that it might later be trans-shipped to New York, the francs would have to be obtained at 6.58¢. For the present, at least, the commercial banks appear to be willing and able to finance the total movement of gold from France to the United States, basing their operations on francs at 6.58 3/4¢. Should an extra heavy movement of gold occur, beyond their capacity to handle, the rate might drop to 6.58¢, at which level the Treasury would be able to buy for shipment to London and if necessary, ultimate transfer to the United States.

$25 million / Paris 6.58 1/2 ✓

HMJr

November 14, 1935

The following met with the Secretary today:

Mr. Gibbons
Mr. McReynolds
Judge Moyle
Mr. Dow
Mr. Gorman
Mr. Ballinger

The Secretary read a report prepared by Mr. Irey and submitted it to Mr. McReynolds as a result of Special Agent Mack's investigation of the Buffalo customs office.

HM,Jr. then turned to Mr. Gorman and said, "I will address this to you, but I don't want to hold you personally responsible. I am not satisfied with the investigating force in Customs. I have been here two years and we have had to spend a lot of money and time putting outside people in to do the work which I think should have been done by your group. I have about come to the end of my rope on this situation. The people in Buffalo have been about the last straw.

"That this thing should be going on is awful and what is going on in the Appraisers' Stores is even worse. There is still money being passed on the piers. Things are not any better.

"I know," he gold Mr. Gorman, "that they say you cannot go into the Collectors' offices without first knocking at their doors. I am going to say to you, in front of the Commissioner, you can make your own rules and regulations as to what you need in the way of help to clean up this mess and I will back you up. I am talking about the people who are on the payroll of the Customs Service. Just how many crooks there are, I do not know.

Continuing, the Secretary said, "I want to give the permanent Civil Service employees in Customs a chance to clean their own house. If you cannot do it, I will do it for you. It took five Secret Service men to clean up the Customs crooks in New York City. It took me one year. Dow, Moyle and Gorman are responsible.

He said, "I have waited for some intimation to come from Customs and nothing has happened. Every time I send one of our people in, they find another crook. Why do you let a situation like Buffalo exist? How many other Buffalo's have we? I would like to have you come back here Monday at 11 o'clock and at that time I will take up one thing at a time. I want to get one thing started. I want Gorman's hands untied on a basis that he wants to investigate the personnel of Customs. Let him write out what he wants and show it to his two superiors. When I came here, Irey could not spend more than 5% of his time on investigation of personnel unless the Secretary of the Treasury o.k'd it. I changed that so that he can now devote 60% of his time to the investigation of personnel.

He told Mr. Gorman, "If you will tell me what you want, I will see you through 'hell'. I am not going to sit here and see case after case come up. I want you to succeed. You have been here 30 years and I want to give you a chance. Let's get rid of the crooks in Customs!"

November 13, 1935.

MEMORANDUM FOR MR. MCREYNOLDS:

There is submitted herewith a file of papers including a report of Special Agent Clifton E. Mack, dated November 7, 1935, relating to charges against Mr. William J. O'Brian, Collector of Customs, Buffalo, New York. In connection with an investigation conducted by Supervising Customs Agent E. J. Lewis, Mr. O'Brian addressed a letter to the Secretary of the Treasury on September 28, 1935, making a general denial of the charges which had been filed with the Treasury Department concerning his official misconduct, and stating in his judgment the allegations were the result of petty jealousies on the part of dissatisfied employees, and efforts made by him to improve general conditions in the Buffalo District. He further claimed that a general investigation of both the personnel and the activities of the District would be essential, and would exonerate him of the pending charges.

The principal charges against Mr. O'Brian consisted of the misuse of Government property, including automobiles, boats, etc.; falsification of records in connection therewith, and use of employees to perform personal services on official time. With respect to the charge of misuse of Government owned automobiles, it is shown that since his induction into office, May 26, 1934, four automobiles have been assigned to Collector O'Brian. It is claimed that he misused these automobiles and falsified the records in connection therewith by permitting his son, William J. O'Brian, Jr., to use three of the cars, and by having gasoline and oil supplied to his privately owned automobiles, which were improperly charged on the records as having been furnished to Government automobiles in connection with official use.

The misuse of Government boats assigned to the Customs Patrol Service by Mr. O'Brian consisted in his authorization of personal trips in such boats by his son, William J. O'Brian, Jr., and his son's friends; also that Mr. O'Brian made trips of an unofficial nature with his family and friends on patrol boats. The facts developed by the investigation show that the Collector has been guilty of the above charges relating to improper use of Government property, including automobiles, boats, etc., and the improper use of oil and gas in connection therewith.

With respect to the charge of use of employees to perform personal services on official time, it is shown that Collector O'Brian had Customs employees Allen and DiCenzo perform repair work at his home during official hours, and that DiCenzo also made certain repairs to the home and driveway of Mr. J. E. Kilroy a relative of Collector O'Brian, such work having been performed on official time. There is also evidence indicating that a Patrol Inspector was assigned to act as chauffeur for Collector O'Brian during the greater part of his term of office. From the investigation made it further appears that gasoline and oil were issued from the offical supply to the personally owned automobile of Collector O'Brian, which were charged on the Government records as having been used for his official car. In addition to the above, information was obtained showing inefficiency on the part of Collector O'Brian, and the resulting breakdown of morale predicated upon his own irregularities which were known to the Customs employees in his district.

Statements were also made by several persons with respect to improper political activities on the part of Collector O'Brian. It was learned that several months prior to the First New Deal Entertainment held at the Armory, Buffalo, New York, on January 17, 1935, Collector O'Brian handed a list with the names of several Customs employees to a clerk employed at the Customs office, and directed him to have these employees in the Collector's office at two o'clock the following afternoon for a meeting. It was explained that the purpose of the meeting was to distribute tickets to the various employees with the idea of selling them. The evidence shows that these tickets (the proceeds of which were used for political purposes) were practically forced on the employees for purchase or sale by the Collector.

