May 20th

Had lunch with the President and told him what I was doing about the Bonus. I was rather rurprised to find a sort of coolness towards what I was doing. He said, you know we may have to compromise on this bonus. I said, what do you mean? He said, well we might have to pay the present bonus which means about some $500,000,000. and then put the interest rate back from 1924 to the end of the war to 1918 which he said amounts to some $400,000,000 - or a total of $900,000,000. I said, Mr. President, there is nothing like that in your speech. You say definitely that you are against the bonus. He said, why yes, but how can I tell what kind of a bill they may pass. He said, Patman asked me point blank this morning if I was against all bonus legislation orwhether I had an open mind and I told him that I had an open mind because how could I know what they might pass.

I had a sort of sinking feeling and found myself sort of gradually crumpling up and I said, if you want me to go on please do not talk that way to me because I am building a bonfire of support for you in your veto message. He said rather quickly with a smile, lets agree that I will not talk to you about any compromise if you will not talk to me about any bonfire. He said, in other words, never let your left hand know what your right is doing. I said, which hand am I Mr. President, and he said, my right hand. He said, but I keep my left hand under the table.

This is the most frank expression of the real F.D.R. that I ever listened to and that is the real way that he works - but thank God I understand him.

116A

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING PAPERS,
Monday, May 20, 1935.
5-18-35.

Press Service
No.4-99

The Secretary of the Treasury, on behalf of the Home Owners' Loan Corporation, today announced an offering of 4-year 1-1/2 percent bonds of the Home Owners' Loan Corporation of Series F-1939, in payment of which only Home Owners' Loan Corporation 4 percent bonds of Series of 1933-51 called for redemption on July 1, 1935, may be tendered. The present offering is strictly on an exchange basis, and will be limited to the amount of the called 4 percent bonds tendered and accepted. Cash subscriptions will not be received, but to the extent the called 4 percent bonds are not exchanged at this time, an additional amount of the 1-1/2 percent bonds may subsequently be offered for cash.

The bonds now offered will be dated June 1, 1935, and will bear interest from that date at the rate of 1-1/2 percent per annum, payable semiannually. They will mature in four years on June 15, 1939, and will not be subject to call for redemption prior to maturity.

The bonds will be fully and unconditionally guaranteed both as to principal and interest by the United States, and, as more specifically stated in the offering circular, they will be exempt both as to principal and interest from all Federal, State, and local taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed.

Bearer bonds with interest coupons attached will be issued in denominations of $25, $50, $100, $500, $1,000, $5,000, $10,000 and $100,000; they will not be issued in registered form.

Applications will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington, D.C. The right is reserved to close the books as to any or all subscriptions at any time without notice.

Applications for the 1-1/2 percent bonds of Series F-1939 of the Home Owners' Loan Corporation should be accompanied by a like face amount of the called 4 percent bonds tendered in payment. Coupon bonds so tendered should have the January 1, 1936, and all subsequent coupons attached, and registered bonds should be assigned as provided in the official circular.

Subject to the reservations set forth in the official circular all subscriptions for the 1-1/2 percent bonds, in payment of which the called 4 percent bonds are tendered, will be allotted in full. Interest on the called 4 percent bonds tendered and accepted on exchange will be paid in full on July 1, 1935.

Pursuant to public notice given today by the Home Owners' Loan Corporation, all outstanding 4 percent bonds of Series of 1933-51 of the Corporation are called for redemption on July 1, 1935. About $325,000,000 of these bonds are outstanding. The offering now announced affords the holders of these called bonds an opportunity to acquire a like principal amount of the new bonds on a par for par exchange basis, with interest in full on the exchanged 4 percent bonds for the current half-year period.

The text of the official circular follows:

HOME OWNERS' LOAN CORPORATION OF THE UNITED STATES OF AMERICA

1½ PERCENT BONDS OF SERIES F–1939

Dated and bearing interest from June 1, 1935 **Due June 1, 1939**

Interest payable June 1 and December 1

OFFERED ONLY IN EXCHANGE FOR HOME OWNERS' LOAN CORPORATION 4 PERCENT BONDS OF SERIES OF 1933–51 CALLED FOR REDEMPTION ON JULY 1, 1935

1935
Department Circular No. 540

Public Debt Service

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, May 20, 1935.

The Secretary of the Treasury, on behalf of the Home Owners' Loan Corporation, invites subscriptions, from the people of the United States, for one and one-half percent bonds of the Home Owners' Loan Corporation, designated bonds of Series F–1939, in payment of which only Home Owners' Loan Corporation 4 percent bonds of Series of 1933–51, called for redemption on July 1, 1935, of an equal principal amount, may be tendered. The amount of the offering under this circular will be limited to the principal amount of Home Owners' Loan Corporation 4 percent bonds of Series of 1933–51 tendered and accepted. It is the intention to offer for cash subscription, upon such terms and conditions as may be prescribed by the Home Owners' Loan Corporation with the approval of the Secretary of the Treasury, an additional amount of bonds of Series F–1939, approximately equal to the amount of Home Owners' Loan Corporation 4 percent bonds of Series of 1933–51 not tendered and accepted hereunder.

The terms and conditions of the bonds offered under this circular, the manner in which such bonds shall be issued, and the prices at which they shall be sold are prescribed by the Home Owners' Loan Corporation, with the approval of the Secretary of the Treasury, as follows:

DESCRIPTION OF BONDS

The bonds will be dated June 1, 1935, and will bear interest from that date at the rate of one and one-half percent per annum, payable semiannually, on December 1, 1935, and thereafter on June 1 and December 1 in each year. They will mature June 1, 1939, and will not be subject to call for redemption prior to maturity.

These bonds are issued under the authority of the Home Owners' Loan Act of 1933, as amended, which provides that these bonds shall be exempt, both as to principal and interest, from all taxation (except surtaxes, estate, inheritance, and gift taxes) now or hereafter imposed by the United States or any District, Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority.

The bonds will be acceptable at face value in payment of indebtedness due the Home Owners' Loan Corporation. They will be acceptable to secure deposits of public moneys, and will also be acceptable in lieu of surety under the provisions of Section 1126 of the Revenue Act of 1926, as amended. They will be acceptable to secure 15-day borrowings from the Federal Reserve banks.

The bonds herein offered come within the following provisions of Section 4 (c) of the Home Owners' Loan Act of 1933, as amended: "* * * Such bonds shall be fully and unconditionally guaranteed both as to interest and principal by the United States, and such guaranty shall be expressed on the face thereof, and such bonds shall be lawful investments, and may be accepted as security, for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof. In the event that the Corporation shall be unable to pay upon demand, when due, the principal of, or interest on, such bonds, the Secretary of the Treasury shall pay to the holder the amount thereof which is hereby authorized to be appropriated out of any moneys in the Treasury not otherwise appropriated, and thereupon to the extent of the amount so paid the Secretary of the Treasury shall succeed to all the rights of the holders of such bonds. * * *"

Bearer bonds with interest coupons attached will be issued in denominations of \$25, \$50, \$100, \$500, \$1,000, \$5,000, \$10,000, and \$100,000. The bonds will not be issued in registered form. Provision will be made for the interchange of bonds of different denominations, without charge by the Corporation, under rules and regulations prescribed by the Corporation.

SUBSCRIPTION AND ALLOTMENT

Subscriptions will be received at the Federal Reserve banks and branches and the Treasury Department, Washington, D. C. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions at any time without notice.

The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, to make classified allotments or to make allotments upon a graduated scale, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

TERMS OF PAYMENT

Payment for bonds allotted hereunder may be made only in Home Owners' Loan Corporation 4 percent bonds of Series of 1933–51, called for redemption on July 1, 1935, of an equal principal amount, which should accompany the subscription. Cash payments will not be accepted. If any subscription is rejected, in whole or in part, the Home Owners' Loan Corporation 4 percent bonds of Series of 1933–51 tendered therewith and not accepted will be returned to the subscriber. Interest on Home Owners' Loan Corporation 4 percent bonds of Series of 1933–51 tendered and accepted will be paid in full to July 1, 1935.

SURRENDER OF HOME OWNERS' LOAN CORPORATION 4 PERCENT BONDS OF SERIES OF 1933–51

Coupon bonds.—Home Owners' Loan Corporation 4 percent bonds of Series of 1933–51 in coupon form tendered in payment for Home Owners' Loan Corporation bonds offered hereunder, should be presented and surrendered with the subscription to a Federal Reserve bank or the Treasurer of the United States, Washington, D. C. Coupons dated January 1, 1935, and all coupons bearing subsequent dates should be attached to such coupon bonds when surrendered, and if any such coupons are missing, the subscription must be accompanied by cash payment equal to the face amount of the missing coupons. Coupons dated July 1, 1935, should be detached and collected in regular course when due. The bonds must be delivered at the expense and risk of the holder. Facilities for transportation of bonds by registered mail insured may be arranged between incorporated banks and trust companies and the Federal Reserve banks, and holders may take advantage of such arrangements when available, utilizing such incorporated banks and trust companies as their agents.

Registered bonds.—Home Owners' Loan Corporation 4 percent bonds of Series of 1933–51 in registered form tendered in payment for Home Owners' Loan Corporation 1½ percent bonds offered hereunder, should be assigned by the registered payee or the assignee thereof to "Home Owners' Loan Corporation in payment for Home Owners' Loan Corporation 1½ percent bonds of Series F–1939", and thereafter should be presented and surrendered with the subscription to a Federal Reserve bank or to the Treasury Department, Division of Loans and Currency, Washington, D. C. If the 1½ percent bonds are to be delivered for the account of other than the registered payee or the assignee of the 4 percent bonds surrendered, the assignment should be to "Home Owners' Loan Corporation in payment for Home Owners' Loan Corporation 1½ percent bonds of Series F–1939 to be delivered to ...." The bonds must be delivered at the expense and risk of the holder. Final interest due will be paid on July 1, 1935, by checks issued in favor of registered payees and for this purpose the persons entitled by assignment to receive the bonds of Series F–1939 will be considered the registered payees.

GENERAL PROVISIONS

Federal Reserve banks, as fiscal agents of the United States, are authorized and requested to receive subscriptions, to make allotments as directed by the Secretary of the Treasury, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, to issue interim receipts if required, and to perform such other acts as may be necessary to carry out the provisions of this circular.

The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering which will be promptly communicated to the Federal Reserve banks.

HENRY MORGENTHAU, Jr.,
Secretary of the Treasury.

U. S. GOVERNMENT PRINTING OFFICE: 1935

REP

TELEGRAM SENT

GRAY

May 21, 1935

1 p. m.

AMERICAN CONSUL

SAIGON (FRENCH INDO-CHINA)

FROM TREASURY.

You will receive from Banque Franco Chinoise full set of "on board" bills of lading of the Oceanic and Oriental Navigation Company covering shipment per SS GOLDEN DRAGON of about 4,500,000 standard ounces silver consigned to Federal Reserve Bank of New York together with U. S. Consular Certificate and Weight List in triplicate. Cable advice of receipt of documents indicating amount of silver shipped. Forward documents direct to Federal Reserve Bank of New York by registered mail.

HULL
(FL)

EA:DJW

MG

GRAY

Saigon

Dated June 1, 1935.

Rec'd 10:50 a.m.

Secretary of State,

Washington.

June 1, 8 p.m.

Referring to your telegram of May 21, 1 p.m.

FOR TREASURY.

Bill of lading, Consular invoice, weight list in triplicate delivered to this Consulate by Banque Franco Chinoise. Documents show 4,506,649 standard ounces silver shipped.

ROBERTS

WWC

34.71 35

35

President's veto message on bonus

May 22, 1935

- - - - - - - - - - - - - - -

MR. SPEAKER: MEMBERS OF THE HOUSE OF REPRESENTATIVES:

Two days ago a number of gentlemen from the House of Representatives called upon me and with complete propriety presented their reasons for asking me to approve the House of Representatives Bill providing for the immediate payment of adjusted service certificates. In the same spirit of courtesy I am returning this bill today to the House of Representatives. As I told the gentlemen who waited upon me, I have never doubted the good faith lying behind the reasons which have caused them and the majority of the Congress to advocate this bill. In the same spirit I come before you dispassionately and in good faith to give you, as simply as I can the reasons which compel me to give it my disapproval.

And I am glad that the Senate by coming here in joint session gives me opportunity to give my reasons in person to the other House of the Congress.

As to the right and the propriety of the President in addressing the Congress in person, I am very certain that I have never in the past disagreed, and will never in the future disagree, with the Senate or the House of Representatives as to the constitutionality of the procedure. With your permission, I should like to continue from time to time to act as my own messenger.

Eighteen years ago the United States engaged in the World War. A Nation of one hundred and twenty million people was united in the purpose of victory. The millions engaged in agriculture toiled to provide the raw materials and foodstuffs for our armies and for the nations with whom we were associated. Many other millions employed in industry labored to create the materials for the active conduct of the War on land and sea.

Out of this vast army consisting of the whole working population of the Nation, four and three-quarter million men volunteered or were drafted into the armed forces of the United States. One-half of them remained within our American continental limits. The other half served over-seas; and of these, one million four hundred thousand saw service in actual combat.

The people and the Government of the United States have shown a proper and generous regard for the sacrifices and patriotism of all of the four and three-quarter million men who were in uniform no matter where they served.

At the outbreak of the War, the President and the Congress sought and established an entirely new policy in order to guide the granting of financial aid to soldiers and sailors. Remembering the unfortunate results that came from the lack of a veterans' policy after the Civil War, they determined that a prudent and sound principle of insurance should supplant the uncertainties and unfairness of direct bounties. At the same time, their policy encompassed the most complete care for those who had suffered disabilities in service. With respect to the grants made within the lines of this general policy, the President and the Congress have fully recognized that those who served in uniform deserved certain benefits to which other citizens of the Republic were not entitled, and in which they could not participate.

In line with these sound and fair principles, many benefits have been provided for veterans.

During the War itself provision was made for government allowances for the families and other dependents of enlisted men in service. Disability and death compensation was provided for casualties in line of duty.

The original provisions for these benefits have been subsequently changed and liberalized many times by the Congress. Later generous presumptions for veterans who became ill after the termination of the War were written into the statute to help veterans in their claims for disability. As a result of this liberal legislation for disability and for death compensation, one million one hundred and forty thousand men and women have been benefited.

During the War the Government started a system of voluntary insurance at peace-time rates for men and women in the service.

Generous provision has been made for hospitalization, vocational training and rehabilitation of veterans. You are familiar with this excellent care given to the sick and disabled.

In addition to these direct benefits, Congress has given recognition to the interest and welfare of veterans in employment matters, through veteran preference in the United States Civil Service, in the selection of employees under the Public Works Administration, through the establishment of a veterans' employment unit in the Department of Labor, and through provisions favoring veterans in the selection of those employed in the Civilian Conservation Corps. Many States have likewise given special bonuses in cash and veterans' preferences in state and local public employment.

Furthermore unemployed veterans as a group have benefited more largely than any other group from the expenditure of the great public works appropriation of three billion three hundred million dollars made by the Congress in 1933, and under which we are still operating. In like manner the new four billion dollar Work Relief Act seeks to give employment to practically every veteran who is receiving relief.

We may measure the benefits extended from the fact that there has been expended up to the end of the last fiscal year more than $7,800,000,000 for these items in behalf of the veterans of the World War, not including sums spent for home or work relief. With our current annual expenditures of some $450,000,000 and the liquidation of the outstanding obligations under Term insurance and the payment of service certificates, it seems safe to predict that by the year 1945 we will have expended $13,500,000,000. This is a sum equal to more than three-fourths of the entire cost of our participation in the World War, and ten years from now most of the veterans of that war will be barely past the half century mark.

Payments have been and are being made only to veterans of the World War and their dependents, and not to civilian workers who helped to win that War.

In the light of our established principles and policies let us consider the case of adjusted compensation. Soon after the close of the War a claim was made by several veterans' organizations that they should be paid some adjusted compensation for their time in uniform. After a complete and fair presentation of the whole subject, followed by full debate in the Congress of the United States, a settlement was reached in 1924.

This settlement provided for adjustment in compensation during service by an additional allowance per day for actual service rendered. Because cash payment was not to be made immediately, this basic allowance was increased by 25% and to this was added compound interest for twenty years, the whole to be paid in 1945. The result of this computation was that an amount two and one-half times the original grant would be paid at maturity.

Taking the average case as an example, the Government acknowledged a claim of $400 to be due. This $400, under the provisions of the settlement, with the addition of the 25% for deferred payment and the compound interest from that time until 1945, would amount to the sum of $1,000 in 1945. The veteran was thereupon given a Certificate containing an agreement by the government to pay him this $1,000 in 1945 or to pay it to his family if he died at any time before 1945. In effect, it was a paid-up endowment policy in the average case for $1,000 payable in 1945, or sooner in the event of death. Under the provisions of this settlement, the total obligation of $1,400,000,000 in 1924 produced a maturity or face value of $3,500,000,000 in 1945.

Since 1924, the only major change in the original settlement was the Act of 1931 under which veterans were authorized to borrow up to fifty per cent of the face value of their certificates as of 1945. Three million veterans have already borrowed under this provision an amount which, with interest charges, totals $1,700,000,000.

The bill before me provides for the immediate payment of the 1945 value of the certificates. It means paying $1,600,000,000 more than the present value of the certificates. It requires an expenditure of more than $2,200,000,000 in cash for this purpose. It directs payment to the veterans of a much larger sum than was contemplated in the 1924 settlement. It is nothing less than a complete abandonment of that settlement. It is a new straight gratuity or bounty to the amount of $1,600,000,000. It destroys the insurance protection for the dependents of the veterans provided in the original plan. For the remaining period of ten years they will have lost this insurance.

This proposal, I submit, violates the entire principle of veterans' benefits so carefully formulated at the time of the war and also the entire principle of the adjusted certificate settlement of 1924.

What are the reasons presented in this bill for this fundamental change in policy? They are set forth with care in a number of "whereas" clauses at the beginning of the bill.

The first of these states as reasons for the cash payment of these certificates at this time: that it will increase the purchasing power of millions of the consuming public; that it will provide relief for many who are in need because of economic conditions; and that it will lighten the relief burden of cities, counties and states. The second states that payment will not create any additional debt. The third states that payment now will be an effective method of spending money to hasten recovery.

These are the enacted reasons for the passage of this bill. Let me briefly analyze them.

First, the spending of this sum, it cannot be denied, would result in some expansion of retail trade. But it must be noted that retail trade has already expanded to a condition that compares favorably with conditions before the depression. However, to resort to the kind of financial practice provided in this bill would not improve the conditions necessary to expand those industries in which we have the greatest unemployment. The Treasury notes issued under the terms of this bill we know from past experience would return quickly to the banks. We know, too, that the banks have at this moment more than ample credit with which to expand the activities of business and industry generally. The ultimate effect of this bill will not in the long run justify the expectations that have been raised by those who argue for it.

The next reason in the first "whereas" clause is that present payment will provide relief for many who are in need because of economic conditions. The Congress has just passed an Act to provide work relief for such citizens. Some veterans are on the relief rolls, though relatively not nearly as many as is the case with non-veterans. Assume, however, that such a veteran served in the United States or overseas during the war; that he came through in fine physical shape as most of them did; that he received an honorable discharge; that he is today thirty eight years old and in full possession of his faculties and health; that like several million other Americans he is receiving from his Government relief and assistance in one of many forms -- I hold that that able bodied citizen should be accorded no treatment different from that accorded to other citizens who did not wear a uniform during the World War.

The third reason given in the first "whereas" clause is that payment today would lighten the relief burden of municipalities. Why, I ask, should the Congress lift that burden in respect only to those who wore the uniform? Is it not better to treat every able-bodied American alike and to carry out the great relief program adopted by this Congress in a spirit of equality to all? This applies to every other unit of government throughout the nation.

The second "whereas" clause, which states that the payment of certificates will not create an additional debt, raises a fundamental question of sound finance. To meet a claim of one group by this deceptively easy method of payment will raise similar demands for the payment of claims of other groups. It is easy to see the ultimate result of meeting recurring demands by the issuance of Treasury notes. It invites an ultimate reckoning in uncontrollable prices and in the destruction of the value of savings, that will strike most cruelly those like the veterans who seem to be temporarily benefited. The first person injured by sky-rocketing prices is the man on a fixed income. Every disabled veteran on pension or allowance is on fixed income. This bill favors the able bodied veteran at the expense of the disabled veteran.

Wealth is not created, nor is it more equitably distributed by this method. A Government, like an individual, must ultimately meet legitimate obligations out of the production of wealth by the labor of human beings applied to the resources of nature. Every country that has attempted the form of meeting its obligations which is here provided has suffered disastrous consequences.

In the majority of cases printing press money has not been retired through taxation. Because of increased costs, caused by inflated prices, new issue has followed new issue, ending in the ultimate wiping out of the currency of the afflicted country. In a few cases, like our own in the period of the Civil War, the printing of Treasury notes to cover an emergency has fortunately not resulted in actual disaster and collapse but has nevertheless caused this Nation untold troubles, economic and political, for a whole generation.

The statement in this same second "whereas" clause that payment will discharge and retire an acknowledged contract obligation of the Government is, I regret to say, not in accordance with the fact. It wholly omits and disregards the fact that this contract obligation is due in 1945 and not today.

If I, as an individual, owe you, an individual member of the Congress, one thousand dollars payable in 1945, it is not a correct statement for you to tell me that I owe you one thousand dollars today. As a matter of practical fact, if I put $750 into a Government savings bond today and make that bond out in your name you will get one thousand dollars on the due date, ten years from now. My debt to you today, therefore, can not under the remotest possibility be considered more than $750.

The final "whereas" clause, stating that spending the money is the most effective means of hastening recovery is so ill considered that little comment is necessary. Every authorization of expenditure by the Seventy-Third Congress in its session of 1933 and 1934, and every appropriation by the Seventy-Fourth Congress to date, for recovery purposes, has been predicated not on the mere spending of money to hasten recovery, but on the sounder principle of preventing the loss of homes and farms, of saving industry from bankruptcy, of safeguarding bank deposits, and most important of all - of giving relief and jobs through public work to individuals and families faced with starvation. These greater and broader concerns of the American people have a prior claim for our consideration at this time. They have the right of way.

There is before this Congress legislation providing old age benefits and a greater measure of security for all workers against the hazards of unemployment. We are also meeting the pressing necessities of those who are now unemployed and in need of immediate relief. In all of this every veteran shares.

To argue for this bill as a relief measure is to indulge in the fallacy that the welfare of the country can be generally served by extending relief on some basis other than actual deserving need.

The core of the question is that a man who is sick or under some other special disability because he was a soldier should certainly be assisted as such. But if a man is suffering from economic need because of the depression, even though he is a veteran, he must be placed on a par with all of the other victims of the depression. The veteran who is disabled owes his condition to the war. The healthy veteran who is unemployed owes his troubles to the depression. Each presents a separate and different problem. Any attempt to mingle the two problems is to confuse our efforts.

Even the veteran who is on relief will benefit only temporarily by this measure, because the payment of this sum to him will remove him from the group entitled to relief if the ordinary rules of relief agencies are followed. For him this measure would give but it would also take away. In the end he would be the loser.

The veteran who suffers from this depression can best be aided by the rehabilitation of the country as a whole. His country with honor and gratitude returned him at the end of the War to the citizenry from which he came. He became once more a member of the great civilian population. His interests became identified with its fortunes and also with its misfortunes.

Some years ago it was well said by the distinguished Senior Senator from Idaho that "The soldier of this country cannot be aided except as the country itself is rehabilitated. The soldier cannot come back except as the people as a whole come back. The soldier cannot prosper unless the people prosper. He has now gone back and intermingled and become a part of the citizenship of the country; he is wrapped up in its welfare or in its adversity. The handing out to him of a few dollars will not benefit him under such circumstances, whereas it will greatly injure the prospects of the country and the restoration of normal conditions."

It is generally conceded that the settlement by adjusted compensation certificates made in 1924 was fair and it was accepted as fair by the overwhelming majority of World War Veterans themselves.

I have much sympathy for the argument that some who remained at home in civilian employ enjoyed special privilege and unwarranted remuneration. That is true — bitterly true — but a recurrence of that type of war profiteering can and must be prevented in any future war.

I invite the Congress and the veterans with the great masses of the American population to join with me in progressive efforts to root a recurrence of such injustice out of American life. But we should not destroy privilege and create new privilege at the same time. Two wrongs do not make a right.

The herculean task of the United States Government today is to take care that its citizens have the necessities of life. We are seeking honestly and honorably to do this, irrespective of class or group. Rightly, we give preferential treatment to those men who were wounded, disabled, or who became ill as a result of war service. Rightly, we give care to those who subsequently have become ill. The others - and they represent the great majority - are today in the prime of life, are today in full bodily vigor. They are American citizens who should be accorded equal privileges and equal rights to enjoy life, liberty and the pursuit of happiness — no less and no more.

It is important to make one more point. In accordance with the mandate of the Congress, our budget has been set. The public has accepted it. On that basis this Congress has made and is making its appropriations. That budget asked for appropriations in excess of receipts to the extent of four billions of dollars. The whole of that deficit was to be applied for work relief for the unemployed. That was a single minded, definite purpose. Every unemployed veteran on the relief rolls was included in that proposed deficit — he will be taken care of out of it.

I cannot in honesty assert to you that to increase that deficit this year by two billion, two hundred million dollars will in itself bankrupt the United States. Today the credit of the United States is safe. But it cannot ultimately be safe if we engage in a policy of yielding to each and all of the groups that are able to enforce upon the Congress claims for special consideration. To do so is to abandon the principle of Government by and for the American people and to put in its place Government by and for political coercion by minorities. We can afford all that we need; but we cannot afford all that we want.

I do not need to be a prophet to assert that if these certificates, due in 1945, are paid in full today, every candidate for election to the Senate or to the House of Representatives will in the near future be called upon in the name of patriotism to support general pension legislation for all veterans, regardless of need or age.

Finally, I invite your attention to the fact that solely from the point of view of the good credit of the United States, the complete failure of the Congress to provide additional taxes for an additional expenditure of this magnitude would in itself and by itself alone warrant disapproval of this measure.

I well know the disappointment that the performance of my duty in this matter will occasion to many thousand of my fellow citizens. I well realize that some who favor this bill are moved by a true desire to benefit the veterans of the World War and to contribute to the welfare of the nation. These citizens will, however, realize that I bear an obligation as President and as Commander-in-Chief of the Army and Navy, which extends to all groups, to all citizens, to the present and to the future. I cannot be true to the office I hold if I do not weigh the claims of all in the scales of equity. I cannot swerve from this moral obligation.

I am thinking of those who served their country in the Army and in the Navy during the period which convulsed the entire civilized world. I saw their service at first-hand at home and overseas. I am thinking of those millions of men and women who increased crops, who made munitions, who ran our railroads, who worked in the mines, who loaded our ships during the War period.

I am thinking of those who died in the cause of America here and abroad, in uniform and out; I am thinking of the widows and orphans of all of them; I am thinking of five millions of Americans who, with their families, are today in dire need, supported in whole or in part by Federal, State and local governments who have decreed that they shall not starve. I am thinking not only of the past, not only of today, but of the years to come. In this future of ours it is of first importance that we yield not to the sympathy which we would extend to a single group or class by special legislation for that group or class, but that we should extend assistance to all groups and all classes who in an emergency need the helping hand of their Government.

I believe the welfare of the Nation, as well as the future welfare of the veterans, wholly justifies my disapproval of this measure.

Therefore, Mr. Speaker, I return, without my approval, House of Representatives Bill No. 3896, providing for the immediate payment to veterans of the 1945 face value of their adjusted service certificates.

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I am returning Bill No.   without my approval. This bill proposes to meet now an obligation that is not due until 1945. It provides for the immediate payment of the Adjusted Service Certificates and for the remission of a major portion of the interest which has accrued on loans made to veterans on their certificates. It would establish a completely new basis of settlement which in effect constitutes an additional grant of over $1,600,000,000. It would require the issuance of currency by the Treasury in an amount of approximately $2,200,000,000.

I believe that the making of this additional grant at this time is neither in the interest of the general welfare of the country nor of the veterans themselves.

During the time of hostilities the veterans of the World War rendered a service which must ever remain on the pages of history as a glorious tribute to American manhood. It is my firm belief that the great majority of our ex-service men are eager to render the same magnificent assistance in this period of peacetime economic struggle that they did when the country was at war with a foreign enemy. I have full confidence that it is their desire to contribute with all our citizens to bringing about a speedy industrial recovery. The enactment of this measure would not, in my judgment, contribute in that direction.

This nation will always deal generously with those who were disabled in its defense and with the dependents of those who lay down their lives as protectors of our flag. Payments to veterans other than the disabled and dependent must ultimately be reflected in a lessening of benefits to that class.

The Adjusted Service Certificates are endowment insurance policies intended as a protection to the families of the veterans. I cannot bring myself to believe that the veterans are willing to deprive their families of this protection. Experience has shown that in many cases the proceeds of these certificates have been upon death of a veteran, the lone barrier standing between the surviving family and proverty. The advocates of a destruction of this protection are assuming a very serious responsibility.

The United States Government is today taking care that its citizens have the necessities of life. We are doing this irrespective of class or group. In my opinion equity and justice for all should be our watchwords and no group of any character should be set apart for special favors or segregated for preferential treatment.

This method of payment provided in the bill is not in keeping with our policy of financing Government obligations. Our budget has been set. The public has accepted it. On that basis our Securities have been marketed. On that basis our War debt is being refunded. To upset that budget, to provide for additional expenditures outside and above it, without provision for additional revenue with which to meet them, I cannot approve.

We owe a duty to all our people and we are attempting to fulfill it. We owe a duty to the purchasers of our securities, and we must respect it. We owe a duty to disabled veterans, and we are meeting it. We have in the Adjusted Service Certificates an obligation to all veterans and we shall meet that obligation when it is due.

CBU - May - 1935

May 22, 1935.
Wednesday.

H.M.Jr: Hello, Mr. Hoover?

Hoover: Yes

H.M.Jr: This is the Secretary of the Treasury speaking.

H: Yes, Mr. Secretary.

H.M.Jr: I wanted to ask - I saw in the - on the United Press that - it's just released - the Justice Department took up public at ten P.M. to protect President Roosevelt -

H: Yes.

H.M.Jr: Did the President ask you to do that?

H: No, he did not.

H.M.Jr: I see.

H: That was requested by the Capitol Police.

H.M.Jr: By the Capitol Police.

H: Yes. Whenever they have any ceremonies at the Capitol and when the President has appeared the Chief of the Capitol Police will frequently call and ask us to send over half a dozen men or more so that they can be placed in the galleries. That was done yesterday. Captain, I think his name is called and asked us to send over, I think it was six or seven men.

H.M.Jr: Well, I think the fact that there was publicity given to it was very unfortunate.

H: I have not seen that. That, of course, did not emanate from here.

H.M.Jr: Yes.

H: Any information of that kind must have come from the Capitol; it would not come from here.

H.M.Jr: I see. Because the Secret Service, who's charged with the responsibility for protecting the President, don't like that kind of publicity.

H: Well, neither do I. I'm very much surprised that anything was said about it. We have, on many other occasions, had men at the Capitol, both in the Supreme Court as well as men in the galleries.

H.M.Jr: Yes.

H: And never before has there been any publicity about it, and

I'm very much surprised that that was given out by the Capitol, except - the only way that I can explain that is, I believe that this man who is in charge of the Capitol Police is a new man who was recently appointed them there.

H.M.Jr: Well, would you mind taking it up with him?

H: I most certainly will, because those details are naturally details which we don't like to have anything said about it, because I think the more secrecy that we can exercise in those matters the better it is. It only attracts attention and some public criticism.

H.M.Jr: Yes.

H: And I'll certainly be very glad to speak to him about it.

H.M.Jr: Thank you.

H: Very glad to.

H.M.Jr: Goodbye.

H: Thank you.

May 23, 1935.
Thursday.

H.M.Jr: Hello.

Operator: He left home; he's on his way to the office.

H.M.Jr: Hello.

O: Mr. Jones.

J: Hello.

H.M.Jr: Hello, Jesse.

J: Yes, Henry.

H.M.Jr: Good morning.

J: Good morning.

H.M.Jr: How're you feeling?

J: Fair.

H.M.Jr: Jesse, this is absolutely between the two of us, see?

J: All right.

H.M.Jr: I just come from the President -

J: Yes.

H.M.Jr: And he asked me to look up about Peek's money and when it expires and all that.

J: Peek?

H.M.Jr: George Peek.

J: Yes.

H.M.Jr: He had $350,000, I think, from N.R.A., I think that's where he got it from -

J: Yes.

H.M.Jr: And the question was, could he get it out of the four billion eight. Well, the answer is, he can not.

J: Can not?

H.M.Jr: No. And the question, can he get it anywhere else, and the only other place would be out of those banks, and the thought is that the banks should not finance a statistical organization of that size, see?

J: Yes.

H.M.Jr: Do you get it?

J: Should not finance a loss of the three-fifty?

H.M.Jr: Well, I mean, after -

J: Did he mention his expense?

H.M.Jr: He's got $350,000 which he spent as Trade Advisor to the President.

J: I see.

H.M.Jr: See?

J: Yes.

H.M.Jr: Now, the question is, where will he get his money from after the 16th of June?

J: I see.

H.M.Jr: You see?

J: Yes.

H.M.Jr: Now, there is no place, unless he got it out of one of those import-export things.

J: Henry, I - at first blush, without discussing it with the lawyers, I would think it would be a proper function, at least a defendable one - defensable one - for the export banks to handle.

H.M.Jr: Yes, but the President -

J: You see, it has to do with foreign stuff.

H.M.Jr: Yes, but wait a minute, the President doesn't want it that way.

J: Oh, he doesn't. I see. Well, then I've got to take another thought.

H.M.Jr: (Hearty laughter).

J: All right.

H.M.Jr: You get me?

J: I get you.

H.M.Jr: Now, this is absolutely between the President, you and me.

J: I see. It looks to me like - I see your point.

H.M.Jr: What?

121 E

J: I get your point.

H.M.Jr: Now, you've got to figure that it's outrageous that the banks finance it.

J: I see. Well, it couldn't be done then.

H.M.Jr: What?

J: It couldn't be done, of course.

H.M.Jr: Well, I mean -

J: I see the point.

H.M.Jr: Now, there's no reason why the bank shouldn't pay for George Peek's salary, -

J: That's right.

H.M.Jr: See?

J: I see.

H.M.Jr: As President of the bank, but his statistical organization, that work could be done, if it had to be done, if the President feels it should be done by the Department of Commerce.

J: I see.

H.M.Jr: They're doing it anyway.

J: I see the point and I'll check in on that.

H.M.Jr: What?

J: And you -

H.M.Jr: But, this is absolutely between us.

J: I appreciate that.

H.M.Jr: Between the President, you and me.

J: All right, I'll - it'll be safe.

H.M.Jr: All right.

J: Henry,

H.M.Jr: Yes.

J: When do you want to talk with me about

H.M.Jr: Well, I was waiting for some of the memos from you.

J: From us?

H.M.Jr: Yes.

J: Well, I've got them ready.

H.M.Jr: Well -

J: And I'll send them over or bring them over or do anything at all. Suppose we don't - would it be all right for Mulligan to -

H.M.Jr: Let Mulligan fight it out with Bell and if they get together, why, it's all right.

J: Fine, I'll turn them loose together.

H.M.Jr: O.k.

J: Thank you, Henry.

The Open Market Committee met with the Secretary of the Treasury in his office at 11 A.M. Those present were;

Henry Morgenthau, Jr. Secretary of the Treasury,

T.J. Coolidge, Under Secretary of the Treasury,

Marriner S. Eccles, Governor, Federal Reserve Board,

W.R. Burgess, Deputy Governor, Federal Reserve Bank of New York,

R.A. Young, Governor, Federal Reserve Bank of Boston,

G.J. Seay, Governor, Federal Reserve Bank of Richmond,

D.W. Bell, Bureau of the Budget,

George C. Haas, Bureau of Research & Statistics,

C.B. Upham.

Mr. Coolidge read a memorandum in which he suggested the selling of bonds on a bid basis, about $100,000,000 each two weeks.

Mr. Morgenthau explained we would continue the sale of bills with the bonds being used to finance the unbalanced budget.

Mr. Burgess asked when the Social Security legislation would begin to bring in large amounts.

Mr. Haas and Mr. Bell indicated that it would not be before 1937 and Mr. Coolidge interposed the statement that he was not placing any reliance on it at this time.

Mr. Morgenthau said he had a sort of a feeling that we have driven the market pretty hard and that it might be well for both of us to have a breathing space. He wondered whether his feeling was personal or whether the market might have a similar weariness.

Mr. Burgess said there was something in the idea.

Mr. Coolidge remarked that we haven't raised much new money and that conversions are after all not so much of a strain.