In view of the statements contained in the letter addressed to the Secretary under date of September 26, 1935, Mr. O'Brian was afforded every opportunity to present all evidence or explanation having any bearing on the charges against his official misconduct. After affording him this opportunity an independent investigation was made, with result that the pending charges against him determined by Supervising Customs Agent Lewis consisting of misuse of Government property, falsification of records in connection therewith, and use of employees to perform personal services on official time, were sustained by competent evidence. The additional charge of political activity lends further weight to the general charge of inefficiency and breakdown of morale, for which Mr. O'Brian appears to have been responsible. Special

Agent Mack expresses the opinion that Collector O'Brian is not fully aware of the responsibility of his office; and that his irregularities in connection with the misuse of Government property, together with his improper political activities, have had a most damaging effect on the morale of the employees of the Service in that District. Agent Mack recommends, in view of all the facts in the case, that Collector of Customs William J. O'Brian be separated from the Service, in which recommendation I concur.

Encls.

November 14, 1935

Mr. Coolidge, Mr. Oliphant and Mr. Lochhead met with the Secretary today and Coolidge asked whether the Secretary would be willing to sell gold to countries other than those on the gold standard. He pointed out that at the present time we buy gold,at $35.00 an ounce less ¼ of 1%, from any one who delivers it to the United States Mints. Our sales are restricted to shipments to be forwarded to foreign countries who are on a free gold standard and only when the rate of exchange of the foreign currency against the dollar would make it profitable. This subject has been brought up in Mr. Cochran's cable of November 12.

Mr. Coolidge felt that if we would agree to sell gold to other countries it would be a great step forward in the ultimate stabilization of exchanges as it would allow countries which seek to obtain gold reserve to obtain it from the United States, where the largest stock is held, instead of having to compete for it in the open market.

Mr. Oliphant pointed out that if we agree to sell gold to any country, this would give England just the opportunity she wanted in that it would provide a lever to allow them to manage their currency against the dollar just at a time when it looked as if France (whose currency the English at present use as a basis for their operations) was considering the idea of restricting the sale of gold to other than gold countries.

Mr. Morgenthau wanted to know, if he reversed the present procedure and agreed that any of the 52 central banks could buy our gold, if that would not be just the thing England wanted and said he would not do a thing that England wanted unless he got something the United States wanted, such as cooperation in Shanghai or her co-operation at the coming Naval Conference in London.

While Mr. Coolidge felt that England's cooperation in the Naval Conference would be an excellent thing, he thought that asking for concessions would interfere with the stabilization idea. Mr. Morgenthau told him that the only person in the United States who knows the whole picture of this big jig-saw puzzle was the President. He pointed out that what he, the Secretary, is doing in China is from a monetary point of view only, but the President knows, for instance, what the relations between the United States and Ethiopia are and what we want accomplished at the Naval Conference and there are lots of other things the President has on the fire. HM,Jr. said the State Department was perfectly willing to have him handle the Chinese matter because it is purely a monetary problem.

Mr. Oliphant felt that unless there is to be some very positive advantage to be gained by selling gold to countries other than those on the gold standard, it would be a dangerous procedure as there would be much speculation in New York and the papers would be very curious. Coolidge felt that it would be laying the groundwork for something very important in the future.

At this point Mr. Morgenthau said, "Let me put all the cards on the table." He told them of his new idea of trying to work out a formula that any time gold gets below $35.00 a ounce, he would buy gold in London and soften the flow of gold to this country, and when the rush goes the other way, he would have things arranged to soften the flow over there. He thought it was a scientific way to use the Stabilization Fund, which was distinctly to our advantage, and was surprised that someone in Federal Reserve had not thought of it before this because it is a way to soften the flow both ways.

Mr. Lochhead said that from an exchange stabilization point it was very desirable to have gold in London and also desirable to have it in other places.

Coolidge said that Harrison was against it; that he, Harrison, did not mind the business going away from the banks, but was afraid of repercussions that America was going over to buy gold at higher prices than other people are willing to pay.

Mr. Morgenthau was in favor of postponing action on selling gold to countries other than those on the gold standard until the French matter is cleared up, but he told them he is very keen on his idea of building up gold stocks in London at a price which the group present would have to work out and not to let anybody know about it. On the other thing, he can't see it yet until he knew what the French were going to do but he would consult with the French and tell them if we started to buy gold in London because he feels much closer to the French than he does to the English.

November 14, 1935

Mr. Morgenthau spoke to the President today and the President told him he was very much disturbed about the attached article by Turner Catledge in the New York Times today. Mr. Morgenthau told the President that he too saw it and did not like it, and called the President's attention to the fact that nowhere in the article did Catledge make any reference to the Treasury. The President said that he was going to get in touch with Catledge and tell him that he, the President, would like to explain budget-making to him; that he knew that Catledge always tried to do the right thing, but on budget making the President felt he could be helpful to him.

The President also said that he thought Catledge might succeed Arthur Krock.

H.M.,Jr., told the President that not a day passes but what someone tries to stop us from going ahead on the New Orleans tax cases; that people tried to make it very difficult for Mr. Morgenthau, but his answer has been and will continue to be, to go ahead. The President agreed very definitely with Mr. Morgenthau. Mr. Morgenthau also told the President that Woodcock was not big enough to try these cases and that they are to hear definitely within the next day or two as to whether Governor Moody will carry on.

The President asked Mr. Morgenthau whether we are going ahead on the slot machine case and Mr. Morgenthau said he was.

The Secretary also told the President that an Italian by the name of Mastri, who is also known as "Red Light Mastri," is coming up on top as the "boss" of the underworld in New Orleans and that Weiss is the connection to Matri.

New York Times Nov. 14, 1935

HALF-BILLION CUT IN BUDGET IS ORDERED BY ROOSEVELT; ROPER REASSURES BUSINESS

ED BY BUSINESS GAINS

ash of One Billion in
eficit Is Planned as
Revenue Increases.

38 GOAL FOR BALANCING

nus and Supreme Court Rul-
g on AAA Taxes Held Only
Prospects of an Upset.

HTER RELIEF LOAD SEEN

A and Other Agencies Are
kely to Go as Employment
Tasks Are Concentrated.

By TURNER CATLEDGE.

Special to The New York Times.