Mr. Burgess said the market is in good shape.

Mr. Eccles commented that as Treasury cash runs down someone else has funds for investment and this tends to make a favorable market.

Mr. Seay said that the rate of exchange on the 2-7/8 may indicate some pressure.

Mr. Coolidge said that the 4-1/4's, held by small investors were not being exchanged as rapidly as the others but the conversion as a whole is 82 to 83% successful, which he regards as very good. Moreover, Mr. Coolidge said, the Government level and corporation bond level are not out of line.

Mr. Haas explained one of the charts presented by stating that they had broken down the 30 bonds of Moody's and taken 9 of them which are uncallable. The Governments had gone up parallel with these 9.

Mr. Coolidge remarked that former charts had been confused by the inclusion of callable bonds.

Mr. Morgenthau said that inasmuch as there were maturities in 1939 of only $1,250,000,000 he feels fairly certain we could put in $700,000,000 or $800,000,000 in June or August of that year and still have a reasonable maturity of $2,000,000,000 for the year. He indicated that he is very much interested in trying to sell $100,000,000, at auction until September -- offer a conversion of the called Fourths right after Labor Day. Thus the Treasury would not be in the market from June 15th to Labor Day except for the regular bill offerings and for the bonds offered at auction.

Mr. Eccles added the information that this would be the last conversion offer until 1940, which is the first time that any Treasury bonds become callable.

Mr. Morgenthau said that it would be notice to private business that the Treasury is out of the market for a period.

Mr. Coolidge said that he would want to see how the two weeks offerings of bonds went and if the bond market was not good he would want to try a note.

Mr. Eccles said that he saw advantages to the new program. At present, he said, everybody waits for the event which comes once or twice a year and it may hit at a bad time. He said he thought the banks might not like it.

Mr. Coolidge said he would like to try it now on the bonds that are at a premium or with a new issue. The amount of two or three outstanding issues is small and on them the Treasury will pay less and the banks will make less.

Mr. Eccles said that it would not work so well ona premium bond -- that the Treasury would have to pay more, but Mr. Coolidge remarked that the Treasury would have to pay less than on a new issue.

Mr. Burgess said he was not sure.

Mr. Coolidge said that if it was done at all it must be done on a premium bond since we can't sell below par. He thought, however, that a 2-3/4 offering might be sold at 100½. The premium on the outstanding bonds, and he recommended the offering of the 3's of 1946-48, would be about 3½.

Mr. Coolidge said this would make the Government pay a little more interest but would keep the principal at a lower level.

Mr. Morgenthau asked whether a 4½ year note would be better than 4¼.

Mr. Burgess said that there was little difference but what there was would be in favor of the 4½.

Mr. Morgenthau asked if the rate should be 1-3/8 and Mr. Burgess thought that was pretty close.

Mr. Morgenthau said he didn't mind squeezing a little now — that he thought we ought to shave the rate occasionally.

Mr. Coolidge thought it a good chance to squeeze and commented that we ought to get 1/8 better than the HOLC.

Mr. Morgenthau said that we were generous last time because we needed to be then.

Mr. Coolidge thought there was not so much need to be generous with small issues.

Mr. Burgess said it was a little early to say but the market looks now as if it would stand 1-3/8. He agreed with Mr. Haas that that could not really be regarded as a squeeze.

Mr. Burgess said he would like to see a little more discussion of whether to offer bonds on a bid basis.

Mr. Young said that as he sees it there are three ways to go. First, rely on the bill market, second, adopt Mr. Coolidge's suggestion, or, third, put out a 4½ year note at 1-3/8. He said that he inclined toward the second method for a small issue. He thinks it will be sold and at a close figure. Many people have money to invest. The Boston Reserve Bank bond man thinks that a long time bond might be difficult now. In Mr. Young's opinion there is everything to gain and nothing to lose by trying out the idea of bonds at auction.

Mr. Coolidge said he was confident that they would sell close to the market but the market may be forced down a little.

Mr. Morgenthau said we face the alternative of asking for $1,000,000,000 new money in one lump or using the auction device.

Mr. Bell said we need $1,000,000,000 but it need not all come from a new issue -- that Baby Bonds, bills and postal savings will bring in perhaps $200,000,000 or $300,000,000.

Mr. Morgenthau said that we don't know within $1,000,000,000 how much will be spent within the next three months. Bonds at auction will help us until the Works Relief program gets going.

Mr. Burgess commented that conversely it does create uncertainty in the market as to how much is coming. If it is all raised on June 15th there is less uncertainty. On the question of amount, Mr. Burgess though we would get better bids on the $100,000,000 than on the $200,000,000.

Mr. Young asked if one firm would get the whole issue.

Mr. Burgess thought not. He agreed that New York dealers and bankers will get most of it.

Mr. Eccles said small banks might complain about not getting a look in.

Mr. Coolidge thought the bidding would be close and the profits small and so complaints not strong.

Mr. Burgess said we must recognize that this will give New York a tremendous advantage in getting and distributing at a small profit. The traditional method gives a wider distribution among banks and investors.

Mr. Morgenthau commented that the Treasury would get a better deal and Mr. Burgess agreed "when the market is right".

Mr. Seay said he would like to try the new idea for two reasons. First, we would get in long terms as cheaply as possible, and, second, he likes the competitive basis.

Mr. Eccles said he favors the idea.

Mr. Bell thinks the principle is fine.

Mr. Morgenthau said he would like to try it.

Mr. Burgess said he would try it and that it would go.

It was agreed to make an offer on next Monday of the 3's 1946-48, with the expectation of having bids around 103½.

Mr. Coolidge said he thought this was the best one to use and that it would take pressure off of the longer bonds.

Mr. Eccles, Mr. Young, Mr. Burgess and Mr. Seay continued the discussion of details in Mr. Coolidge's office.

May 22nd

I think it was at lunch with the President on May 6th that he told me in the strictest confidence what his plan was on the bonus. He said that Jack Garner had told him and convinced him that it was much better to get the bonus out of the way this year and not have it as a political issue staring him in the face next year; that if he acquiesced in having his bonus overridden that everybody would forget about it in three or four days and he would have it behind him. I got the distinct impression from listening to the President that he had accepted Jack Garner's advice on this subject. I don't remember any important discussion about this until Thursday, May 16th.

I called up the White House and wpoke to one of the ushers and asked him whether the President wanted to have me work with him on his bonus message that evening. Word came back that he wanted to see me at 9:15 that night. When I got to the White House and went up to the oval room, Miss Lehand was there. The President said I am in a very bad humor and I said what is the matter and he said, oh, my sinus hurts me and for a while he acted like a spoiled child who was in a bad humor.

First he read what Ray Moley had prepared for him which was not good. He then looked over the notes that had been given to him by General Hines and then read the two pages that had been prepared for me for him by Upham. I had told him previously that this speech must be written by Franklin D. Roosevelt and nobody else. He started in to dictate around 9:30 or 9:45 and kept it up steadily without any interruptions until 11:15. During this time he drank two long drinks of Canadian Dry Gingerale and Gin. From 11 o'clock on Missy started to figit and said that she could not take dictation much longer and had to be excused. Finally she was excused and then came back and continued to take dictation. As the speech went along I made a few suggestions all of which, as I remember, he took.

Miss Lehand then excused herself and from then until five minutes to one I argued with him along the lines that he should make this a fight to the finish; that he should not acquiesce in having his veto overridden; that this was such a great speech that he ought either to go up and deliver it himself or go on the air Sunday night. He said he thought it would be considered discourteous for him to go on the air Sunday night - that Congress would be hurt. I told him that I thought he should because he would deliver his message to an unsympathetic cold group; that the House would immediately vote to override his veto and that he would not get a good break on his publicity. I kept pacing up and down in front of him and making one campaign speech after another, and urged him to disregard the advice of Jack Garner and make a powerful appeal not to have his veto overridden. Finally his face lit up in a great smile, he raised his two fists in the air and shook them and said, my God, if I win I would be on the crest of the wave. I saw that I convinced him and I stopped arguing.

I said, now I want just 60 seconds and I will not have to come around to see you and keep the appointment you have given me for tomorrow morning. I am going to testify before Carter Glass and I want to say that I think the Government should buy the stock in the Federal Reserve System. Is it agreeable to you. He said, yes. I do not believe we actually discussed it more than just 60 seconds.

I left terribly excited myself and felt as though I was riding on the crest of the wave because up to that evening there was no question that he intended to let Congress override his veto.

Friday, May 17th, a little after 12, I went to his office and there were present McIntyre, Earley and Moley. The President spoke about the idea of his going on the radio Sunday night. Earley was opposed to it because he said that he felt that Congress would take it as an insult that he gave out his veto message to the public or even discuss it before actually sending it up. Earley argued for his personally taking it to Congress as against doing it Sunday night. As I remember Moley did not contribute anything on the debate. McIntyre told me very heatedly that I was all wrong, that he guessed that Jack Garner knew more about politics than I did and implied that I was advising the President badly. I said I do not give a whoop what Jack Garner said. I think that this is the thing for the President to do. Earley came over and stood behind my chair and after the President argued back and forth some more I finally said, well I am convinced that it would be better for the President to address Congress on Monday than it would be for him to go on the air Sunday night. Earley slapped me on the back and said, good boy Henry, and that ended the argument. The President then said, now don't tell this to anybody I will announce it at my press conference.

We then sat around for about half an hour and the President read us his speech. Again Moley did not say much. About one o'clock the President said, I am awfully sorry I cannot have the two of you for lunch because I am having Dr. Elliot. I kind of made a face and said, well, I don't know where I will go for lunch, and Moley said, well, Henry, you can take me to lunch and I still made a face and the President said, well you better all have lunch with me. Moley said he had a terrible headache and would go and lie down and I asked the President if he wanted me to come back at 5:30 and he said, I will call up and let you know later on. He did not call up until 6 o'clock at the house and then said, Ray has one of his terrible headaches and I think you better not come down because I want to work with him alone. I subsequently learned that General Hines was there and the President told me the following story himself a couple of days later. He said that along the middle of Friday afternoon Moley sent him word that he was going back to N.Y. because there is no use of his staying there as the President was going to use Henry's speech. The President urged him to stay and felt that it would be better if I would not be there.

I think it was Friday afternoon when the President telephoned me and said, I wish you would arrange for the two Elinor's and yourself to join me on the boat Sunday noon. I will then work on the speech. My Elinor went to the farm and I arranged for Eleanor Roosevelt that I would fly her down. I subsequently got word from Captain Brown, the President's naval aid, that the President wished us to leave here directly at 11:30 so that we could be along side his boat at 12. Everything went off as per schedule and on the boat were Judge and Mrs. Rosenman, the President's military aid and his wife and his naval aid. It was a beautiful day and both the President and Mrs. Roosevelt were in a grand humor. As soon as I got on board the President insisted that I take his fishing rod and fish a while as he said he wanted to cut out some stamps. Before lunch I asked him if he was going to give us a drink and he said, no, not in the middle of the day - it makes me too sleepy and I can't work.

I asked him before lunch whether sometime in the afternoon I could have 10 or 15 minutes with him absolutely alone and he said, sure. As soon as lunch was over he announced to everybody, I want to work with Henry, please everybody leave us alone. Miss Lehand sat down and he said quite disagreeably, I want to be alone with Henry. Quick as a flash I said, what I have to say I would like Missy to hear and please let her stay - and she did. I then went on to tell the President that I thought it was most important that after he made his speech that there must be follow-up work done and I wanted to know if it was agreeable to him if I contacted various organizations and tried to get them to carry on after his speech. He said, Henry, I give you carte blanche to do anything that you want, and I said, fine.

Missy then left us and we then went over his original copy and General Hines' suggestions. In practically every case the President's original dictation was better than what Hines did. I again made a few suggestions about taxes to pay for the bonus strengthening a little bit his talk against inflation. By this time the President was all set and determined to go right down the line with an honest-to-God veto message.

We must have worked somewhere around an hour or an hour and a half together. Before Missy left she said don't you want Sam Rosenman to help and again the President very emphatically said, no. Sam walked by us a couple of times giving the President plenty of chance to see him, but he didn't. I then went down into one of the cabins and went to sleep for about an hour and a half. When I came up I found the President had been working ever since I left him on his mail with Miss Lehand, and I think Missy did more actual work in the last three days than she did in the last three years and she said as much.

I asked the President whether he was going to give us a drink and he said, yes, let's have "old fashions" and tell the Colonel to make them doubly strong because each of us can only have one-and believe me they were double strength. I drank half of mine and my nose began to tingle and I gave the rest of it to the Colonel and he drank it. We then had a cold buffet supper and we drove back from Annapolis to Washington. The President sat in the front seat and I sat in the back seat next to Mrs. Roosevelt.

Wednesday, May 22nd, over the telephone in the morning I asked the President how his speech was and whether he made any changes and he said practically none, but he said I want to read you one line which he did and asked me whether it was all right. I said it was.

May 23rd

Saw the President. He had just finished his breakfast and had not had time to read the newspapers. I pointed out to him some of the good editorials and he seemed very much pleased - very calm and quiet. The only thinkg he said was did you see that General Schall after my address went back to the Senate and attacked me - but nobody paid any attention. That is all he said about the speech. He said did you see what Father Coughlin said in N.Y. and I said yes, and I said every time I see a Priest walking on the street now I have a funny feeling and I can't help but think of Father Coughlin. He said, if this keeps up much longer I am going to use the file that I have on Father Coughlin where he has attacked me personally and I may send for the three Cardinals and Apostolic delegate and show them the attacks that Father Coughlin has made on the Sovereign of the United States, namely the President, and ask them how that jibes with their theory that the church should have an Ambassador in each country.

I then went over my financing with him for the next few months and explained it to him and he o.k'd it. Then he said, you know if they send me the so-called three-headed bonus bill which will permit me to choose how to finance the bonus in three ways

1 - greenbacks
2 - bonds
3 - take the money out of the four billion eight

Glass and Byrd are going to switch their votes and vote for this bill on the theory that I should take the money out of the four billion eight. If Glass and Byrd switch, the bill will pass and then, the President said rather tremendously, I am going to tell the country that I have been forced to make my choice and I am going to pay the bonus out of the four billion eight which will leave about one billion eight for relief purposes and every man who loses his job on relief projects can thank the veterans lobby in Washington - and I added members of Congress who took their orders from them. With a smile of triumph he said, what do you think of that, and I said, oh you devil, and he roared. I did some quick thinking and I said, I do not see how anybody can criticize you for doing this. And, he said, I will particularly draw attention to the senators who switched their vote. I said, after all, this thing will shift from hour to hour and we will have to watch it very closely. He said, of course we will.

DRAFT

Memorandum of conference held in Secretary Morgenthau's office at 4:45 Thursday, May 23, 1935.

At today's meeting of the Works Allotment Committee the question was raised by Mayor La Guardia of New York as to the policy of the United States Government with respect to making loans and grants to municipalities for public works in connection with the Work Relief Program.

A resolution was before the committee authorizing loans and grants on a basis of 50-50, the loans to bear interest at the rate of 3.80%. The theory behind this resolution was that by fixing this rate of interest and the Government making a 50% grant, a large part of the municipalities would be in a position to sell their bonds privately at a rate lower than that fixed by the Government. This would result in a substantial part of the Government funds going for grants and would thereby reduce the amount which the Government could expect to be eventually returned. If all municipal loans could be sold privately it would result, assuming that the amount of $900,000,000 fixed in the limitation in the Act was used for this purpose, in the Government making an outright gift to the States of the full amount specified and the States borrowing $900,000,000 privately, the Government getting nothing back.

The Secretary raised the question as to whether the rate fixed in the resolution was not too high, and also called attention to the President's many statements to the effect that he expected to get a considerable part of the relief money back. The Secretary stated that if programs of this character were approved the Government could expect to get nothing back. The President asked the Secretary of the Treasury to give the matter consideration and let him know within the next 24 hours as to the manner in which grants and loans to States should be handled.

After the allotment committee meeting, the Secretary of the Treasury called a conference in his office in the Treasury. There were present besides the Secretary, Under Secretary Coolidge, Mayor La Guardia, Mr. Frank Walker, Colonel Hackett, Mr. Foley and others from the Public Works Administration, Mr. Oliphant and Mr. Bell.

There was a great deal of discussion back and forth as to whether the policy of the United States Government should be to make grants and fix the rate of interest on a basis which would encourage private borrowing or whether the policy should be on such a basis as to throw the burden on the Federal Government for both grants and loans. In the first case the Government would get nothing back and in the second case the Government would stand a chance of getting back 50% of the amount of the loan. Mr. Coolidge stated that even in the second case with a rate of 3% the Government might be able to sell a great many of the municipal bonds at par or slightly less.

The Secretary stated that he would prefer a grant of not more than 50, and possible 40, per cent plus a loan of 50 or 60 per cent at a rate of 3%. Mr. Foley argued rather extensively for the principle stated in the resolution of the committee which he contended would put out more money because the cities would be encouraged to borrow privately if they could possibly do so, and that under his scheme there was a possibility of carrying on public works to the extent of $1,800,000,000 instead of $900,000,000 under the Secretary's plan. The Secretary stated he realized this, but he thought the principle which the President had declared publicly that he expected to get a large portion of the funds back should be accomplished and in order to do this it would be necessary to have a part of the money in the form of loans rather than all of it in the form of grants.

After a great deal of discussion the Secretary talked to the President and the President said to have it put up to him in the form of a memorandum, which he would give consideration.

* * * * * * * *

May 24, 1935.

The Secretary conferred with the President this morning regarding the matter and advised him that after considering the matter over night he was fully convinced that the Government was too generous with the grant and that the grant should be 40 percent and the loan 60 per cent, with a rate of interest of 3%. The President asked the Secretary to request Frank Walker to contact Mayor La Guardia and advise him of the views of the Secretary of the Treasury.

It was finally agreed that the rate of interest on loans for projects of States, Territories, etc. would be 3% and that the amount of the grant for the project would be 45% of the cost of such project. The attached release explains the decision arrived at between the President and the Secretary.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE — Date [illegible], 193[illegible]

To: CONFIDENTIAL FILES — Subject: Telephone conversation

From: L. W. Knoke — with Banque de France

Mr. Cariguel called at 11 o'clock this morning. He stated the purpose of his call was to ask "whether our people would be likely to buy francs against dollars and take gold for it". I answered that I would speak to Washington about it and let him know what the decision was. He then inquired whether I could give him the name of the French bank to which I had, during my two recent telephone conversations, referred as the principal seller of francs. I told him in strictest confidence it was the Société Générale. To me this question was significant and indicative of a new feeling of uneasiness on Cariguel's part because heretofore he had not seemed particularly interested in the fact that French banks were sellers of francs.