ASHINGTON, Nov. 13.—Infor-
orders to cut Federal expendi-
under the 1937 budget by
0,000,000 less than the newly es-
ated total for 1936 have been is-
d to administrative officials by
ident Roosevelt, and as a re-
the lives of numerous Federal
eaus and agencies, including the
A and some others of the better-
wn New Deal alphabetical units
e reported today to be hanging
cariously in the balance.
he economy wave, which rose
full tide in the early days of the Roosevelt administration but ebbed as the depression continued, was said to be sweeping again over the Federal establishment, heightened this time by the signs of better business.

Some Washington observers see in these new economy activities an indication that Mr. Roosevelt will enter his re-election campaign next year on a retrenchment platform, while some of those who are seeking to carry out his expenditure reduction orders believe he will be able by that time to cite persuasive examples of his intention and ability to return the government to its normal functions after the storm.

Increased Revenue Expected.

The figure for budget savings for the fiscal year 1937 has been set roughly at $500,000,000. This, together with $500,000,000 in increased revenue for the same period, which the Treasury confidently expects if business trends continue, will enable the administration to lop a billion dollars off the deficit, and thus place the budget in position to be balanced during the fiscal year 1938.

The savings which experts are striving for in preparation of the new budget are said to be in addition to the curtailment made in the outlays for the current fiscal year. In his statement of Sept. 30, President Roosevelt estimated that the actual expenditures for this year would fall about $1,246,000,000 short of the amount forecast in January, when he submitted budget estimates totaling $8,520,000,000, including the $4,880,000,000 for the work-relief program.

Just what bureaus and agencies will feel the economy axe has not yet been determined, or, if so, has not been disclosed. Officials think it safe to predict, however, that several of them will not be provided for in the budget, others will be wiped out or consolidated with like agencies by executive orders, and still others will be recommended to Congress for the discard.

A horizontal salary cut for Federal employes and a further attempt to curtail veterans' expenditures, the latter having turned out rather disastrously in the economy wave of 1933, are not likely to be a part of the new drive for government savings.

End of the PWA a Possibility.

There is a likelihood that all relief and re-employment expenditure will be thrown into one channel, possibly something like the Works Progress Administration. The purpose now is to provide a relief and re-employment mechanism which can be shut off quickly when recovery actually comes from around the corner.

Such a revision in policy would mean the virtual end of any expansion of the slow-moving public works program. There would be little surprise in Washington if the President should fail to recommend continuation of expenditures through the current fiscal year, except for completing projects for which commitments have been made.

All energies are now being bent to keep the next budget down to $7,000,000,000 or less for all purposes. Anything like an exact forecast of expenditures for the next year, or even of fiscal policies, must of necessity await the development of forces now outside of the control of the administration—the necessity for relief expenditures, demands for the veterans' bonus, and the Supreme Court's decision on the agricultural processing taxes.

Estimates for relief, as was the case last year, will not be determined until a few days before the budget is submitted. It is the hope of officials to reduce the amount to a billion dollars or less. This hope has ripened almost into an expectation during the last few weeks as reports have come to the Treasury, Commerce and Labor Departments of increased business activity throughout the country. More will be known of the relief needs within the next few weeks when community chest drives have been completed in many cities.

Bonus Problem Still Waits.

A successful bonus drive, which most observers here believe is inevitable, could throw the whole plan of the administration out of kilter. In round figures, $2,000,000 would be required for this purpose.

Administration authorities are strangely unconcerned, however, about the present attitude that the bonus will have to be provided before even the beginning of the next fiscal year. Some feel, for instance, that one of the arguments for payment of the bonus, namely, the needy condition of the veterans, may be less of a factor by the time another veto test is before Congress.

The processing taxes and the possibility that they may be invalidated by the Supreme Court present a different problem. The administration is committed to continue benefit payments under the Agricultural Adjustment Act, regardless of the court's decision. An adverse ruling would deprive the Treasury of more than $500,000,000 annually from this source and, in all probability, necessitate the levying of different taxes to take their place.

Studies already are under way turn up new sources from whi such revenue could be provided. O the other hand, the more optimist officials believe that the necessit for paying farm benefits will dis pear at a much earlier date th expected by their most sangui associates at the outset.

November 14, 1935

The Secretary had his usual group meeting at 9:30 this morning. The absentees were George Haas, Miss Roche, Mr. Robert and Mr. Upham. Present: Mr. Coolidge, Mr. Oliphant, Mr. McReynolds, Mr. Gibbons and Mr. Gaston.

Mr. Morgenthau told Gaston that he was very much disturbed about the article in the Wall Street Journal, this morning, which said that Treasury officials approved of Leo Crowley's suggestion that banks repurchase their preferred stock and notes from RFC as rapidly as possible. He also told Gaston how disturbed he was about the Catledge story in the New York Times. Copies of these two articles are attached.

He also told Gaston that when we come to the advertising campaign on baby bonds in the national farm papers, he doubts whether we can get into them before January. Mr. Morgenthau suggested that in order to take the pressure off of us, we should alternate each month between the national farm papers and the State and sectional farm papers. He said the cost is about the same, but suggested starting in with the State and sectional farm papers and then, the following month, the National farm papers and alternating each month thereafter.

Mr. Coolidge told the Secretary that General Ireland had called him to say the Treasury was lagging this year in its contributions to the Community Chest. Miss Roche is Chairman of the Treasury's Committee this year. Mr. Coolidge asked the Secretary if he would sign a letter to be sent to each Treasury employee urging generous contributions. Mr. Morgenthau said he had no objection, but he does not want to get in on the middle of the campaign and suggested that McReynolds and Coolidge should get together with Miss Roche and Chip Robert, who was the Treasury's chairman last year, and try to stimulate activities. Miss Roche is very busy on other matters and Mr. Morgenthau realizes this, but he was sorry she was not present at the group meeting so he could discuss the matter with her

Mr. Oliphant said that at the Secretary's press conference this morning the newspaper men might bring up the question of purchase of German steel for the New York Triboro bridge. Mr. Morgenthau said that about a year ago, Peoples was placed on a committee to decide what the price differential should be on bids using foreign-made materials and that after careful study the committee reported a 25% figure. Mr. Morgenthau said that as a private citizen he would not get in on this discussion; that it had been his rule on German matters (and he intended to continue to make it his policy) to have someone else in the Treasury make the decisions because of his personal feeling about the German situation and because in his efforts to be fair and impartial he might lean backwards and be too generous.

NEW YORK TIMES - November 14, 1935.

HALF-BILLION BUDGET CUT ORDERED BY ROOSEVELT; ECONOMY HITS BUREAUS

SPED BY BUSINESS GAINS

Slash of One Billion in Deficit Is Planned as Revenue Increases.

1938 GOAL FOR BALANCING

Bonus and Supreme Court Ruling on AAA Taxes Held Only Prospects of an Upset.

LIGHTER RELIEF LOAD SEEN

PWA Among New Deal Agencies Likely to Go as Employment Tasks Are Concentrated.

By TURNER CATLEDGE.

Special to THE NEW YORK TIMES.

WASHINGTON, Nov. 13.—Infor-

$500,000,000 less than the newly estimated total for 1936 have been issued to administrative officials by President Roosevelt, and as a result the lives of numerous Federal bureaus and agencies, including the PWA and some others of the better-known New Deal alphabetical units were reported today to be hanging precariously in the balance.

The economy wave, which rose to full tide in the early days of the Roosevelt administration but ebbed as the depression continued, was said to be sweeping again over the Federal establishment, heightened this time by the signs of better business.

Some Washington observers see in these new economy activities an indication that Mr. Roosevelt will enter his re-election campaign next year on a retrenchment platform, while some of those who are seeking to carry his expenditure reduction orders believe he will be able by that time to cite persuasive examples of his intention and ability to return the government to its normal functions after the storm.

Increased Revenue Expected.

The figure for budget savings for the fiscal year 1937 has been set roughly at $500,000,000. This, together with $500,000,000 in increased revenue for the same period, which the Treasury confidently expects it

thus place the budget in position to be balanced during the fiscal year 1938.

The savings which experts are striving for in preparation of the new budget are said to be in addition to the curtailment made in the outlays for the current fiscal year. In his statement of Sept. 30, President Roosevelt estimated that the actual expenditures for this year would fall about $1,246,000,000 short of the amount forecast in January, when he submitted budget estimates totaling $8,520,000,000, including the $4,880,000,000 for the work-relief program.

Just what bureaus and agencies will feel the economy axe has not yet been determined, or, if so, has not been disclosed. Officials think it safe to predict, however, that several of them will not be provided for in the budget, others will be wiped out or consolidated with like agencies by executive orders, and still others will be recommended to Congress for the discard.

A horizontal salary cut for Federal employes and a further attempt to curtail veterans' expenditures, the latter having turned out rather disastrously in the economy wave of 1933, are not likely to be a part of the new drive for government savings.

End of the PWA a Possibility.

There is a likelihood that all relief and re-employment expenditures will be thrown into one channel, possibly something like the Works Progress Administration. The purpose now is to provide a relief and re-employment mechanism which can be shut off quickly when recovery actually comes from around the corner.

Such a revision in policy would mean the virtual end of any expansion of the slow-moving public works program. There would be little surprise in Washington if the

which commitments have been made.

All energies are now being bent to keep the next budget down to $7,000,000,000 or less for all purposes. Anything like an exact forecast of expenditures for the next year, or even of fiscal policies, must of necessity await the development of forces now outside of the control of the administration—the necessity for relief expenditures, demands for the veterans' bonus, and the Supreme Court's decision on the agricultural processing taxes.

Estimates for relief, as was the case last year, will not be determined until a few days before the budget is submitted. It is the hope of officials to reduce the amount to a billion dollars or less. This hope has ripened almost into an expectation during the last few weeks as reports have come to the Treasury, Commerce and Labor Departments of increased business activity throughout the country. More will be known of the relief needs within the next few weeks when community chest drives have been completed in many cities.

Bonus Problem Still Waits.

A successful bonus drive, which most observers here believe is inevitable, could throw the whole plan of the administration out of kilter. In round figures, $2,000,000 would be required for this purpose.

Administration authorities are strangely unconcerned, however, about the present attitude that the bonus will have to be provided before even the beginning of the next fiscal year. Some feel, for instance, that one of the arguments for payment of the bonus, namely, the needy condition of the veterans, may be less of a factor by the time another veto test is before Congress.

The processing taxes and the possibility that they may be invalidated by the Supreme Court present a different problem. The administration is committed to continue benefit payments under the Agricultural Adjustment Act, regardless of the court's decision. An adverse ruling would deprive the Treasury of more than $500,000,000 annually from this source and, in all probability, necessitate the levying of different taxes to take their place.

Studies already are under way to turn up new sources from which such revenue could be provided. On the other hand, the more optimistic

WALL STREET JOURNAL - NEW YORK CITY - November 14, 1935.

Treasury Favors Payment of RFC Loans By Banks

$900,000,000 Preferred Stocks In This Class—Cut in 1937 Deficit Is Aim

Also Lower Excess Reserves

By Thomas W. Phelps

Staff Correspondent of The Wall Street Journal

NEW ORLEANS — Suggestion made here by Leo T. Crowley, chairman of the Federal Deposit Insurance Corp., that banks repurchase their preferred stock and notes from the RFC as rapidly as possible, is heartily approved by Treasury authorities. They hope by this means and sales of other Government assets such as RFC and PWA bonds, and HOLC mortgages, not only to cut down the gap between actual federal income and outgo in the 1937 fiscal year to something like $750,000,000, but to effect a substantial reduction in excess reserves of banks in the Reserve System.

The RFC now holds roundly $900,000,000 of bank preferred stock and notes, a third to a half of which might be paid off within a year, it is believed, depending, of course, on continued business improvement. There is less optimism as to prospects for large sales of Home Owners' Loan Corp. mortgages to private institutional investors, though there have been some inquiries from banks along this line already.

$3,000,000,000 HOLC Loans

Total volume of these loans outstanding probably exceeds $3,000,000,000, out of the $4,750,000,000 authorized. Latest HOLC estimates were that roughly 20% of its total mortgages were more than 90 days overdue on interest.