Negotiations with French

[illegible] British fund [illegible] operated moderately this morning, heavily this afternoon, was out at the moment, but was expected to resume its [illegible] later in the day.

* * * * * * * * *

I called Mr. Lochhead and reported to him on this conversation. Lochhead subsequently called back to say that he had spoken to the Secretary of the Treasury who was prepared to have the Banque de France sell dollars as offered by him through Mr. Crane on April 2 (that is $[illegible] at 660 or better).

* * * * * * * * * *

I called Mr. Cariguel at noon today to let him know that I was authorized by Washington to say that if necessary we would buy francs in this market today after Paris was closed, at 660; also that he might expect to receive an order from us tonight for the sale of dollars at the same rate, to be in force tomorrow morning in Paris before our opening. I pointed out that this was in line with the telephone conversation which Mr. Crane had had with him on April 2, 1936. Mr. Cariguel seemed to be satisfied and thanked me.

LWK:[illegible]

FEDERAL RESERVE BANK
Of New York

OFFICE CORRESPONDENCE

Date May 17, 1935.

To CONFIDENTIAL FILES

Subject Telephone conversation with Banque de France

From L. W. Knoke

Mr. Cariguel called at 11 o'clock this morning. He stated the purpose of his call was to ask "whether our people would be likely to buy francs against dollars and take gold for it". I answered that I would speak to Washington about it and let him know what the decision was. He then inquired whether I could give him the name of the French bank to which I had, during my two recent telephone conversations, referred as the principal seller of francs. I told him in strictest confidence it was the Societe Generale. To me this question was significant and indicative of a new feeling of uneasiness on Cariguel's part because heretofore he had not seemed particularly interested in the fact that French banks were sellers of francs.

I inquired as to the market activities of the British fund and Cariguel stated that the fund had operated moderately this morning, heavily this afternoon, was out at the moment, but was expected to resume its operations later in the day.

* * * * * * * * * *

I called Mr. Lochhead and reported to him on this conversation. Lochhead subsequently called back to say that he had spoken to the Secretary of the Treasury who was prepared to have the Banque de France sell dollars as offered by him through Mr. Crane on April 9 (that is $5,000,000 at 658 or better).

** * * * * * * * *

I called Mr. Cariguel at noon today to let him know that I was authorized by Washington to say that if necessary we would buy francs in this market today after Paris was closed, at 658; also that he might expect to receive an order from us tonight for the sale of dollars at the same rate, to be in force tomorrow morning in Paris before our opening. I pointed out that this was in line with the telephone conversation which Mr. Crane had had with him on April 9, 1935. Mr. Cariguel seemed to be satisfied and thanked me.

LWK:HM

FEDERAL RESERVE BANK
OF NEW YORK

May 17, 1935.

Dear Mr. Secretary:

I enclose copy of a cable sent by us today to the Banque de France, Paris authorizing them to sell up to $5,000,000 for prompt delivery at 658 or better good all day May 18, 1935. This cable was submitted over the telephone to Mr. Lochhead who expressed his agreement.

Respectfully yours,

(Signed) L. W. Knoke,

L. W. Knoke,
Assistant Deputy Governor.

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

Enc.

OUTGOING CABLEGRAM

May 17, 1935.

Banque de France,

Paris

CONFIDENTIAL FOR CARIGUEL

Referring telephone conversation we as fiscal agent of the United States are authorized to arrange with you for the purchase of refined gold bars of recognized refiners and assayers not to exceed about $5,000,000 (about 143,800 fine ounces) to be earmarked by you in our name. Accordingly we as fiscal agent of the United States authorize you to sell up to $5,000,000 for prompt delivery at 658 or better good all day May 18, 1935 it being understood that as you sell dollars and francs are delivered to you you will earmark equivalent amount of gold in our name in Account A. We should be grateful to you to confirm to us our understanding that such earmarked gold shall be free for export under any circumstances.

KNOKE

M E M O R A N D U M

To: The Honorable,
The Secretary of the Treasury

From: L. W. Knoke

Subject: The French Franc

May 21, 1935.

A Vice President of one of the New York banks which has an office in London and a representative in Paris just reported to me the substance of a telephone conversation which he had with a member of the French Parliamentary Budgetary Committee as follows:

> It is now a foregone conclusion that Flandin will resign in the near future. A new Government will be formed by Laval who will retain the present Minister of Finance Germain-Martin. If this plan works out, nothing unfavorable will happen to the French franc in the immediate future as the chances of a deflationary budget being accepted by the public will then be brighter. This thought seems to be based on the belief that the public, thoroughly scared by the developments during the last few days, will be more amenable to the Government's wishes.

* * * * * * * * * * * *

My informant also stated that their representative in Paris had recently spoken to Mannheimer of Mendelsohn in Amsterdam who shared the opinion that if Germain-Martin continues as Finance Minister, nothing will happen to the franc at least for three weeks. If, at the end of that period, Germain-Martin has not been given carte blanche, the situation will again be serious and devaluation of the franc might then be a matter of months. Mannheimer, however, added that even of that he was not so sure. However, he seemed to be satisfied that the franc was not in <u>immediate</u> danger.

May 24, 1935.

Governor, Federal Reserve Bank,
New York, N. Y.

Before you execute any orders to purchase francs in our behalf you are to have an understanding with the Bank of France, confirmed by cable that any francs so purchased will be immediately converted into gold and earmarked to be shipped to the Federal Reserve Bank of New York on the first available steamer. Should the Bank of France desire to have the francs purchased in this market after the markets have closed in France so that francs cannot be promptly deposited and converted into gold until the following morning, the Bank of France will need to make arrangements to obtain the dollars from us before the Bank of France closes. We are willing to deposit dollars in amounts to be agreed upon to their account in the Federal Reserve Bank of New York against gold earmarked as suggested above and they can instruct the Federal Reserve Bank of New York to make such disposition of these dollars as they desire.

MORGENTHAU

Federal Reserve Bank
Of New York

OFFICE CORRESPONDENCE Date May 23, 1935.

To CONFIDENTIAL FILES Subject Telephone Conversation with

From L. W. Knoke Mr. Cariguel of the Bank of France

I called Mr. Cariguel at 12:35 today for a check-up on the markets in Europe. He stated that they had raised their rate not only for discounts but also for advances on securities and on gold bullion and added that they would raise it again any time it were found necessary. The effect of their action, he thought, had been good. I sounded him as to whether, in his opinion, the dollar had yesterday and today been affected by the bonus fight in this country but he very definitely thought political conditions in Europe were the upsetting factor. In addition, he thought that credit was tightening in most European countries. With reference to the political situation in France, he said, naturally the Banque de France was not concerned with politics; their duty was to watch currency and to be prepared to do whatever might be necessary.

I then referred to our cable of May 17 and in particular the last paragraph in which we asked for a confirmation that earmarked gold would be free for export under any circumstances; I emphasized that I made reference to this request particularly because I did not know whether our friends would want us to buy francs here in the absence of a reply to our inquiry if at any time after the Paris market was closed the franc in this market should drop to our limit of 6.58. I added that with the increased nervousness and uneasiness everywhere over the political situation in Europe and the many disturbing rumors that continued to emanate from there, it seemed to me quite possible that some day our friends might feel that conditions no longer warranted their assuming any risk at all in connection with support of the franc and with gold purchases in France. Meanwhile I felt confident that our friends were willing and anxious to help the Banque de France. Under the circumstances could not he make any suggestions as to how such help could be furnished without our people assuming any risk.

Cariguel answered that he fully appreciated the situation, that he had not replied to the closing paragraph of our cable of May 17 simply because he had not operated for our account. He could, however, assure me that gold earmarked by them for us would be absolutely free for export. This was the policy always followed by the French with regard to gold owned by foreigners and that even in 1914 at the beginning of the War, it would have been possible even for enemy countries to withdraw their earmarked gold from France. He added that we could always rely on him to take proper care of our interests. He then referred to the agreement* he had just made with the Guaranty Trust Company under which no risk attached to the purchase of francs and gold. This arrangement, he said should be kept very confidential because he could not naturally make the same arrangement with every shipper of gold; he would, however, be glad to make similar arrangements for our people. In which case he repeated "I can assure you there is no risk whatsoever in it." If under our orders he sold dollars for our account and the situation was not satisfactory, he would ask us to give him immediate credit on our books for the dollars sold and he would at once give us francs and immediately convert these francs into gold to be earmarked in our name for export by first available steamer. "We wouldn't for the world have you feel uneasy about it."

I inquired as to what the situation would be in case we bought francs here in the afternoon (after Paris was closed.) He answered that he would not be able to let us have the gold until the following day and he did not quite know what arrangement he could make to protect that overnight risk because he would not know until the following morning what we had done here in the afternoon. He repeated that they would do their best under all circumstances. I replied that we were convinced of that but I was just thinking of a situation where influences beyond the Banque de France's control might overrule them. He replied that after all the Banque de France was a very powerful factor in France and that they did not want to let politics interfere.

I suggested to Cariguel that we both give further thought to the problem which confronted us in connection with franc purchases in this market after Paris was closed.

*The Guaranty Trust Company in New York informed us today very confidentially that the Banque de France had agreed to the following arrangement:

The Guaranty Trust Company deposits dollars with Federal Reserve Bank of New York for the credit of Banque de France, Paris. As soon as Banque de France is advised by us by cable of the receipt of such dollars Banque de France is prepared to advance equivalent in francs to Guaranty Trust Company in Paris and Guaranty Trust Company in Paris may immediately convert such francs into gold which Banque de France will earmark in the name of Guaranty Trust Company of New York "for export by first available steamer to Federal Reserve Bank of New York."

LWK:KMC

From L. W. Knoke, Federal Reserve Bank of New York.

In accordance with the Governor's suggestion I called Cariguel at about 1 P. M. I told him I was hopeful of being authorized by our people to give him an order for the sale of dollars in Paris tomorrow; just now I was waiting for definite instructions.

I then referred to that part of our telephone conversation of yesterday discussing operations here in the market after Paris was closed and reminded him that we had agreed, both of us, to give the matter a little more thought. I was calling now to inquire whether he had hit upon any suggestion to overcome the risk which our people would assume if they operated in this market after Paris was closed. Mr. Cariguel got off the telephone and after about two minutes explained that he had tried to get hold of the Governor, who, however, had left the Bank. He promised that he would call me back a little later.

Mr. Cariguel called again at 2 P. M. and said that he had put the question to the Governor, who said it was "absolutely O. K." Both the Governor and the First Deputy Governor had authorized him to inform us that if we purchased francs in our market the Bank of France would give us gold whatever happen. He added "nothing would happen but whatever happens we will give you the gold." I inquired first how this would work out if for instance we bought today francs for Monday's delivery; when would we get the gold? He replied "on Monday." I told Cariguel that I would immediately get in touch with our people and submit to them what he had told me. I emphasized that of course as regards sales of dollars tomorrow morning in Paris, against any such sales he would give us gold tomorrow and we would make the dollars available to him tomorrow. I told him that it was along these lines that I had prepared a cable to him as follows: (I then read the attached draft of a message) and asked him "is that correct Mr. Cariguel?" and he answered "Yes." After that I reverted to operations in this market after Paris was closed saying that I would at once talk to Washington. Cariguel answered "tell Washington that there is absolutely no cause for them to worry. You will get the gold all right." I promised him I would, but pointed out that as a practical proposition I rather anticipated Washington would ask me whether this assurance was in the form of a written agreement or what. "If they do," I asked Cariguel, "what can I tell Washington? That this is your assurance over the telephone?", to which Cariguel (noticeably annoyed) replied: "We have only one word and when we give our word we stick to it." I assured Cariguel that I knew that and that the only reason that I brought the question up was that I wanted to be in a position to answer if our people asked the question. I repeated that I would get in touch with our people and then call him back later on.

May 24, 1935.

From L. W. Knoke, Federal Reserve Bank of New York.

Mr. Cariguel called me at noon today. He said they were having a very busy day, the Guaranty Trust having so far sold $10,000,000 and was likely to do more. He added that the Bank of France was absolutely prepared to do all that was necessary, also that he was confident that France would stay on the gold and nobody would be hurt. I told him that I hoped, after discussing this matter with our people, to get authority to give him an order along the lines discussed with him yesterday over the telephone. He thought this would be all right; if we sent an order he would give us gold at once, dealing for instance tomorrow value tomorrow. To make sure I did not misunderstand him I inquired whether that meant that if he sold dollars for our account on the 25th we would get francs from him on the 25th which francs he would on the 25th convert into gold to be earmarked in our name for export; we in turn would make the dollars available to him here on the 25th. Cariguel confirmed my understanding and added that he would be quite happy to do so. He requested that I tell our people that Bank of France wanted them to feel quite comfortable. I asked him whether, in case I was authorized to give him an order, it would be all right for me to refer to our telephone conversations of yesterday and today and his reply was "absolutely."

He then stated very confidentially and only for the Governor's ears that the Bank of France might raise their discount rate again next Monday.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

Date May 24, 1935.

To CONFIDENTIAL FILES

Subject Telephone Conversation with Mr. Cariguel of the Bank of France.

From L. W. Knoke

I called Cariguel at 7:45 p. m. I told him I had had further conversations with the Treasury which had authorized me to discuss with him the following proposition:

"The Secretary of the Treasury is willing to buy from you on May 25 up to $5,000,000 gold earmarked in your vaults in our name, such gold to be guaranteed free for export under any circumstances and to be shipped to United States Assay Office in New York at your risk and expense on first available direct steamer and to be settled for with the Treasury on the basis of the final outturn of the United States Assay Office at $35 per fine troy ounce less customary mint charges and usual 1/4 per cent handling charges, and immediately upon receipt of your cable advice that you have earmarked gold as above to deposit the dollar equivalent to your account on our books for such disposition as you desire."

I pointed out that this arrangement was more advantageous to him because he made the full exchange profit. Cariguel replied he understood the details of the transaction but could not of course give us immediately an answer. I replied that I did not expect an answer tonight but had wanted to let him know what we were working on. I added that I would send them a cable tonight repeating the above proposition and also one giving the usual order for execution in the Paris market modified, however, along the lines discussed with him yesterday and today. I added that it was my understanding that the total of $10,000,000 could be applied by him as he saw fit; for instance, if he only sold $2,000,000 in Paris and wanted to do $8,000,000 under the proposition outlined above, that would be satisfactory to our people.

Cariguel seemed pleased and promised to let me know during the night if anything unusual happened prior to our opening.

LWK:KMC

May 24, 1935.
Friday.

Harrison: Hello.

H.M.Jr: George?

H: Good morning, Henry.

H.M.Jr: How are you?

H: First rate, thank you.

H.M.Jr: I have Lockhead here with me -

H: Yes.

H.M.Jr: And he's been telling me about his conversations with Knoke -

H: Yes.

H.m.Jr: - in regard to our taking gold -

H: Yes.

H.M.Jr: Now, I consider this so important that I'd like you to look into it yourself, if you have not already done so,

H: Yes.

H.M.Jr: Satisfy your self that everything's in order and then call me back.

H: Yes.

H.M.Jr: Because,-after all, I'm officially asking you to do this without See what I mean?

H: Yes, of course.

H.M.Jr: Now, but - I mean, we can't afford to take - make any mistakes.

H: Yes, well, I've been following it and I assume that they've told Lockhead I directed

H.M.Jr: Well, I didn't know that you were in on it.

H: Yes.

H.M.Jr: Well, now is it all right?

H: I'm in Washington now.

H.M.Jr: Oh, I didn't know that.

H: I came down last night.

H.M.Jr: Oh.

H: And I'd like to check up - I'll call him back and then I'll call you.

H.M.Jr: Well, I'd like to see you.

H: All right. Well, I'll come down there.

H.M.Jr: How about 11 o'clock.

H: All right.

H.M.Jr: 11 o'clock?

H: Yes

H.M.Jr: All right. Now, will you check up on it before?

H: Yes, I'll do that and then come down and see you.

H.M.Jr: Because I'm - I'm - this week-end may be a bad one.

H: Yes, I think it will.

H.M.Jr: And I'd like to know where you're going to be this week-end.

H: Yes.

H.M.Jr: I mean, if you can let my Treasury switch board operator know where you can be reached over the week-end -

H: Yes, I'll get in touch with you, Henry.

H.M.Jr: I mean, just so that we have your - we can get you within an hour.

H: Yes. All right.

H.M.Jr: And then I'll see you at 11?

H: Sure thing.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

Date May 25, 1935.

To CONFIDENTIAL FILES

From L. W. Knoke

Subject: Telephone Conversation with Mr. Cariguel of the Bank of France.

Cariguel called me at 11:30 a. m. He asked whether we had received his cables. I told him we had and gave him some information about the market for francs and sterling here this morning. Cariguel then referred to their raising the discount rate which, he said, was done to make a good impression. I replied that in our market the sudden improvement in the franc rate was ascribed to their rate change. I added that it seemed at the moment as though everything had passed and Cariguel agreed.

I asked whether the British control had been in the market today. He replied he had worked for them in Paris and in addition he understood they had been active in London too. Yesterday, he said, they did 150,000,000 francs. An estimate for today of 125,000,000 francs was probably correct. The Banque de France is giving the British on Monday 200,000,000 francs of gold. When mentioning this, Cariguel chuckled and said, "You see, the British are not as nervous over the weekend as your friends are," but immediately continued, that of course there was a difference since geographically London was so much closer to Paris than we were.

Cariguel then referred to the $5,000,000 worth of gold which he had sold us this morning and stated that they would send it by the first available steamer, that they would make the necessary inquiries about shipping facilities on Monday, that they would send it to us and we could then take it to the Assay Office, acting as their agent. He also repeated a statement made in his cable that any adjustments would be made after the gold was assayed. In this connection I pointed out to him that it was our understanding that he would want us to debit the melting charges and the usual 1/4 per cent to his account here, which he confirmed. I took this opportunity to ask him when he thought he would cable us the actual weight of the gold earmarked and he replied on Monday, adding that the gold movement both ways had been so gigantic that they were absolutely overwhelmed with work. Today, for instance, they had handled close to a billion francs in gold and their losses for the day were about 700,000,000 francs.

In reverting to the present status of the franc, Cariguel again expressed the opinion that if the storm had not actually passed it was about to pass. At the Bank of France, he said, they were absolutely confident about the francs and felt strongly that nothing could happen. At the end of our conversation, Cariguel asked whether we would send them another order for Monday and I told him I thought so but would have to get final instructions first. I asked him whether the arrangement worked out yesterday was to their satisfaction and he answered, "Quite."

LWK:KMC

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

Date May 27, 1935.

To CONFIDENTIAL FILES

Subject Telephone Conversation with Mr. Cariguel of the Bank of France

From L. W. Knoke

I called Mr. Cariguel at 6:25 p. m. I told him that we had not operated in this market at his limit of 658 1/4, francs being available here in the market only at 658 3/8. I added that I understood the Guaranty Trust under their order had purchased a few million francs which they evidently picked up directly from some of their customers. I then told Cariguel that we had been authorized by the Secretary of the Treasury to inform the Banque de France that he would take a further $25,000,000 of gold in Paris at $35 and that we were going to cable him tonight. I wanted him, however, to know that our people would wish him to consider this offer as a reserve offer to be used only in case the operations of the commercial banks were not sufficient to meet the demand for dollars. This, I explained was in line with the general policy of our people not to interfere with the ordinary transactions of commercial banks. I asked Cariguel whether I had made myself quite clear and whether it was agreeable to him to have this order. He answered in the affirmative but added he was afraid the commercial banks might not do enough but was hopeful that a way would be found out of the difficulty. Cariguel repeated that he understood the offer and appreciated it.

LWK:KMC

FEDERAL RESERVE BANK
Of New York

OFFICE CORRESPONDENCE

Date May 27, 1935.

To CONFIDENTIAL FILES

Subject Telephone Conversation with Mr. Cariguel of the Bank of France.

From L. W. Knoke

Mr. Cariguel called at 12:45 p. m. He said they had been having a bad time again today and that they gladly accepted the second $5,000,000 against gold in Paris offered them in our cable of May 25. He added that he could have used more today. He then said the total done today so far was $27,000,000 - $22,000,000 by Guaranty Trust Company and $5,000,000 by Banque de France. I inquired whether he intended to use the dollars credited to his account by the Treasury, for the purchase of francs in this market this afternoon and whether he planned to give us an order. Cariguel replied that he might want us to buy francs in New York and that he would give us the gold in Paris tomorrow and that he had again obtained the First Deputy Governor's approval. He repeated that under this arrangement we would be absolutely protected. I replied that I was afraid I would not get anywhere with our friends with that proposition and pointed out that the way to handle this situation would be for him to authorize us to buy francs for his account against his balance with us. Cariguel replied he thought that would be all right; I suggested that possibly we would be in a position to make him another offer of dollars against gold in Paris tonight. Cariguel thought he would give us an order without limit as to the amount to be purchased for his account but I discouraged him and suggested that he instruct us to purchase, say 10,000,000 francs and that he also limit us as to the price he wished us to pay. He replied that he would talk the matter over with the Governor and possibly send us a cable later in the day.

Before going off the wire I repeated "so that we understand each other" that he would instruct us to buy francs against his balancesin this market for his account.

LWK:KMC

Copy of cable forwarded to Bank of France, Paris, France, by Federal Reserve Bank of New York.

May 27, 1935.

BANQUE DE FRANCE

PARIS

CONFIDENTIAL FOR CARIGUEL

Confirming tonight's telephone conversation we are authorized by the Secretary of the Treasury to inform you firstly that he will buy from you on May 28 up to $25,000,000 gold earmarked in your vaults in our name, such gold to be guaranteed free for export under any circumstances and to be shipped to U. S. Assay Office in New York at your risk and expense on first available direct steamer and to be settled for with the Treasury on the basis of the final outturn of the U. S. Assay Office at $35 per fone troy ounce less customary mint charges and usual 1/4% handling charge; secondly that immediately upon receipt of your cable advice that you have earmarked gold as above he will deposit the dollar equivalent to your account on our books for such disposition as you desire.

KNOKE

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

Date May 28, 1935.

To CONFIDENTIAL FILES

Subject Telephone Conversation with Mr. Cariguel of the Bank of France

From L. W. Knoke

Cariguel called me at 1:15 p. m. He stated that they had had a heavy day, total dollar amount done, $32,500,000 of which $7,500,000 against our offer of last night of $25,000,000; details to follow by cable. He said that he would earmark the $7,500,000 gold today and would expect us to credit him the dollar amount value today. I asked how he was fixed for this afternoon and he said everything was all right. He had asked the Guaranty Trust Company to support the franc market in New York. He wanted to know whether we would like to have an order also but I suggested that it would be better if this business were all concentrated at a commercial bank since we would have to do it anyhow through one of our banks in the street. Cariguel replied this was satisfactory and inquired whether he might expect another order from us for tomorrow. I told him I could not of course tell him definitely now but that I had reasonable hopes to get one for him. If he got one, he said, it would make them feel quite good. Cariguel again emphasized how anxious they were to make our friends in Washington feel comfortable and happy.

I inquired how things looked to him now and he said that after another day or two they might hope to have the worst behind them. He left no doubt, however, that they would feel very grateful if they received another offer of dollars for tomorrow.

LWK:KMC

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

Date May 29, 1935.

To CONFIDENTIAL FILES

Subject Telephone Conversation with Mr. Cariguel of Bank of France.

From L. W. Knoke

Mr. Cariguel called me at 11:40 a. m. He stated they had again had a bad day today and had taken the $17,500,000 offered them last night by the Secretary.

Cariguel continued that through our mutual friend at the American Embassay in Paris he was going to ask Mr. Morgenthau to let him have a very large amount, something like $200,000,000. Mr. Cochran was scheduled to speak to Mr. Morgenthau at 6:30 French time, when he would submit Mr. Cariguel's request to Mr. Morgenthau. Cariguel added that if his request were granted he would operate on the same basis as during the last two or three days, that is he would give us the gold free for export as he sells dollars and the Treasury would place the dollars to the credit of his account on our books. He suggested that I prepare the Treasury for the request coming through the Embassy and point out to Washington that they (in Paris) would be finished if they had to quit selling dollars because their supply had run out. That was one thing, he said, they would not want to happen for anything in the world. I promised him to advise the Treasury what was coming and Cariguel wanted to know whether Washington's reply would come through us or through Mr. Cochran. I told him I did not know how the Secretary intended to handle it. I then told Cariguel that we understood from the steamship company that the Banque de France was shipping $5,000,000 worth of gold to us on the President Roosevelt. Was this correct? Cariguel said he thought it was although he was not quite sure. I mentioned, in order to avoid a misunderstanding, that we left the insurance to him which we assumed would be for dollars. He confirmed.

I inquired what the total amount of dollars was done today in his market and he gave me the figure of $22,000,000, including the $17,500,000 taken from us. Cariguel pointed out that tomorrow was a holiday in Paris but that he would operate in London. I inquired whether he had made the necessary arrangements and he said, "Yes."

* * * * * *

Cariguel called again at 12:30 p. m. He referred to the credit of $65,000,000 which the Guaranty Trust had given him under which there were about $25,000,000 on the water to New York. They (Guaranty Trust, Paris) wondered if we could buy the gold ex steamer. I replied that we were discussing a somewhat similar proposition with Guaranty Trust Company in New York; that I could not give him an answer at the moment but that we would take this matter up with the Guaranty in New York.

I referred to the $200,000,000 that he had asked of the Secretary and mentioned that I assumed these were for Friday since he could not use anything tomorrow except in London where, I understood, he had made arrangements. Cariguel confirmed that he needed the $200,000,000 "from Friday on" and that if he had our cable on Friday morning that would be satisfactory.

I inquired, if we bought the $25,000,000 on the water referred to above, would the Guaranty place additional dollars at his disposal? In order to be sure I had not misunderstood him I inquired further, "To the extent that we buy gold on the water the credit of $65,000,000 would become free again; i.e. if we bought $20,000,000 on the water there would be available to him from the Guaranty additional $20,000,000."* He confirmed.

P. S. Upon speaking to Mr. Loree about such purchases of gold on the water, Loree stated that Cariguel was not quite correct because of these $68,000,000 gold now on the water, $43,000,000 the Guaranty had done for their own account and therefore no new dollars would be available to the Treasury if the Guaranty sold the greater part of the gold now on the water. In this connection he gave me the following figures:

$9,000,000 aboard S.S. Acquitania, sailed today for New York.
9,000,000 " Normandie " " " "
14,000,000 ready for shipment on President Roosevelt sailing tomorrow for New York.
9,000,000 ready for shipment on Hamburg sailing Saturday for New York.
9,000,000 now in Southhampton, there to be put aboard S. S. Georgic, sailing on May 31, Saturday for New York.
9,000,000 on the way to Liverpool, there to be placed aboard S. S. Samaria, scheduled to sail on Saturday for New York.
9,000,000 now on the way to Dieppe for shipment to Southampton, there to be placed aboard S. S. Europa, sailing on June 1, Saturday, for New York.

Loreee explained that his Paris Office had acted on his general instructions to get the gold out of France and had on their own initiative, made these bookings per Georgic, Samaria and Europa. He added that he had inquired of his London Office whether in case of need the booking on the Georgic and Samaria could be cancelled and the gold be made available in London and, was advised by his London Office manager that the latter thought this could be done.

LWK:KMC

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

Date May 29, 1935.

To CONFIDENTIAL FILES

Subject Telephone conversation with Mr. Cariguel of the Bank of France

From L. W. Knoke

I called Mr. Cariguel at 3:40 p. m. this afternoon at Governor Harrison's suggestion. Cariguel spoke to me from the American Embassy in Paris and said that he had received a reply from Washington indicating that Washington would be willing to offer him $150,000,000 if the British would give $50,000,000. He said he would refer the matter to his governor and with the latter's approval discuss it tomorrow with the Bank of England. I told him I did not know that Washington had made this proposition and that the purpose of my calling up was to ask a few questions so that I would be prepared if the matter were discussed with us later on. The first question was: What effect would the action of the Finance Committee have, which turned Flandin down this afternoon? Cariguel replied that Flandin was determined to face the Chamber tomorrow. My second question was: If Flandin should unexpectedly resign who would be the next man? He said, "Laval, Marques or Mandel." The next question (I again emphasized that this was asked simply to put me in a position to have an answer in case it were asked of me): About how much gold did he think our friends across the channel had under earmark in Paris? and his reply was, "I think not less than £40,000,000." The bulk of this, Cariguel said, was shipped by the British from London to Paris in March or April. He then pointed out that in previous years their own holdings in New York had been very substantial, running higher than $400,000,000.

Cariguel laid great stress on the fact that they did not intend that the Treasury should keep any of the gold in Paris, that they would ship every ounce just as soon as it could be moved and that any delay in shipment was due solely to their inability to get the necessary space.

LWK:KMC

May 29, 1935.

The Federal Reserve Bank of New York was advised by the Guaranty Trust Company that they had operated in francs against dollars in the London market to the extent of $22,500,000 this morning and that as they secured gold from the Bank of France they were forwarding it to England if no direct steamers to the United States were available. The Guaranty suggested that if the Treasury bought gold from them in London they could extend their operations in francs by the amount of gold purchased from them as their line was now fixed to 65 million dollars (their legal limit) for these operations. The Bank of France telephoned the Federal Reserve Bank and stated they had availed themselves of the 17,500,000 dollars remaining out of the 25 million dollar commitment granted by the Treasury on March 27 and that they were earmarking gold for this amount in their vaults in the name of the Federal Reserve Bank to be shipped on first available steamers to New York. Cariguel stated they had a bad day in the exchange market and were fearful of what might happen tomorrow in the event that the commercial banks were no longer able or willing to engage gold against purchases of francs. He stated that he had requested Cochran to approach the Treasury by telephone at 1:30 P. M. (our time) and request further facilities of about 200 million dollars for Friday as they were very anxious to maintain the working of the gold standard and would be seriously embarrassed if they did not have sufficient facilities to operate. As Governor Harrison was to see the President, I suggested that he mention the proposition advanced by the Bank of France during his call so that the President would be familiar with it when I talked to him about it after receiving Cochran's call. In the meantime discussed the advisability of extending this credit with Harrison, Coolidge, Oliphant and Lochhead. Governor Harrison stated that he thought it would be a very desirable thing to do and that he personally did not feel that the Treasury was taking any real risk. Governor Harrison also stated that if this request had been made by the Bank of France to the Federal Reserve Bank when they were free to operate in gold, he would without qualification recommend it to his Board of Directors. He stated, however, that he thought at this time that an operation of this kind should not be handled by the Federal Reserve Bank but rather by the Stabilization Fund which had been set up for just such purposes. I told Governor Harrison I did not think that the Federal Reserve Bank should be called upon to undertake this operation at present because of the political opposition which might develop against the Federal Reserve Bank just at this time. Mr. Oliphant suggested that if we were to consider an operation of this nature it should be arranged as a joint undertaking by both the United States and England as in this manner we would have more protection should any developments arise on the other side, as England is in a position to bring greater political pressure on the Continent than we would, acting alone. After conferring with the President, talked to Cochran over the telephone and he conveyed the request of the Bank of France for this accomodation and went into detail as to the reason for their need for it. Asked him to ascertain from the Bank of France how much gold the British Equalization Fund had earmarked with the Bank of France and call me back again. Later, Cochran telephoned again at 2:17 P. M. and stated that Cariguel was with him while he was making this call. Cariguel stated the British Equalization Fund had a minimum of 30 million pounds of gold earmarked with the Bank of France. I then suggested that the Bank of France approach the British and ask them whether, in the event we made the amount of 200 million dollars available to the Bank of France against earmarked gold, they would engage in this credit jointly with us to the extent of one quarter of the amount, that is to say, 150 million dollars for the United States and 50 million dollars for the British. Cariguel stated that he would take this question up with the Governor of the Bank of France but repeated that they were mainly interested in securing dollars as the British Equalization Fund was operating heavily against francs and earmarking the gold in Paris so that there was really no need for a credit from England. Cariguel stated that he would immediately take the question up with the officials of the Bank of France and advise us of the result tomorrow, stating that they would not need their answer until tomorrow night as it was not until May 31 that they really needed these facilities.

May 29, 1935.
Wednesday.

Cochran:	And he said that he had talked the situation over with Governor Tannery after I was there and that they would consider it helpful if you would be willing to give them a big authorization, say up to 200 million dollars.
H.M.Jr:	Yes.
C:	And they
H.M.Jr:	Wait a minute - Cochran talk a little slower
C:	They consider the
H.M.Jr:	I don't understand - say it again - I don't understand
C:	I say you understand that they want a big authorization
H.M.Jr:	Yes I understand they want 200 million dollars over Friday.
C:	That's right.
H.M.Jr:	That's what they want.
C:	They say that with only a small allotment they may be unable to meet the situation.
H.M.Jr:	Yes.
C:	And the Guaranty is physically unable to carry on much over 30 million dollars a day after Saturday.
H.M.Jr:	Well we get the Guaranty picture direct here. We know what their picture is - hello - hello
C:	Hello
H.M.Jr:	I say we know what the Guaranty's picture is. They keep us informed.
C:	Yes.
H.M.Jr:	Can you hear me all right?

C: But I didn't hear what you said. This morning Flandin appeared and made a very good impression.

H.M.Jr: He made a very good what?

C: Impression.

H.M.Jr: Impression.

C: Yes I mean the thing was fairly well received.

H.M.Jr: Flandin appeared himself?

C: Yes, and they went to his house.

H.M.Jr: Oh yes.

C: The 40 members of the Finance Committee went there and Germain-Martin talked to them. I have not heard from Cariguel as to what happened there but I have just seen on the ticker that they had turned the proposition down 25 to 15.

H.M.Jr: Rejected what proposition?

C: That the Finance Committee voted against Germain-Martin's proposals which would be submitted tomorrow.

H.M.Jr: I see - hello.

C: I've been talking to Cariguel just now. My Secretary has talked to the Bank of France but the Bank of France did not know what action the Finance Committee had taken.

H.M.Jr: Oh.

C: So I can't give it to you as a picture yet.

H.M.Jr: But the news ticker says that the Finance Committee has voted 25 to 15 against Flandin's proposition?

C: That's right - yes.

H.M.Jr: Well what's the use of our giving them that credit? What?

C: I say I cannot confirm that officially. I just talked to the Minister of Finance and he said he could not give me any definite information.

H.M.Jr: Well let's say its so - then what?

C: Well this morning when I talked with him he said that he hoped to get full powers from the Committee but if he did not he would resign tonight and the government would fall.

H.M.Jr: I see.

C: Flandin had first intended to resign immediately if the Committee did not vote to give him the powers asked for but when I talked with him at 6 o'clock he told me that he had decided not to resign immediately but that in any event they would appear as a whole before the Chamber tomorrow.

H.M.Jr: Well now let me see if I understand this thing correctly. Flandin appeared before the Committee this morning. He made his plea. Since then they've met and they voted 25 to 15 to reject his proposition.

C: That's what the thing says - what the ticker says.

H.M.Jr: Well let's says its so for the moment and if its so Flandin will resign to-night - is that right?

C: I'm not positive on that. This morning at 12 o'clock at the Ministry of Finance they told me that if Flandin didn't get the powers he would resign to-day. My Secretary just got word again and confirmed the vote of 25 to 15 rejecting the project but that the government will not resign tonight; that they will appear for a vote before the Chambers tomorrow as planned.

H.M.Jr: Now - well now listen - wait a minute Cochran. What is the last minute that they can have their answer on this? How late can I postpone giving them an answer?

C: Well tomorrow both Paris and New York will be closed.

H.M.Jr: Yes.

C: And they've already made arrangements in London to take care of the market there.

H.M.Jr: They have made arrangements?

C: Yes.

H.M.Jr: With who - with whom did they make those arrangements?

C: With the Bank of England.

H.M.Jr: Well how much credit is the Bank of England giving them?

C: I can't tell you.

H.M.Jr: Well they ought to tell us that.

C: Well I can find out from Cariguel yet this evening.

H.M.Jr: Well I wish you'd ask Cariguel how muchhas the Bank of England given them.

C: All right.Shall I get it on my other phone now and you hold?

H.M.Jr: Yes you get it on the other phone. I want to know how much credit have they got from the Bank of England.

C: All right - just a second.

H.M.Jr: O.K.

H.M.Jr: The Guaranty now find they have only got 17 million dollars gold in Lond because the French have been putting the gold right on the boats for New York and the Guaranty doesn't seem to know exactly how much gold they've got in London.

C: They're getting swamped with their operations.

H.M.Jr: They're getting what?

C: Swamped.

H.M.Jr: Swamped.

C: They're not keeping up with their operations.

H.M.Jr: Yes, well they don't seem to know here but they'll have to know and they've asked us to relieve them of their gold in London so that they can buy more in Paris.