These estimates, it is understood, were based on the total volume of business written by the HOLC, including mortgages no longer on its books. In other semi-official sources, it is estimated that as high as 50% of the HOLC's actual present holdings are overdue, and thus definitely out of the class of securities which might appeal to banks or other investors. At the same time, it is said, the HOLC portfolio does include some high grade mortgages, obligations which are so good, in fact, that there has been some disposition within the HOLC to hold them in order that they might offset anticipated losses on other loans and thus improve the corporation's final showing.

Other news on the A. B. A. convention will be found on Page 5.

Preferable to Top-Heavy Reserves

Bankers here were unenthusiastic about the suggestion that they might buy any large volume of HOLC mortgages, though some did concede that if it came to a choice between having the Reserve Board raise reserve requirements or the banks' taking over enough securities from the various Government agencies to make a real dent in unwieldy excess reserves, the latter course might prove the more satisfactory from the long range point of view.

The assumption was that once reserve requirements were raised they would stay up until the next period of deflation sets in.

A possible deterrent to bank repurchases of their preferred stock and notes, bankers here pointed out, is the necessity of maintaining a conservative ratio between deposits and capital. Deposits have gone up and are expected to continue to rise further, with the result that some banks will need more capital, rather than less.

November 14, 1935.
Thursday

H.M.Jr.: Hello

Charles West: Henry?

H.M.Jr.: Yes

C.W.: This is Charlie West.

H.M.Jr.: Yes

C.W.: I understood you were trying to get me -

H.M.Jr.: Yes, Charlie, I tried to get you Monday -

C.W.: Yes - and then I went to Ohio - I had a debate out there last night with Ham Fish on the New Deal -

H.M.Jr.: Oh - your congressman, - grand! gave him a Good!

C.W.: And had a great time. Why, - I talked to Mac about getting an appointment for Bulkley.

H.M.Jr.: Yes.

C.W.: And he didn't want him down yet and Bulkley wanted to bring that letter -

H.M.Jr.: Yes

C.W.: - give it to the President and then see you. And give the kind of letter the President told him to get.

H.M.Jr.: Yes

C.W.: Well now, it holds up the thing, because Bulkley is ready to come down.

H.M.Jr.: Well, I've got to move on it - it's terribly embarrassing.

C.W.: Well, how would it be if I'd call Bulkley then, and have him come down tonight and see you - direct?

H.M.Jr.: Well, let me call up McIntyre, because, now, they -

C.W.: I think Mac has it wrong. He thinks that Bulkley wants to argue this thing with the President -

H.M.Jr.: Well, you -

C.W.: And Bulkley doesn't

H.M.Jr.: All right, well now, let me call up McIntyre

C.W.: Yes

H.M.Jr.: And then call you back, may I?

C.W.: Yes, that would be fine.

H.M.Jr.: Are you at your office?

C.W.: I'm at my office, now, Henry.

H.M.Jr.: I'll call you right back.

C.W.: All right

H.M.Jr.: Thank you

C.W.: Goodbye

November 14, 1935.
Thursday

H.M.Jr.: Hello

C.W.: Hello

H.M.Jr.: Charlie -

C.W.: Yes

H.M.Jr.: McIntyre said that he told you that he doesn't want the President brought into this matter.

C.W.: Yes, I know -

H.M.Jr.: - that he appreciates Bulkley's attitude but the President doesn't want to see him.

C.W.: Yes

H.M.Jr.: Now, I've got to take the position that I've got to have an answer.

C.W.: Yes

H.M.Jr.: Now let's you and I try to keep the President out of this.

C.W.: I think so too, Henry, I feel that I should try to do that just as much as possible. I don't think he ought to go into it, really.

H.M.Jr.: - Will you call up Bulkley and get him down and tell him it's very embarrassing that the -- Scripps-Howard papers are pressing me very hard-

C.W.: Yes

H.M.Jr.: - And the longer we put off, the longer - the worse the situation looks in Ohio.

C.W.: Yes

H.M.Jr.: Now, God, he ought to feel happy with this break that he got on Mrs. Davey, which was given out by the Board of Tax Appeals and not the Treasury. But he hates Davey, doesn't he?

C.W.: Oh, my gracious, yes.

H.M.Jr.: Well, then he ought to be in a good humor.

C.W.: I think he is. I know he is.

H.M.Jr.: Well, all right - well, now -

C.W.: He was down and spoke at the national meeting of the Building and Loan Association of Cincinnati last night.

H.M.Jr.: Yes -

C.W.: And he's in Cleveland this morning.

H.M.Jr.: Well, it's very embarrassing to me and I've really got to clean it up this week, Charlie.

C.W.: Well, Henry, I'll call Bulkley right away.

H.M.Jr.: All right - let's keep the President out of it.

C.W.: Well, I'll help you on that.

H.M.Jr.: Thanks

C.W.: - And I know that that's the right course.

H.M.Jr.: And let me know - call me back when you --- let's say we'll do it this week, shall we?

C.W.: Yes, without fail.

H.M.Jr.: O. K.

C.W.: Will you be in your office all afternoon?

H.M.Jr.: Yes.

C.W.: I'll give you a ring - after I talk with Bulkley.

H.M.Jr.: Thank you.

C.W.: All right, goodbye

H.M.Jr.: Thank you

C.W.: Goodbye.

November 14, 1935.
Thursday

Charles
West:

H.M.Jr.: Yes

C.W.: - to be here tomorrow. He would like to come Sunday night and said that he would positively come and see you the first thing Monday morning -

H.M.Jr.: Fine

C.W.: - if you could see him then.

H.M.Jr.: Yes, what time would you suggest?

C.W.: Any time that's convenient with you. He'll be in here he said, by - I think, it's eight forty that his train gets in from Cleveland.

H.M.Jr.: Yes - Well, why don't we say - just a moment, please -

C.W.: All right

H.M.Jr.: - at ten o'clock Monday morning?

C.W.: Ten o'clock would be good.

H.M.Jr.: Will you come with him?

C.W,: if you'd like.

H.M.Jr.: Very much so.

C.W.: I'll - I want to get him to give to you just exactly the kind of letter that is necessary to do just what you want.

H.M.Jr.: Yes

C.W.: And I have every feeling of assurance, from what he's told me, that he has in his possession just that kind of letter.