C: They, the Guaranty, withdrew gold instead of holding it for later shipment and have sent it over to Southampton and some to Liverpool and load it there on vessels rather than wait the next ship from French ports.

H.M.Jr: I see.

C: To-day Cariguel told me Tannery gave assurance that should an embargo be imposed our gold would not be touched but he said if we are bothered on that source they would ship it immediately to England for us, if we wanted that.

H.M.Jr: Well I didn't know that.

C: They made that offer to the Federal - what the Guaranty is doing you see. I mean they're sending some to England to-day. Just one second please. Cariguel is in the bank but they haven't found him yet for me.

H.M.Jr: Well what I want to know are two things:

1. How much has England offered to give them through to Friday, see? That's No. 1.

C: How much -

H.M.Jr: How much has England given them. How much has the Bank of England given them, see? Hello

C: Yes.

H.M.Jr: That's No. 1. And No. 2. When is the dead-line that they want an answer from us?

C: I see.

H.M.Jr: You see.

C: Yes.

H.M.Jr: Now supposing you find that out and then call me back - you can - I'll call you back. I can do it better. I'll call you back in oh about an hour.

C: All right.

H.M.Jr: I'll call you back in an hour. In the meantime you find out (1) How much has the Bank of England given them and (2) How late can we give them an answer.

C: I see. One second - I think my Secretary has Cariguel - one minute.

H.M.Jr: All right.

C: I just talked to Cariguel -

H.M.Jr: Yes.

C: And he said that the support in London will not be by the Bank of France but by the Guaranty.

H.M.Jr: By the Guaranty?

C: Yes, and that he would earmark gold here for them just the same as on previous occasions.

H.M.Jr: Well then the Bank of England is not helping them?

C: No - absolutely not, he said.

H.M.Jr: Oh. Then it all gets back to United States government.

C: And - right.

H.M.Jr: What?

C: That's it.

H.M.Jr: All right. Well then --

C: I asked him what hour - what the deadline is. He said if he could have a reply in the morning it would help him very much in formulating a plan for the day.

H.M.Jr: A reply when?

C: Tomorrow morning.

H.M.Jr: Tomorrow morning.

C: He said Friday morning early at the very latest.

H.M.Jr: Friday morning early. Well now just hold on a minute. Just stand by please. Hello

C: Hello

H.M.Jr: Is the British Equalization Fund doing anything?

C: The British are taking Francs - taking gold from here you see.

H.M.Jr: Well are they doing it in cooperation with the Bank of France or are they doing it independently?

C: No they buy directly from the Bank of France here.

H.M.Jr: The Equalization Fund?

C: That's right. Well they buy through the Bank of England but the gold is earmarked here for the Bank of England but the Federal / operates for you.

H.M.Jr: But to what extent?

C: Well to-day for instance they shipped 355 million Francs.

H.M.Jr: Well that's nothing.

C: No it's not very big.

H.M.Jr: I mean. What I'm trying to find out is New York and Paris are closed tomorrow.

C: Yes.

H.M.Jr: Will the Bank of England say they'll give them 10, 15 or 20 million pounds credit tomorrow?

C: No, there's no question of any credit by the Bank of England.

H.M.Jr: But purely what the Guaranty does?

C: That's right.

H.M.Jr: And the absolute deadline for Cariguel would be Friday morning - now that would mean - is that Friday morning in Paris or Friday morning in Washington.

C: Well Friday morning here.

H.M.Jr: Oh well that would mean then Thursday night - hello

C: Hello.

H.M.Jr: Now if - let me ask you this - if the French government should fall between now and Thursday night, would they still want that?

C: Would they still want it?

H.M.Jr: Yes.

C: I presume they would but do you want me to ask him now? I still have him on my other phone.

H.M.Jr: Well ask him if the government fell between now and Thursday night would they still want it.

C: Just one second. Hello

H.M.Jr: Hello.

C: They would absolutely.

H.M.Jr: They would want it?

C: Yes they would want it just the same.

H.M.Jr: Now let me ask you this question. They want 200 million dollars.

C: Yes.

H.M.Jr: Do you suppose if we took 100 million England would take 100 million?

C: I haven't any idea on that. See they haven't dollars

H.M.Jr: No but they're selling Sterling.

C: I - I don't know what they'll do.

H.M.Jr: You don't. Well let me find out. I've got the picture now and the latest that they'd want to know would be - they'd want - the latest we'd have to let you know tomorrow night.

C: They would have to have it very early Friday morning.

H.M.Jr: Yes well I'd let you know Thursday night. Now I'll call you back within an hour or an hour and a half.

C: All right.

H.M.Jr: And tell Cariguel to be around so you can talk to him will you please?

C: Tell him in this office?

H.M.Jr: Yes.

C: All right I'll have him come to my office here in one hour from now.

H.M.Jr: Yes do that.

C: All right - fine.

H.M.Jr: Good - thank you.

C: Thank you.

C: He'll take care of the dollar-Franc transactions for the London market tomorrow.

H.M.Jr: Well now the Guaranty is to take care of the London market tomorrow.

C: I sent a correction to them changing the words "the Bank of England" to "Guaranty".

H.M.Jr: Oh well that correction hasn't come through.

C: That I sent this afternoon when I read it over.

H.M.Jr: Well now - let - I want to ask - I - we want some more information.

C: Yes.

H.M.Jr: Will you ask Mr. Cariguel this. If he will tell us this. How much gold have they got earmarked in Paris for the Bank of England?

C: How much gold -

H.M.Jr: Have they got earmarked in Paris

C: Have they got earmarked in Paris

H.M.Jr: For the Bank of England - hello

C: 30 million pounds roughly speaking.

H.M.Jr: How much?

C: 30 million pounds.

H.M.Jr: 30 million pounds.

C: That's right.

H.M.Jr: Roughly speaking.

C: Yes.

H.M.Jr: All right. Now let me get this straight. With Mr. Cariguel sitting there with you, what arrangements have they to take care of the Franc in London tomorrow?

C: He says that the arrangements depend somewhat on what agreement he comes to with you.

H.M.Jr: Well have they any arrangements for tomorrow?

C: He says that he will be in touch with the Guaranty tomorrow morning and is looking to them to operate one dollar Franc transaction.

H.M.Jr: In London.

C: Yes.

H.M.Jr: But have they any agreement now?

C: Can't say that he has an agreement now.

H.M.Jr: What's that?

C: And he looks to the Bank of England's own account to get ready to buy a certain number of Francs.

H.M.Jr: Well what - what is his arrangement with the Bank of England?

C: To-day they bought 365 - own account - not acting as Agent of the Bank of France.

H.M.Jr: I see. Well now Mr. Cochran.

C: Yes.

H.M.Jr: This is what we have in mind. We might be interested in going joint account.

C: What's that?

H.M.Jr: We might be interested in going joint account with England - with the Bank of England to the amount of 200 million dollars provided that the Bank of England would take one quarter interest.

C: I'll put it up to him in that way.

H.M.Jr: Hello

C: Hello

H.M.Jr: I don't expect an answer right away and I'm not prepared to give an answer but what I want to know - I want you to ask Car

C: Just one minute.

H.M.Jr: What's that?

C: Just one minute.

H.M.Jr: Hello

C: Hello

H.M.Jr: Why don't you put Cariguel right on the wire - he speaks English doesn't he?

C: Yes.

H.M.Jr: Well put Cariguel right on.

C: I should prefer it if you're willing.

H.M.Jr: What's that?

C: I should prefer it if you're willing.

H.M.Jr: All right let me talk to him direct.

C: All right.

Cariguel: Good evening Mr. Morgenthau.

H.M.Jr: Good evening.

H.M.Jr: Mr. Cariguel

Cariguel: Yes.

H.M.Jr: Can you understand me?

Cariguel: I hope so.

H.M.Jr: Well I will try - if not I will talk again to Mr. Cochran. What I'm suggesting is this; that the Bank of England join the United States Treasury in - hello

Cariguel: Yes.

H.M.Jr: In what we call joint account.

Cariguel: A joint account?

H.M.Jr: Yes.

Cariguel:

H.M.Jr: Mr. Cariguel I'm sorry I do not understand very well. I'll have to talk to Mr. Cochran. May I talk to Mr. Cochran.

Cochran: Hello

H.M.Jr: Cochran, I couldn't understand very well. Now let me say it again because this is very important from our standpoint. The United States Treasury

C: Just a minute - yes.

H.M.Jr: The United States Treasury

C: Yes

H.M.Jr: Would take under consideration

C: Yes

H.M.Jr: going joint account

C: What?

C: Joint or joined?

H.M.Jr: No - joint account

C: joint account.

H.M.Jr: With the Bank of England to the amount of 200 million dollars.

C: Yes.

H.M.Jr: Provided that the Bank of England take a one quarter interest - hello - hello

C: Hello

H.M.Jr: Did you get that?

C: Yes.

H.M.Jr: I'll repeat it once more.

C: Yes.

H.M.Jr: I am suggesting that we would be interested in learning if the Bank of England would join us in a joint account operation to the amount of 200 million dollars.

C: Yes.

H.M.Jr: The Bank of England taking a one quarter interest

C: Yes.

H.M.Jr: Now is that - will you repeat that please?

C: That the United States government would be interested in learning whether the Bank of England would be willing to go in a joint account the latter to take one fourth interest therein.

H.M.Jr: Yes. To the extent of 200 million dollars.

C: To the extent of 200 million dollars.

H.M.Jr: Yes.

C: May I speak to Cariguel now?

H.M.Jr: Surely. Hello - you speak to Cariguel.

C: Yes.

C: Hello

H.M.Jr: Hello.

C: He said the point is that he thinks France needs only dollars.

H.M.Jr: Well we'll lend them the dollars.

C: You will lend them the dollars?

H.M.Jr: Yes.

C: One second.

C: Cariguel said why not lend the dollars to France against gold instead of lending to England against pounds.

H.M.Jr: Well for the very obvious reason that this is a three-cornered affair and we want to know that the Bank of England is as much interested as we are.

C: But as a matter of fact they are not interested in preserving the stability of the Franc.

H.M.Jr: Well before I can make any commitments I want this proposition put up to the Bank of England.

C: I see.

H.M.Jr: And after the Bank of England says whether they are or they are not interested then we will give to the Bank of France our answer but we first want the Bank of France to put - hello

C: Yes sir.

H.M.Jr: We want the Bank of France to put this up to the Bank of England.

C: You want the Bank of France to put it up to the Bank of England and you reserve your answer until you get the reply?

H.M.Jr: That's right.

C: I see. Mr. Cariguel will have to think this over.

H.M.Jr: What's that?

C: I say Mr. Cariguel says before the Bank can make that stipulation he will have to take it up with his Governor and the Bank of France. If the Governor approves they will approach the Bank of England.

H.M.Jr: Well we lay great stress on this.

C: You lay great stress on the British.

H.M.Jr: On the British joining us.

C: On the British joing you.

H.M.Jr: Yes.

C: Yes. I see.

H.M.Jr: And if, during the conversation and until they come to a decision, there are any technical foreign exchange questions that they want to ask I wish they would ask them directly of the Federal Reserve in New York.

C: If they wanted to -

H.M.Jr: No no - there undoubtedly will be technical and legal foreign exchange questions.

C: Yes.

H.M.Jr: That both France and England may wish to ask.

C: Yes.

H.M.Jr: If they have any technical questions that they wish to ask in order to help them come to a decision let them ask them directly of the Federal Reserve of New York.

C: Yes. I understand. The only thing - is Cariguel to tell the Bank of England that we will lend them dollars?

H.M.Jr: Well he can tell the Bank of England that we will lend them the dollars.

C: Yes.

H.M.Jr: I mean if they don't want to use pounds - if they don't want to use pounds - if pounds are no use we'll lend the Bank of England the dollar.

C: You would lend the Bank the dollar?

H.M.Jr: Right.

C: If pounds are no use.

H.M.Jr: If the - we'd rather not lend them the dollar but if pounds are of no use then we'll lend them dollars.

C: Yes.

H.M.Jr: That is the Bank of England.

C: The Bank of England.

H.M.Jr: Yes.

C: That would be through our Federal Reserve.

H.M.Jr: Through the - wait a minute. Well we'll loan them the - we'll provide them one way or the other through the Federal Reserve. I mean we'll - I don't know what the legal machinery is so we'll provide them the dollars --

C: You'll provide them the dollars if pounds are not chosen to function.

H.M.Jr: That's right. That's right - hello

C: Yes.

H.M.Jr: That's right.

C: Yes that's straight now..

H.M.Jr: Is there anything he wants to ask us? Hello

C: Cariguel says that you just explained to me that they would give us gold to get the dollar.

H.M.Jr: I don't think I understand that.

C: Just one minute. The next point is that the joint action with the Bank of France would be the same as under the previous arrangements; that they would give us gold against the credit as used.

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

C: That's right.

H.M.Jr: It would be just the same as it is now.

C: As it is now.

H.M.Jr: Yes.

C: And Cariguel will get his government authorization and get in touch with the Bank of England tomorrow and they will communicate to you - communicate with you, me or how?

H.M.Jr: The best way to have him do is to have him do just the way he is doing it now; let him come to your office and then you telephone me.

C: Come to my office and then I'll telephone you.

H.M.Jr: There's no use doing it by cable - it takes too long.

C: Takes too long - yes the whole thing.

H.M.Jr: Let him come to your office and telephone me.

C: All right - you'll be in the Treasury tomorrow?

H.M.Jr: Well they'll know where I am. No I won't be at the Treasury but you call up the Treasury and they'll arrange the call.

C: I see.

H.M.Jr: You call up the Treasury and they'll arrange it.

C: Fine. I'll keep in touch with Cariguel then and when he's ready to talk he'll come here to my office and call your Treasury.

H.M.Jr: That's right.

C: I get it.

H.M.Jr: Thank you.

C: They gave me the information for a brief to-day.

H.M.Jr: For what?

C: Don't you remember that New York information.

H.M.Jr: Yes.

C: I got that to-day and turned it over to Waite.

H.M.Jr: Was it good?

C: Everything that was necessary.

H.M.Jr: Everything what?

C: Everything that was requested.

H.M.Jr: Was there.

C: Yes.

H.M.Jr: That's nice work.

C: And I was over and

H.M.Jr: All right. My regards to Ambassador Straus.

C: All right. Thank you.

H.M.Jr: Thank you.

173 A

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING PAPERS,
Monday, May 27, 1935.
5-25-35.

Press Service
No.5-2

Secretary of the Treasury Morgenthau is today offering to the people of the United States an additional issue of 3 percent Treasury bonds of 1946-48, in the amount of $100,000,000, or thereabouts, and is inviting tenders therefor at not less than par and accrued interest. The bonds will be sold to the highest bidders. Tenders will be received at the Federal Reserve banks and branches thereof up to three o'clock p.m., Eastern Standard time, on Wednesday, May 29,1935 . Tenders will not be received at the Treasury Department, Washington.

The bonds for which tenders are now invited will be an addition to and will form a part of the series of 3 percent Treasury bonds of 1946-48, issued pursuant to Department Circular No. 512, dated June 4, 1934; they will carry the same tax exemptions, and otherwise will be identical in all respects therewith except that interest on the additional bonds issued will accrue only from December 15, 1934. The bonds will mature June 15, 1948, but may be redeemed at the option of the United States on and after June 15, 1946. Interest will be payable semiannually on June 15 and December 15.

Each tender must state the face amount of bonds bid for, which must be $1,000 or any even multiple thereof, and the price offered, which must be stated exclusive of accrued interest and must be expressed on the basis of 100, with fractions expressed as 32ds of 1 percent in accordance with the usual practice - for example, 103-29/32. Tenders at less than par will not be considered, and tenders not received at a Federal Reserve Bank or branch before three o'clock p.m., Eastern Standard time, Wednesday, May 29, 1935, will be disregarded. Tenders will be accepted without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied in every case by a deposit of 5 percent of the amount of bonds bid for, except where the tender is accompanied by an express guaranty of payment by an incorporated bank or trust company. If the tender is accepted, in whole or in part, the deposit will be applied toward payment for the bonds, and if the tender is rejected the deposit will be returned to the bidder.

Tenders should be made on the printed forms and forwarded in special envelopes, which will be supplied by the Federal Reserve banks. Incorporated banks and trust companies not located in a city where a Federal Reserve bank or branch is located, may, in their discretion, submit tenders by telegram.

Immediately after the closing hour for the receipt of tenders on Wednesday, May 29, 1935, all tenders received at the Federal Reserve Banks and branches up to the closing hour will be opened, and public announcement of the acceptable prices will follow as soon as possible thereafter. In considering the acceptance of tenders, the highest prices offered will be accepted in full down to the amount required, and if the same price appears in two or more tenders, and it is necessary to accept only a part of the amount offered at such price, tenders for smaller amounts may be accorded preference and tenders for larger amounts prorated to the extent necessary in accordance with the respective amounts bid for. The Secretary of the Treasury expressly reserves the right, however, to reject any or all tenders or parts of tenders and to award less than the amount bid for, and any action he may take in any such respect or respects shall be final.

Payment for any bonds allotted on accepted tenders must be made or completed in cash or other immediately available funds on or before June 3, 1935, and must include the face amount and the premium, if any, which the bidder has agreed to pay, together with accrued interest on the face amount from December 15, 1934, to June 3, 1935.

The text of the official circular follows:

UNITED STATES OF AMERICA

3 PERCENT TREASURY BONDS OF 1946-48

Dated June 15, 1934, with interest from December 15, 1934. Due June 15, 1948.

Redeemable at the Option of the United States at Par and Accrued Interest on and after June 15, 1946

Interest payable June 15 and December 15

ADDITIONAL ISSUE

1935
Department Circular No. 541

Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, May 27, 1935.

The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, offers to the people of the United States $100,000,000, or thereabouts, 3 percent Treasury Bonds of 1946-48, and invites tenders therefor at not less than par and accrued interest from December 15, 1934, to June 3, 1935.

Description of Bonds

The bonds now offered will be an addition to and will form a part of the series of 3 percent Treasury Bonds of 1946-48 issued pursuant to Department Circular No. 512, dated June 4, 1934; are identical in all respects therewith (except that interest on the bonds issued under this circular will accrue from December 15, 1934); will be freely interchangeable; and are described (except as to interest payable December 15, 1934) in the following quotation from said Circular No. 512:

"The bonds will be dated June 15, 1934, and will bear interest from that date at the rate of three percent per annum, payable semi-annually, on December 15, 1934, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature June 15, 1948, but may be redeemed at the option of the United States on and after June 15, 1946, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

"The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed $5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

"The bonds will be acceptable to secure deposits of public moneys, and will bear the circulation privilege only to the extent provided in the act approved July 22, 1932, as amended. They will not be entitled to any privilege of conversion.

"Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of $50, $100, $500, $1,000, $5,000, $10,000 and $100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds under rules and regulations prescribed by the Secretary of the Treasury.

"The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds."

As interest on the bonds issued under this circular will accrue from December 15, 1934, coupon bonds will be delivered hereunder with coupon No. 1, dated December 15, 1934, detached.

Tenders and Allotments

Tenders will be received at the Federal Reserve banks and the branches thereof up to 3 o'clock p. m., Eastern Standard time, Wednesday, May 29, 1935, and unless received by that time will be disregarded. Tenders will not be received at the Treasury Department, Washington. Each tender must state the face amount of bonds bid for, which must be $1,000 or any even multiple thereof, and the price offered. The price offered must be stated exclusive of accrued interest from December 15, 1934, to June 3, 1935; and must be expressed on the basis of 100, with fractions expressed as 32ds of 1 percent, in accordance with usual practice, e.g., 103-29/32. Tenders at less than par will not be considered.

Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied in every case by a deposit of 5 percent of the face amount of bonds bid for, except where the tender is accompanied by an express guaranty of payment by an incorporated bank or trust company. If the tender is accepted, in whole or in part, the deposit will be applied toward payment for the bonds, the balance to be paid as hereinafter provided. If the tender is rejected, the deposit will be returned to the bidder.

Tenders must be enclosed in envelopes, securely sealed, addressed to the Federal Reserve bank, or branch, of the district, and plainly marked "Tender for 3 percent Treasury Bonds of 1946-48". The Federal Reserve banks will supply printed forms and special envelopes for submitting tenders. Incorporated banks and trust companies not located in a city where a Federal Reserve bank or branch is located may, in their discretion, submit tenders by telegram, but such telegrams must be received at the Federal Reserve bank or branch before the time fixed for closing.

Immediately after the closing hour for the receipt of tenders on May 29, 1935, all tenders received in writing or by telegraph at the Federal Reserve banks or branches thereof up to the closing hour (3 o'clock p. m., Eastern Standard time) will be opened. The Secretary of the Treasury will determine the acceptable prices offered and will make public announcement thereof as soon as possible after the opening of tenders. Those submitting tenders will be advised by the Federal Reserve banks of the acceptance or rejection thereof, and payment on accepted tenders must be made as hereinafter provided. In considering the acceptance of tenders, the highest prices offered will be accepted in full down to the amount required; and if the same price appears in two or more tenders and it is necessary to accept only a part of the amount offered at such price, tenders for smaller amounts may be accorded preference and tenders for larger amounts prorated to the extent necessary in accordance with the respective amounts bid for. The Secretary of the Treasury expressly reserves the right, however, to reject any or all tenders or parts of tenders, and to award less than the amount bid for, and any action he may take in any such respect or respects shall be final.

Payment

Payment for any bonds allotted on accepted tenders must be made or completed on or before June 3, 1935, in cash or other immediately available funds, and must include the face amount and the premium, if any, which the bidder has agreed to pay, together with accrued interest on the face amount from December 15, 1934, to June 3, 1935.[1] In every case where payment is not so completed, the 5 percent deposit with application shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States.

General Provisions

Federal Reserve banks, as fiscal agents of the United States, are authorized and requested to receive tenders, to make allotments as indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid allotments, and to perform such other acts as may be necessary to carry out the provisions of this circular. Pending delivery of the definitive bonds, Federal Reserve banks may issue interim receipts.

The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the receipt of tenders and the sale of bonds under this circular, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

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1 Accrued interest from December 15, 1934, to June 3, 1935, on $1,000 face amount is $14.010989.

173B

TREASURY DEPARTMENT

Washington

FOR RELEASE MORNING NEWSPAPERS,
Monday, May 27, 1935.
5-25-35.

Press Service
No.5-3

Secretary of the Treasury Morgenthau announced today that the subscription books for the 1-1/2 percent Bonds of Series F-1939 of the Home Owners' Loan Corporation will close at the close of business Wednesday, May 29, 1935. Subscriptions placed in the mail before 12 o'clock midnight, Wednesday, May 29, will be considered as having been entered before the close of the subscription books. This offering was announced last Monday by the Secretary, on behalf of the Home Owners' Loan Corporation, and the Series F-1939 bonds may be obtained at this time only through payment in Home Owners' Loan Corporation 4 percent Bonds of Series of 1933-51. The 4 percent bonds have been called for redemption on July 1, 1935.

The Secretary further stated that approximately $136,000,000 of the new bonds had been subscribed for through Friday, May 24.

Cochran telephoned from Paris and stated he had visited Cariguel at the Bank of France in the afternoon. Cariguel advised that after consultation with other bank officials it was their opinion that the Bank of France should not approach the Bank of England with a view to securing agreement from them to enter into joint account operations with America to buy gold from Bank of France up to a total of 200 million dollars, of which it had been suggested that the British should provide 25%. The Bank of France felt that Britain has cooperated fully in the past few days by buying large amount of francs on their own account against which they were earmarking gold with the Bank of France. As sterling is not linked to gold the Bank of France did not feel that they were warranted in approaching the Bank of England. The Bank of France again asked us to consider making dollars available to them, against gold which they would earmark for our account in Paris, stating that if we wished they would be even willing to store it in the American Embassy at Paris pending shipment by first available boats. Governor Harrison, Undersecretary Coolidge and Mr. Lochhead were at the Treasury Department and I informed them of this conversation and also requested Mr. Coolidge to obtain the cable from the State Department which confirmed Cochran's conversation and see that it reached the President promptly. After talking with the President, Governor Harrison, Mr. Coolidge and Mr. Lochhead, decided to tell the Bank of France that the Treasury would be willing to purchase up to 150 million dollars of gold in Paris against dollars to be made available to them in New York. This action was taken as a financial measure to give accomodations to the Bank of France in order that they might protect the franc and show the Treasury's desire to cooperate with the Bank of France. Instructed Governor Harrison to have the Federal Reserve Bank send the necessary cable of authority to the Bank of France and also suggested that he call the Bank of France by telephone and advise them that the authority was being cabled. Instructed Governor Harrison to tell the Bank of France that the Treasury would not give any publicity to this transaction but if the Bank of France wished to make any reference to it on their side they were perfectly free to do so. The Bank of France was to understand, however, that our agreement to any publicity which they might care to give this arrangement did not indicate any desire on our part that such publicity should be given. As the Guaranty Trust Company is operating heavily in the French market in cooperation with the Bank of France, agreed to purchase gold from them up to 50 million dollars in London at 35 dollars an ounce less all the usual shipping and handling charges. By doing this the Guaranty would be left free to operate to a greater extent in the French market as they cannot exceed their legal limit of 65 million dollars outstanding at any one time. By taking gold from the Guaranty in London it will give the Treasury a stock of gold at that point which may be very convenient at a later date. As there is a good demand for gold on the London Market at the present time and practically all the gold we were holding in the Bank of England has been sold to take advantage of the premium prevailing at present, any acquisitions of gold in London may be profitable in the course of the next few days.

June 3d

Thursday morning, May 30th, I spoke to the President at 9:20 and told him the conditions were fairly critical in France. A little later in the morning I spoke to Cochran and Straus. Straus said things look very bad and thought I ought to go easy and I ought not to give them credit of more than 25 million dollars because I would be taking too much of a chance if I gave them any more than that. I arranged to telephone to Cochran again at 5 o'clock because they told me by that time Flandin will have spoken before the Chamber.

I spoke to the President five minutes to one and asked him whether I could call him at sharp 4:15 and check with him again before talking to France. at 4 o'clock I talked to Coolidge, Harrison and Lochhead. At that time Harrison said he would be satisfied if I allowed them a credit of 100 million dollars. Coolidge thought I ought to give them a credit of 200 million. I told him, the President being willing, I would advance them 150 million and give the Guaranty Trust a revolving fund of 50 million. They all agreed that that would be wonderful. I got the President at 4:15 and arranged with him that when I talked to Paris at 4:30 I could interrupt my call and get him immediately.

I got Cochran at 4:30 promptly. He told me what had happened in the Chamber. He said that Flandin had made his speech, fainted and made a bad impression. I told him that I would call him back in a few minutes. Within 20 seconds I had the President, told him what had happened and said "I recommend to you that we give them a credit of 150 million and 50 million to the Guaranty". He said, "all right". My whole conversation with him could not have been more than two minutes. He made no suggestions.

I hung up and got Paris back immediately, told Cochran what I was willing to do. Then Straus got on the wire and asked what he ought to tell the newspapers. In no uncertain language I told him that he should tell them nothing and that no information should be given out by anybody except the Bank of France. I then called back the President and also our own people and told them to get out the necessary cable. Harrison and Coolidge were simply overjoyed at what I had done.

At my suggestion and with the approval of the President I told Cochran to tell Cariguel that the President of the United States and the Secretary of the Treasury had sufficient confidence in the Bank of France to loan them 150 million dollars.

Friday I talked to the President again and he seemed very much pleased with what we had done.

Coolidge told me that Friday at Cabinet the President made a little speech on what we had done and seemed very much pleased over the whole transaction.

Saturday morning I talked to Cochran and he told me that the situation is the same and that Cariguel gives us the entire credit for it.

Copy of cable forwarded to Bank of France, Paris, France, by Federal Reserve Bank of New York.

May 30, 1935

We are authorized by the Secretary of the Treasury to inform you that he will buy from you on May 31st up to $150,000,000 gold earmarked in your vaults in our name, such gold to be guaranteed by you as heretofore free for export under any circumstances at our option to New York or to London at your risk and your expense. If shipment to New York is elected settlement is to be made with the Treasury on the basis of the final turnout of the U. S. Assay Office at New York at $35 per fine troy ounce, less customary Mint charges and the usual one quarter per cent handling charges. If shipment to London is elected settlement is to be made at $35 per fine troy ounce, less our customary Mint charges and the usual one quarter per cent handling charge, and less the usual cost of transhipment from London to New York.

In the event that the Treasury should decide temporarily to hold the gold in Paris settlement is to be made at $35 per fine troy ounce less our customary Mint charges and the usual one quarter per cent handling charges and less the usual cost of shipment from Paris.

The Secretary of the Treasury has requested us also to inform you that immediately upon receipt of your advice that you have earmarked gold in accordance with the understandings recited in this cable he will deposit the dollar equivalent to your account on our books for disposition as you desire.

KNOKE

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE Date May 31, 1935.

To CONFIDENTIAL FILES Subject Telephone Conversation with

From L. W. Knoke Mr. Cariguel of the Bank of France.

Mr. Cariguel called me at 1:30 p. m. and stated that the total amount of dollars sold today in Paris was $33,625,000. He added that he thought it would be very helpful if the total amount were applied to the Treasury credit. His reason for this suggestion was that the clerical staff of the Guaranty Trust as a result of the tremendous operations undertaken during the week was so overwhelmed with work that it would help them considerably if no gold had to be handled tomorrow. Mr. Cariguel asked whether I saw any objection to it but I answered that he must decide how the day's sales were to be allotted. Cariguel said he would then do as he had planned to do, that is apply the total to the Treasury credit and cable us accordingly. If the Guaranty in New York is called upon this afternoon to support the franc market here such operations will of course be financed under the credit placed at the disposal of the Banque de France by Guaranty Trust Company.

I inquired as to the operations of the Equalization Fund in London and Cariguel said that up to 5 o'clock London time they had done 210,000,000 francs. There were no political new out; Parliament was still talking.

In order to ease his mind I hinted that I had a feeling that the balance of the $150,000,000 would be renewed for tomorrow. Cariguel seemed to take that for granted, at least he answered "Naturally, yes."

LWK:KMC

THE WORKS PROGRAM

-----Division of Applications and Information-----

FOR IMMEDIATE RELEASE May 24, 1935.

The President has approved a recommendation of the Advisory Committee on Allotments providing for liberalization of the loan and grant terms on non-Federal projects carried on by the P.W.A. under the Emergency Relief Appropriation Act of 1935.

With the purpose of seeking to reduce the share of the cost borne by the Federal Government of re-employing men in the Works Relief Program by making it possible to loan more money instead of making 100 percent Federal grants to achieve the re-employment objectives, the Advisory Committee on Allotments adopted a resolution as follows:

"Be it resolved, that the Advisory Committee on Allotments recommend to the President

(1) "that the rate of interest on loans for 'projects of States, Territories, Possessions, including subdivisions and agencies thereof, municipalities, and the District of Columbia, and self-liquidating projects of public bodies thereof' be fixed at three (3) per centum per annum; and

(2) "that the amount of the grant for the normally acceptable project be fixed at 45 percent of the cost of such project; provided, however, that the Federal Emergency Administrator of Public Works shall have authority, after careful investigation of the financial condition of any applicant in the foregoing classification and the nature and work-producing character of the project, to recommend to this committee a variation in the amount of the grant."

Non-Federal P.W.A. projects under the old P.W.A. procedure were offered an outright grant to the local authority undertaking the project of approximately 30 percent of the cost and a loan of the balance of the cost at the rate of 4 percent per annum. Falling interest rates subsequently made it possible for P.W.A. to sell, at a substantial profit, $85,000,000 worth of bonds it received as security for the loans made by it, and more such bonds will be sold as they become available.

Liberalization of the grant from approximately 30 percent to 45 percent of the project cost and reduction of the annual interest from 4 percent to 3 percent is designed to open the way for non-Federal bodies to cooperate in the Works Relief Program with the Federal Government on a more generous basis.

Such action is designed to make it easier for communities to borrow funds on collateral security from P.W.A. instead of requesting outright all-Federal grants, thus helping to carry out the President's objective of seeing as large a portion as possible of the funds returned to the Treasury.

The change in terms recommended opens the way for communities to obtain projects of the type that are permanent assets for their localities which otherwise they would have difficulty in obtaining unless they would undertake to share with the Federal Government the financial burden.

Localities with plans completed for construction of schools, hospitals, waterworks, buildings, sewers and similar types of projects of permanent value, thus would be encouraged to proceed with such reemploying construction at once.

The terms recommended by the Advisory Committee on Allotments would apply to non-Federal projects carried on by PWA with funds from those provided by Emergency Relief Appropriation Act of 1935 as part of the Works Program and permits no changes of allotments made from the original PWA fund.

-ooOoo-

May 24th

H. M. Jr. called the President to-day and told him that the condition in France is getting worse and that we were negotiating on purchasing Francs with an understanding with the Bank of France that any Francs so purchased will be immediately converted into gold and earmarked to be shipped to the Federal Reserve Bank of New York on the first available steamer.

Mr. Morgenthau told the President that he had sent for George Harrison and was going to work very closely with him on this French situation. The President said he was delighted that Mr. Morgenthau was sending for George Harrison because he was in very low spirits to which Mr. Morgenthau replied that since the President's speech he was riding on top of the clouds. The President was quite pleased with what Mr. Morgenthau told him.

May 27th

Oliphant came to my house last night for supper and advised me against sending the President the tax message. He felt it would be defeated and that it was too late in the year to do it. I joked with him about his trying to test me out but I am convinced that he was in earnest in recommending to me that we pull our punches on the tax program. I gave him a long talk as to why I thought the President should send it up and make his record clear on his tax program and this was a subject that he could well afford to be defeated on and was not at all like the bonus - where he had to win. I would be very much interested in knowing why Oliphant recommended my laying off on the taxes that have to do with social reform. In talking to the President this morning I asked him about the taxes. I told him that I thought we ought to send it up a week from this Monday; that Joe Robinson and Pat Harrison would be opposed to it and he said, "I know that". I urged him strongly to send it up and he said that he absolutely intended to do so.

Senator Walsh called me up this morning and asked me to get in touch with the White House and have them hold up for another ten days the sending up the name of the man whom he recommended for Collector of Internal Revenue at Boston. It might look as though he were being paid for his vote on the bonus. The name of his man should have been sent up quite a while ago but through neglect was held up by the White House.

May 28th

I called the President to-day and told him that we have a very excited market, commodities are off and cotton is off and if he agreed with me I would like him to tell Steve Early to tell the various Members of the Cabinet not to interpret why the market is off. If anyone should do any interpreting it should be he. The President agreed with me and said that he would issue orders not to do any talking for 48 hours. I called particular attention to Wallace, Davis and Roper.

I also told the President I spoke to Cochran in Paris this morning - that he told me that Parliament meets at 3 o'clock their time and then they will ask for a report from the Premier. The Premier being ill at home the Finance Committee will call on him at his home and then they will report back to Parliament. Cochran thinks this may drag on until Monday. I will call Cochran again in five hours.

Bulkley came in to see me about the Banking Bill and wanted to know what we really wanted done about Title No. 2. Did we want it dropped? I said, "by no means" so he said, "it is sort of confusing on the Hill. The difference is between Eccles and myself", so I told him that we had re-drawn Title No. 2 and quick as a flash he said, "can I have a copy of it?" There was nothing for me to do but say yes and I made him promise that he would keep it absolutely confidential. He said, "do you want to introduce it personally or would you like to have me do it"? I said, "of course I want you to do it if it is to be done at all". We left it this way - that he was to read over the draft then call me back and let me know whether he liked it.

May 28th

Last night at 7 o'clock I got worried that the new method of offering bonds at auction was not going well. I called up Coolidge and suggested that he go to New York. He said he would check with Harrison and call me back which he did and told me that Harrison was non-committal but that he (Coolidge) agreed with me that he ought to go to New York. I was very much surprised to find that not only were the 12 Governors here in Washington but Burgess was also here. Coolidge took Burgess back with him to New York and I gather from what he said that they had not explained to the New York bond dealers what we are trying to do and consequently they are sore. I had a hunch that something was wrong and evidently my hunch was right.

H. M. Jr. called the President to-day and told him that the French had raised their discount rate up to 6% but what effect it would have he did not know. The Franc is 6.57$\frac{3}{4}$ which is considerably down. The Guarantee Trust has done 15 million this morning and we are back of them for 25 million in case they want to fall back on us. George Harrison thought we ought to give them 50. The French ought to feel very kindly disposed to us.

H. M. Jr. also told the President that we got our 1 million ounces of silver from Mexico yesterday and told him that he had been trying to get Paris on the wire and there was some delay and he, therefore, had no news for him as yet.

H. M. Jr. told the President that he had sent Coolidge to New York because of the hunch he had last night. He said that he was not going to stand for any nonsense. He believed the dealers were sore because they were going to lose a little profit but that if they did not cooperate he would take an ad in every paper and advertise these bonds and in that way not give them the business at all.