H.M.Jr.: Well -

C.W.: But, he did - his thought was, after he had talked with the President, that the President wanted him to bring that letter to him -

H.M.Jr.: Yes

C.W.: And of course there's a little delicacy there - I don't want him to feel that he's being deprived -

H.M.Jr.: Well -

C.W.: - of that, and I don't think he does feel that.

H.M.Jr.: Well, you - you can explain to him that the President appreciates it but doesn't want to - but wants me to have it. - You could put it this way, after talking to McIntyre, that if you want it - McIntyre wants to put it that way, that the President doesn't want to interfere with the operations within the Treasury Department.

C.W.: Yes

H.M.Jr.: How would that be?

C.W.: I think that would be all right, and I'll - and I'll meet him at the train.

H.M.Jr.: Wouldn't that be a graceful way of putting it?

C.W.: I think that would be a very graceful way - and I can say it to him in such a way that he won't take any offense.

H.M.Jr.: Yes

C.W.: Confidentially, he's a little touchy on things like that, you know -

H.M.Jr.: Yes , Well -

C.W.: You know you know him that way as I do.

H.M.Jr.: But I would put it the way, that the President doesn't want to interfere with internal matters within the Treasury Department.

C.W.: Yes

H.M.Jr.: And therefore he suggested that he come to me - of course it's unusual that this collector doesn't bring the letter himself -

C.W.: But that's

H.M.Jr.: It is, that's true, but that's all right - if the Senator will come across with the letter - why you and I will open up a bottle of Champagne - after he leaves.

C.W.: That's right, Henry.

H.M.Jr.: And I'll enjoy it with you, with Jeff sitting here, and I think the Champagne ought to be on Jeff. (Laughter)

C.W.: (Laughter) I think so too.

H.M.Jr.: Jeff says he'll pay for it.

C.W.: And I'll be in complete accord with the Treasury Policy.

H.M.Jr.: Jeff says he'll pay for one bottle. (Laughter)

C.W.: (Laughter) I'm in complete accord with the new Treasury policy to have Jeff to do that and he'll believe that that's part of the New Deal.
Now, that's what I was talking last night - Say, I told you I whipped Ham Fish, didn't I?

H.M.Jr.: Yes

C.W.: - on the New Deal?

H.M.Jr.: O. K.

C.W.: And I'll tell you some of the jabs that I gave him when I - when I see you.

H.M.Jr.: Right.

C.W.: I had him on the run - I had his voting record.

H.M.Jr.: Right

C.W.: And I used it on him - (Laughter)

H.M.Jr.: Right. And then I'll see you and the Senator and the letter Monday morning the eighteenth at ten o'clock.

C.W.: Without fail, Henry

H.M.Jr.: Without fail.

C.W.: Without fail.

H.M.Jr.: Make the letter right.

C.W.: (Laughter) I'll see that it's just as good as it can be made.

H.M.Jr.: O. K.

C.W.: All right.

H.M.Jr.: Thank you.

C.W.: Goodbye.

H.M.Jr.: Goodbye.

MEMORANDUM

November 14th, 1935.

On October 16th, 1935, the Department received a letter from Senator Nye, Chairman of the Special Committee Investigating the Munitions Industry, requesting that the Bureau of Internal Revenue make available to his Committee the income tax returns of Elliott Roosevelt for the years up to and including 1934. When the letter complying with this request came to Mr. McReynolds' desk he brought it to the Secretary's personal attention. At the Secretary's suggestion the Bureau of Internal Revenue was instructed to bring the returns to Mr. McReynolds' Office.

There was attached to the 1934 return Form 1099 from the Fokker organization reporting the payment of $5,000 to Elliott Roosevelt, which amount was not shown as income in the return. After the Secretary had called this matter to the President's attention, Elliott Roosevelt was called in. He explained that in February 1934, negotiations between him and Mr. A. H. G. Fokker resulted in a contract. Soon after the contract was consummated he found it advisable to withdraw and terminated the contract on his part. However, in connection with the contract, certain services had been performed by a Mr. Grenville W. Stratton of Los Angeles, California, and he understood that the $5,000 was paid to Mr. Stratton by representatives of Mr. Fokker for such services. Mr. Roosevelt stated that the $5,000 did not pass through his hands nor did he have any connection with it.

At the direction of the Secretary the Deputy Commissioner of Internal Revenue in Charge of the Income Tax Unit, Charles Russell, called the Collector of Internal Revenue at Los Angeles and ascertained that Mr. Stratton and his wife had filed returns on a community property basis reporting the receipt of the $5,000 in 1934. The Deputy Commissioner made a report of these facts in the usual form and instructed Fokker's representative to cancel the Form 1099 issued to Elliott Roosevelt and issue one in lieu thereof to Mr. Stratton.

These facts were all set out in detail in a letter dated October 30, 1935, addressed to Senator Nye, and the income tax return of Mr. Roosevelt together with the report of Deputy Commissioner Russell were made available to Senator Nye's Committee on November 7, 1935. The Senator acknowledged this letter and expressed the Committee's appreciation of the explanation developed by the investigators.

OCT 30 1935

My dear Mr. Chairman:

I have your letter, identified as Treasury Department Request No. 78, with accompanying list dated October 15, 1935, requesting that there be made available to the Special Committee Investigating the Munitions Industry, United States Senate, income tax returns for the years up to and including 1934 of Elliott Roosevelt, Washington, D. C.

Your letter states that inspection of these returns is desired for the purpose of the investigation now being made by the Committee pursuant to Senate Resolution 206, Seventy-third Congress. Authorization for inspection of income tax returns by the Special Committee Investigating the Munitions Industry is contained in Executive Order dated May 14, 1935.

Upon receipt of your request an examination was ordered in accordance with Section 257 (a) of the Revenue Act of 1926. The examination of the return disclosed that Mr. A. H. G. Fokker, Alpine, New Jersey, had filed an information return (Form 1099) showing payment of $5000 to Mr. Elliott Roosevelt, which was not disclosed on his return. I requested Mr. Roosevelt to explain the apparent discrepancy and a copy of his explanation is attached hereto, to the effect that in February 1934 negotiations between him and Mr. A. H. G. Fokker resulted in a contract. Immediately thereafter, or soon after the contract was consummated, he found it advisable to withdraw and terminate the contract on his part. However, in connection with the contract certain services had been performed by a Mr. Grenville W. Stratton, Los Angeles, California, and he understood the $5000 was paid to that individual by representatives of Mr. Fokker, in connection with such services. Mr. Roosevelt states the $5000 did not pass through his hands nor did he have any connection therewith. He believes Mr. Fokker inadvertently reported the sum as being paid to him because he was one of the parties to the original contract. I requested the Deputy Commissioner in Charge of the Income Tax Unit to investigate the matter and as shown by his report attached to the return, Mr. Grenville W. Stratton and his wife, Cora L. Stratton, Los Angeles, Californiafiling separate returns on a community property basis reported $5000 as being received from Mr. Fokker. Copies of the correspondence in connection with the examination and a copy of the Deputy Commissioner's report explaining the apparent discrepancy are transmitted herewith.

I have issued instructions that the returns, associated papers, and report thereon be made available for inspection in the Bureau of Internal Revenue, by the duly authorized representative of the Committee.

In the event that further correspondence relative to this matter is necessary, kindly refer to IT:E:CTR.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary.

Honorable Gerald P. Nye,
Chairman, Special Committee
  Investigating the Munitions Industry.
United States Senate.

J. R.
10/30/35

October 30, 1935.

In re: Elliott Roosevelt and Ruth G. Roosevelt,
1101 Penn Street,
Fort Worth, Texas.
Year: 1934.

Commissioner of Internal Revenue,
Washington, D. C.

MR. COMMISSIONER:

I have examined the income tax return of the above-named taxpayers for the calendar year 1934 and report as follows:

An information return (Form 1099) was filed by A. H. G. Fokker, Alpine, New Jersey, for the calendar year 1934, showing $5000 as having been paid to Elliott Roosevelt during that year. The return filed by the taxpayers for the calendar year 1934 did not include such payment in the income reported. Mr. Elliott Roosevelt was interviewed and submitted the following explanation:

That in February 1934 negotiations were commenced between him and Mr. A. H. G. Fokker, which resulted in the consummation of a contract during that month. Immediately thereafter, or soon after the contract was consummated, he deemed it advisable to withdraw and terminate the contract on his part. In connection with the contract certain services were performed by a Mr. Grenville W. Stratton, Los Angeles, California, and in connection therewith $5000 was paid Mr. Stratton by Mr. Fokker or his representatives. Mr. Roosevelt further stated that the $5000 did not pass through his hands nor did he receive any part of it. He assumed that Mr. Fokker inadvertently reported him as recipient of the payment because he was one of the parties to the original contract, but from which he had withdrawn.

Contact was made with the Internal Revenue Agent in Charge of the Los Angeles Division who stated that Mr. Grenville W. Stratton and his wife, Cora L. Stratton, 5626 Franklin Avenue, Los Angeles, California, filed separate returns for the calendar year 1934, upon a community property basis, that is, each individual reporting one-half of the items of income. The Agent in Charge had the returns before him and stated that each return reported as taxable income $2500 or a total of $5000 as having been received from Fokker during the calendar year 1934. Mr. A. H. G. Fokker has been requested to submit a revised information return (Form 1099), showing the actual recipient of the payment.

The deductions claimed on the return are small and the taxpayer has made satisfactory explanations. The five cents per mile claimed as expense for operating an automobile, necessary in connection with his occupation, is reasonable. It is the same amount as allowed Government employees as approved by the Comptroller General. It is believed the taxpayer spent at least the amount claimed as travelling expenses necessary in connection with his occupation. Depreciation claimed is reasonable. The deductions are so small that any reasonably expected change would not result in sufficient additional tax to warrant further investigation.

Respectfully,

(Signed) Chas. T. Russell

Deputy Commissioner.

October 30, 1935.

IT:E:CTR

Mr. A. H. G. Fokker,

Alpine, New Jersey.

Sir:

An information return (Form 1099) filed by you for the calendar year 1934 shows $5000 as having been paid to Mr. Elliott Roosevelt during that year. Mr. Roosevelt disclaims any receipt of the payment, stating that the payment was received by a Mr. Grenville W. Stratton, 6626 Franklin Avenue, Los Angeles, California. In this event, you are requested to forward a corrected information return (Form 1099) showing the proper recipient.

Please refer your reply to the personal attention of the undersigned.

Respectfully,

(Signed) Chas. T. Russell

Deputy Commissioner.

C O P Y

October 29, 1935.

My dear Mr. Secretary:

In reply to your letter of October 29, 1935, requesting information as to $5,000 reported to have been paid to me by A. H. G. Fokker, Alpine, N. J., I submit the following information:

During February 1934, negotations were entered into between myself and Mr. A. H. G. Fokker, which resulted in the consummation of a contract. Immediately thereafter, or soon after the contract was consummated, I found it advisable to terminate the contract on my part, which was done. However, in connection with the contract, certain services had been performed by a Mr. Grenville W. Stratton, of Los Angeles, Calif., and I understand $5,000 was paid to him by representatives of Mr. Fokker in connection with such services. The $5,000 did not pass through my hands, nor did I have any connection therewith.

I hope this explains the payment which Mr. Fokker inadvertently reported as being paid to me, perhaps because I was one of the parties in the original contract. I believe an investigation of Mr. Stratton's return you will find this sum reported by him as income.

Very sincerely yours,

Elliott Roosevelt.

Hon. Henry Morgenthau, Jr.,

Secretary of the Treasury.

October 29, 1935.

My dear Mr. Secretary:

In reply to your letter of October 29, 1935, requesting information as to $5,000 reported to have been paid to me by A. H. G. Fokker, Alpine, N. J., I submit the following information:

During February 1934, negotiations were entered into between myself and Mr. A. H. G. Fokker, which resulted in the consummation of a contract. Immediately thereafter, or soon after the contract was consummated, I found it advisable to terminate the contract on my part, which was done. However, in connection with the contract, certain services had been performed by a Mr. Grenville W. Stratton, of Los Angeles, Calif., and I understand $5,000 was paid to him by representatives of Mr. Fokker in connection with such services. The $5,000 did not pass through my hands, nor did I have any connection therewith.

I hope this explains the payment which Mr. Fokker inadvertently reported as being paid to me, perhaps because I was one of the parties in the original contract. I believe on investigation of Mr. Stratton's return you will find this sum reported by him as income.

Very sincerely yours,

(Signed) Elliott Roosevelt.

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

MaR:flr

October 29, 1935.

My dear Mr. Roosevelt:

An examination of your income tax return for the year 1934 discloses that no report is made of the receipt of $5,000 which A. H. G. Fokker of Alpine, N. J. reports having paid to you during that year. Was this amount overlooked in the preparation of your return?

Very sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary.

Mr. Elliott Roosevelt,
1101 Penn Street,
Fort Worth, Texas.

MC R:flr

October 30, 1935.

IT:E:CTR

Mr. A. H. G. Fokker,

Alpine, New Jersey.

Sir:

An information return (Form 1099) filed by you for the calendar year 1934 shows $5000 as having been paid to Mr. Elliott Roosevelt during that year. Mr. Roosevelt disclaims any receipt of the payment, stating that the payment was received by a Mr. Grenville W. Stratton, 6626 Franklin Avenue, Los Angeles, California. In this event, you are requested to forward a corrected information return (Form 1099) showing the proper recipient.

Please refer your reply to the personal attention of the undersigned.

Respectfully,

(Signed) Chas. T. Russell

Deputy Commissioner.

November 14th

Mr. Gibbons came in to-day and gave Mr. Morgenthau the following political gossip:

> That Walter Cummings, of the Continental Bank, wants to be Vice-President.
>
> Farley wants to be Governor of the State of New York.
>
> Mrs. Herbert Lehman told Charlie West that Governor Lehman wants to be Ambassador to Switzerland.
>
> Jesse Jones, Joe Kennedy, Eccles and Walter Cummings want to succeed Mr. Morgenthau as Secretary of the Treasury, especially Jesse Jones.

The reason that they are after Mr. Morgenthau is that he is too tough on the contractors and that they expected to clean up on the asphalt business in Chicago; that they have not been able to make a nickel on PWA projects and that Collins, over at Procurement, has been very faithful to Mr. Morgenthau and that they have been unable to get anywhere with him. McNutt of Indiana, Barkley of Kentucky and Bulkley of Ohio have particularly "knocked" Mr. Morgenthau.

That the political gossip also is that the President said it is important to carry Ohio; that if Jesse Jones gets the job of Secretary of the Treasury they can then take care of Jack Garner and, in this way, have Walter Cummings become Vice-President.

Mr. Gibbons told Mr. Morgenthau that Farley is absolutely broke and that he is desperate to do something for himself.

H. M. Jr. told Mr. Gibbons, in case he did not know, that there are 6 Directors of the Continental Bank and that each one of them owes the bank on stock about $250,000 each.

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Yesterday the President told Mr. Morgenthau that Miss LeHand had $5,000 which she wanted to invest and asked that he recommend some stocks to her. This morning Mr. Morgenthau called Miss LeHand and told her that some time ago Miss Dickerman came to him and asked that he make some recommendations as to how she could invest some money. At that time he suggested that she go down to see Earle Bailie with a list of all of her securities and that Earle Bailie would advise her. She did this and was very satisfied. He told Miss LeHand that he really pays very little attention to his or Mrs. Morgenthau's securities, that he leaves it entirely to the discretion of Earle Bailie and recommended to Miss LeHand that Mr. Bailey send her a list of suggestions which she could have the President look over and that he too would be be delighted to look over the list. She said this arrangement was very satisfactory to her.

I called Mr. Bailie and asked him to send this list of suggestions to Mr. Morgenthau.

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TELEPHONE CONVERSATION WITH

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Mr. Cariguel called me at 11 o'clock today. He referred to the advance of the French bank rate just announced and explained that the change was made not so much because they had lost gold heavily in the last week under report but because next Thursday there would be a bigger loss. Furthermore, they had had to take into account the fact that since the beginning of June they had lost on balance over 10,000,000,000 francs.

When I referred to a report received here from London yesterday stating that according to the London bullion brokers the Bank of France was reluctant to let gold go to London, Cariguel said that it was this very question which had caused him to call up today. At great length he then stated that although they as much as ever stressed the point that the franc was convertible into gold no matter what its destination, nevertheless, they considered that shipments of gold from Paris to London were undesirable because it meant that such gold went out of the hands of the monetary authorities into those of the hoarders where it became entirely useless. This was a "class of very unhealthy business" which they did not consider justified. If hoarders wanted to buy gold in the open market they could get it in London which was a free market just the same as they could buy cotton or copper; all they had to do was to pay the price. As far as the Bank of France was concerned they had no desire to be a party to such transactions which had nothing whatever to do with the level of exchange between London and Paris but were carried on irrespective of the exchange rates. As far as

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the Equalization Fund's efforts were concerned to stabilize as much as possible the London-Paris rate, the Bank of France not only did not object to this but heartily welcomed it. If the Fund wanted to buy gold in Paris that was very satisfactory to them. If they wanted to take it to London they would most decidedly not object. "We very heartily approve that when the franc is weak the Fund should buy some and take gold and vice versa." He had talked the matter over with his friends in the Bank of England who had heartily approved of the Bank of France's attitude.

Cariguel was very anxious that I would not fail to convey his message immediately to Governor Harrison and make clear and explain to him the Bank of France's attitude.

I asked Cariguel what the Equalization Fund's gold position was in Paris and he said that the amount was still in the neighborhood of 2,000,000,000 francs. He went on to explain that in his opinion, if London had not been confronted with a substantial movement of capital to New York, the British would have been able to take considerable amounts of gold from France.

I referred to the political situation in France and Cariguel thought that the Committee of the Chamber would come to terms somehow because the opposition was undoubtedly most unwilling to take power at this time. Cariguel then mentioned a report circulating in the Paris market to the effect that the total of foreign money in New York must now be in the neighborhood of 2,500,000,000 dollars. I replied that I had no figures available but felt that, in my opinion, that total was