H. M. Jr. asked the President whether he was upset about the NRA and the President said no that he thought he was going to get something out of it. The President told H.M.Jr. that he was worried about Federal Alcohol Control and wanted him to talk with his people about it.

May 29th

Senator Walsh came in to see H.M.Jr. to-day and said that our present silver buying policy is hurting the silver manufacturers.

H.M.Jr. told him that as long as the present silver law is on the books it is impossible for him to do anything. It simply gets down to what he could do with his brother Senators about it; that H.M.Jr. had a direct mandate from Congress which he had to carry out.

Senator Walsh said that the Administration should not stand by and see the silver manufacturers injured. H.M.Jr. then told him that the silver law was started by the Senators and not by the Administration.

Senator Walsh asked H.M.Jr. if he brought up legislation to help the silver manufacturers and inasmuch as H.M.Jr. said he had to carry out the present mandate of Congress would he support him privately. H.M.Jr. answered that he could not make any private promises; that anything the Treasury said would be of such a nature that it could be "shouted from the roof tops". However, he promised Senator Walsh that if he went up on legislation for the silver manufacturers he would be absolutely neutral.

May 29th

The Canadian Minister came in to see me to-day. I read two thirds of the enclosed memorandum to him leaving out that part which related to the criminal evidence which we have. He wanted to know whether some of the representatives of the Canadian liquor fellows could come down and talk to Frank. I told him that the person to talk to was Oliphant.

He said that I convinced him that the Canadian government has no financial interest in this and I told him not to let these gangsters like Bronfman and Reifel use his government and mine to play one off against the other. "There is nothing in it for you and I will prove it". He said, "you are quite right and I agree with you absolutely". He said, "now some of our lawyers questioned the legal right of your having this evidence but leave that to me. This thing is a big moral issue". I said, "are you not pleased with the way we cleaned up the rum row between the United States and Canada" and he said, "I am simply delighted". I then said, "I am going to make a suggestion which I have not discussed with my Legal Advisors and they may turn me down but what would you say if the Canadian government took over the 20 million gallons of liquor - you get the tax on it and then sell us the liquor but in no way will that affect our pending cases but it gives the Canadian government the money and we get the liquor and we can consider that removed from the picture and then we can sit down and discuss the legal issue.

I said, "we are under a terrific political pressure here and it does not affect me because I have a farm to go back to but we want to get this thing cleaned up" and he said, "so do we".

PARAPHRASE OF TELEGRAM RECEIVED 187

FROM: American Embassy, London, England

DATE: May 30, 1935, 6 p.m.

NO.: 247

STRICTLY CONFIDENTIAL FOR THE TREASURY.

A few days ago Leith-Ross made occasion to tell me there was no ground in fact for the belief on the part of the Treasury of the United States that the activities of the United States equalization fund were being made known to either the Bank of England or the British Treasury. Leith-Ross added that it had been hoped that Bewley, who was attached to the British Embassy, Washington, might have been able to furnish such information to London, but that to date no such contact with the U.S. Treasury had been established by Bewley.

Leith-Ross made it plain that he was making the above statement deliberately. In view of this fact, the Embassy asked him whether, in transmitting his observations, Leith-Ross desired to suggest a reciprocal exchange of information with Washington through this Embassy as to any or all of the British equalization fund activities. The answer to this by Leith-Ross was that this was a matter which had to be taken under official advisement. He said he would inform me later if I would agree to postpone action. I am submitting this preliminary statement to you for your information since up to the present I have had no further communication from Leith-Ross. I will report again when I hear from him.

BINGHAM

EA:LEW

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, London, England

DATE: June 3, 1935, 7 p.m.

NO.: 130

PERSONAL FOR THE AMBASSADOR FROM THE SECRETARY

Reference is made to telegram No. 247 of May 30, 6 p.m., from you.

I was interested to receive your Leith-Ross despatch. I am in agreement with your view that at this stage we should not approach them first.

HULL

EA:LEW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England.

DATE: June 6, 1935, 1 p.m.

NO.: 256

STRICTLY CONFIDENTIAL AND PERSONAL FOR THE SECRETARY.

Re my telegram No. 247 of May 30, 6 p.m. to you. I have been requested by Leith-Ross to consider the matter as "washed out". He told me that the question of supplying information as to the activities of the British Fund had been finally considered by the Chancellor of the Exchequer himself. The Chancellor said that because the activities of the British fund were somewhat under fire in Parliament and because he was in no position to give any information to Parliament, it was not possible for him to give any information of any nature to any other source no matter what his desires might be.

I wish to express full support of your judgment as stated in your 130 of June 3, 7 p.m., the last sentence.

BINGHAM.

EA:LEW

DEPARTMENT OF STATE

Washington

STRICTLY CONFIDENTIAL

My dear Mr. Secretary:

I enclose paraphrase of my cable to Ambassador Bingham No. 130 of June 3, 1935, dealing with the conversation he had with Leith-Ross, and also paraphrase of cable No. 256 of June 6, 1935, just received from the Ambassador, giving Leith-Ross's further comment and the opinion of the Chancellor of the Exchequer.

Sincerely yours,

(Signed) Cordell Hull

Enclosures:
To London, No. 130,
June 3, 1935.

From London, No. 256,
June 6, 1935.

The Honorable,

Henry Morgenthau, Jr.,

Secretary of the Treasury.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Friday, May 31, 1935.
5/29/35.

Press Service
No. 5-6

Secretary of the Treasury Morgenthau today announced the result of the offering by the Treasury on Monday of $100,000,000, or thereabouts of 3 percent Treasury Bonds of 1946-48, tenders for which were received at the Federal Reserve banks up to 3 o'clock p.m., on Wednesday, May 29.

Tenders for $270,077,000 face amount of bonds were received, of which $98,779,000 was accepted at prices ranging from 103-26/32 down to 103-1/32, and accrued interest from December 15, 1934, to June 3, 1935. Tenders were received for more than $22,000,000 at 103, and it was deemed inadvisable to allot a small percentage. The average price of the bonds to be issued is about 103-4/32, and a total premium of $3,085,207 will be received. Based on the average price at which the bonds are to be issued on June 3, 1935, the yield is about 2.67 percent to the earliest call date, June 15, 1946, and about 2.71 percent to maturity, June 15, 1948.

DIARY

Book 5 - Part 2

April 23 - May 30, 1935

Speeches by HMJr

Complete history of radio address on "The American Dollar," 5/13/35, as described by Chester T. Crowell, in nine chapters.

COMPLETE HISTORY OF THE RADIO ADDRESS DELIVERED AT TEN OCLOCK,
EASTERN STANDARD TIME, MONDAY NIGHT, MAY, 13, 1935 BY
HENRY MORGENTHAU, JR. SECRETARY OF THE TREASURY

IN NINE CHAPTERS

WITH AN INTRODUCTION TO EACH CHAPTER BY CHESTER T. CROWELL
WHO WAS PRESENT AS OFFICIAL OBSERVER

Chester T. Crowell

The first draft , by the brash and budding, young economist, Chester T.Crowell, who, inspired by the wisdom and prophetic vision of the Secretary of the Treasury, dashed off the interview in what he innocently thought would be imperishable prose. (It lasted one day.) In a frenzy of anxiety about the limited number of words possible for a radio address, the said Crowell, omitted entirely too much.

To ~~explain the gold policy of this administration, it is necessary to tell,~~ first ~~x~~ of all, ~~what happened~~ in Europe ~~in the Spring of 1931~~, Beginning in Vienna, credit and currency difficulties spread ~~like~~ panic. On Spetember 21 Great Britain was forced to suspend gold payments. Noway, Sweden and Denmark, followed within a week. Japan went off gold in December. The value of their currencies in international exchange dropped sharply. Other nations either went off gold or took equivalent action to control their exchange rates. In this procession we were not the first to act; we were the thirty-first. Some of those countries were forced to act because they could see the bottom of their gold bins; that was not our ~~position~~/ condition then nor is it now. We had more than one-third of all the monetary gold in the world. Our ~~difficult~~ trouble grew out ~~of~~ of the fact that our foreign customers could no longer afford to buy dollars with which to pay for American prodducts. They could trade with each other to some extent ~~xxxxxxxxx~~ but our exports which had been above five billion dollars in 1928 dropped to a billion and a half in 1932. When conditions were at their worst in 1932 ~~xxxxxxxxxxthe~~ the entire world's export business had declined one-third, compared with 1929 but our part had declined more than half. To say that we merely shared in ~~a~~ world-wide misfortune isn't entirely accurate, because our share ~~was~~ included an additional penalty for remaining on the gold standard. The ~~xxxxxxxxx/xxxxxxxx~~ calamity of falling commodity prices, loss of trade, and the consequent unemployment swept over our country with the force and sudden fury of a hurricane. Unless all of the other important trading nations would go back to gold, our only alternative was to join them and seek a reasonable parity with their currencies. President Roosevelt promptly began this operation in the Spring of 1933 when he suspended gold payments, and let the dollar find a lower level in international exchange. The operation was completed in January 4 1934 when the exchange value of the dollar was definitely fixed at sixty cents. Since that date we have continued steadily to regain that part of our lost foreign trade which is recoverable; and at the same time we enjoy the steadiest currency in the world. It is, in fact, so steady that large amounts of capital, including gold, are flowing into this country to find safety in our reliable dollar. ~~for safety as well as profit.~~

But let us see what happened to our foreign trade. Some of it was no longer recoverable. Various nations which had formerly depended upon American wheat had decided, for reasons of public policy, in which price had no part, to raise their own. Obviously we couldn't strike down their embargoes when they preferred home-grown wheat at twice our price. We might take cotton as a better test of the gold policy in relation to foreign trade. In 1934 we got eight percent more money for our cotton than we received in 1932; and we shipped one-third less cotton. This was a remarkable increase in the price but, unfortunately, the cotton producers want not only a higher price, but at the same time to sell more cotton. They got the price but they sell in a world-wide competitive market, and other producers who offered cotton for less sold relatively more. So cotton is not the best test of the gold policy.

The best test would be presented by some product that had formerly enjoyed a large export sale, and lost it almost entirely because of the depreciation of foreign currencies, then regained it almost entirely because our country went off the gold standard, fixed a reasonable exchange value for the dollar, and restored ~~the~~ parity. ~~thatxxthexxproduct~~ Is there such a product? Yes, we find various examples among our manufactured goods; the ~~thingxxexample~~ automobile will serve as well as any. This is a field in which we have always been dominant. In 1930 with the world on the gold standard we exported 238,000 cars. In 1932 only 66,000 cars. The world still wanted American automobiles; nothing startling had happened in the way of competition; prices were about the same or a little less; quality was just as good or better. But we were on gold and the others were off. So here you have a perfect test to determine whether this administration's gold policy might ~~assist~~ assist to ~~maintain~~ restore that lost market. ~~XXXXXXXXXX~~ The dollar became cheaper in 1933 and exports of cars shot up from 66,000 to 108,000. ~~Nextxyear~~ In the following year ~~of~~ ,1934 , ~~they~~ exports came right back to where they ~~werexinx1930~~ had been in 1930. This year ~~the~~ oour exports are still rising. In 1929 this country alone sold in foreign markets eight and a half percent of all the automobiles produced in the world. In 1932 that percentage dropped to a fraction over three. In 1934 it rose again to more than six. In short, ~~all~~ the manufacturers needed only a reasonable parity in exchange rates to sell their goods. ~~Inxaddition~~ We can examine these figures with ~~more~~ assurance that they prove something because no drouth swept away our automobile production nor did the manufacturers have to raise the price. All they wanted was to regain what they had lost. The exchange rate had killed their foreign market; we removed that obstacle and their market is being restored to them ~~atxsuchxaxxratexxthat~~ with such rapidity that the ~~separxxxxxxxx~~ benefits ~~xxxhx~~ already are nation-wide.

6

This country went off the gold standard primarily to meet an acute international emergency but we had at the same time a panic in our own country. During February 1933, and until two days after taking office the President issued his proclamation closing the banks, about half a billion dollars in gold was withdrawn, and nearly two billion dollars in currency. Our banking system was being destroyed. We were headed toward financial chaos unless we could stop the run on the banks, and reassemble our gold reserve. Both of these necessary objectives were promptly achieved. The banking holiday ended the runs, and the gold was ordered back into the custody of Uncle Sam under penalties. Until confidence could be completed restored it was futile to permit withdrawal of gold on any pretext. However, we have in this country about one hundred billion dollars of bonds and other obligations containing the provision that payment must be made in gold. Such payments seldom have been made in gold but it had become a custom any to write that provision into the bond. With our gold stock safely reassembled so that our currency was absolutely sound there was every reason to go on using currency instead of gold, and the law now made this mandatory. Next came the gold reserve act of 1934 which authorized the President to fix the value of the dollar between fifty and sixty percent of its pre-war gold content. He did that; and the monetary value of the gold reserve now became greater by $2,800,000,000. Some of our critics seem to be under the impression that that sum was promptly expended in riotous extravagance. Nothing of the sort happened. Two billion dollars was promptly locked up in the stabilization fund, and nearly all of the rest ear-marked for redemption of interest-bearing public debt. I find learned dissertations on the similarity between what we did and what had been done in remote ages by bankrupt monarchs who restamped the coin of the realm, raising its value for no other purpose than to acquire the fictitous profit. This government was not bankrupt. We had siezed the gold to save our financial structure from collapse. We changed the value of the dollar to meet national and international emergencies, not to fill an empty treasury. Whatever additional funds the government needed for current expenditures ~~the treasury~~ we borrowed in the open market in the traditional manner. [redacted] If all of the other countries want to go back to the gold standard tomorrow morning the United States Treasury is ready. For us it is not much more than a bookkeeping operation. We haven't dissipated our $2,800,000,000. So far as the United States Treasury is concerned we can simply rub out that item and we are nine-tenths of the way back on the pre-war gold standard. Some of the other countries that didn't call in their gold but permitted speculation in it as the price rose are not so favorably situated. If we had handled this transaction as they did the man who happened to possess a twenty dollar gold certificate in January of 1934 would have taken a profit on it. He wouldn't have worked any harder for it than his neighbor who had been paid in a twenty dollar federal reserve note, but he would have been luckier. By this time all of those profits would have been dissipated and the road back to stabilization would be much ~~exactly $2,800,000,000~~ harder than it is.

Our severest critics tell you that we virtually stole that $2,800,000,000. Our answer is that we rescued and locked up all of the gold; we locked up $2,000,000,000 in the stabilization fund; we gave everybody the same kind of a dollar; and nobody was able to get rich by sharp-shooting for his private profit while the President preserved the financial structure of the nation. Everything we took into custody is still there, held as a sacred trust. Behind every dollar of coin and currency in circulation today is ~~a half and a half~~ $1.55 cents in gold and about 26 cents in silver. It is quite true that you can't get the gold but

6

dging by the rate at which it was disappearing in February 1933 you wouldn't en know where it ~~was~~ by this time if it had not been locked up. ~~silver are back of your doll~~

That was no time for faint hearts or weak measures. What this administration did ~~These steps were~~ not only ended panic but launched recovery, and the beneficial effects still surge throughout the nation.

In estimating the future of our foreign trade, especially in elation to our gold policy, we may as well begin by facing the fact that we annot hope to sell abroad more than the buyers can pay for. A brief review f the developments that have brought us to our present position as the world's reatest creditor nation will clarify that statement. Beginning in 1896 there as an extraordinary expansion of our world trade. In the succeeding eighteen ears our merchandise exports exceeded thirty-two billion dollars. Nevertheless n 1914 we owed the world three billion dollars net on capital account. Then egan an outpouring of goods such as no nation had ever efore experienced. From 1914 through 1922 we exported forty-seven billion ollars worth of merchandise, and our net credit at the end of that year as more than sixteen billion dollars. However we continued to export goods n vast quantities. The end of 1929 found the United States net creditor on apital account, in round numbers, nineteen billion dollars. At the close of 1934 he total had reached twenty-~~four~~ one billion dollars. About half of this is represented by war-debt obligations with their accumulated interest. American citizens also old about six billion dollars in bonds and shares of foreign governments and orporations of which about one-third are in partial or complete default. In ddition, American citizens have made direct investments abroad of nearly seven billion ollars, the exact status of which cannot readily be ascertained. However, it is certain that seventy percent of our net foreign capital investments, covering he entire period since 1896 are at present in default.

As long as we could regard those loans and investments as ound assets we were rich, and much of the prosperity of the booming nineteen-twenties, rested on that assumption. Now we know better.

Our bitterest lesson came in 1932 when we witnessed the remarkable spectacle of the greatest gold movement in the history of the world: three quarters of a billion dollars worth of the yellow metal left this country in a few months, most of it bound for debtor nations. They had gone off the gold standard and we had not. That out-flow did not stop until President Roosevelt came into office and promptly suspended gold payments. ~~in the Spring of~~ Since then we have recovered all of that gold and gained considerably more.

However, the statement so often repeated, that we have stripped the world of gold, is not true. Gold production has been greatly stimulated, and now proceeds at an estimated rate of about one billion dollars annually, at present value. The percentage of the world's montary gold which we hold is lower today than it was in 1922, although in ounces it is much larger. But we are endeavoring to restore silver also to greater usefulness as a monetary metal, partly by bringing its price closer to its intrinsic worth. It is already the money of a large part of the world's population. Moreover the average annual production of silver outside of the United States is in round numbers ten billion dollars, at present prices. A substantial portion of this alone is available to pay for merchandise moving in international trade.

The alternatives to these monetary measures are: first, to reduce tariffs sharply. Second, to accept payment in paper, that is to say loans. Both alternatives have sharp limitations. Many objections would be raised against drastic tariff reductions; as for our again extending large foreign loans to cover payment for our exports, I think the subject may be dismissed without discussion.

The present program which aims at payment of international balances in gold and silver is certainly sound, and probably the only feasible course.

In conclusion, I should like to summarize this statement by saying:

First, you have an absolutely sound dollar that is today the steadiest currency on earth, and has been for more than a year.

Second, the gold policy of this administration held the fort through the most trying period of our recovery program, and is still the spear-head as we advance steadily toward our goal.

Third, we were the last of the great trading nations to go off the gold standard, and when the others are ~~ready~~ willing to go back to it, we are ready. We can prosper under the gold standard and we are only technically off of it. However, if the great trading nations want to continue under the present rules, we are no longer at a disadvantage. Our hands are untied, and the contest is now fair. There is much to be said for complete stabilization of world currencies, but nothing to be said in favor of our launching out alone to encounter the same hurricane that swept over us in 1932. We were caught, practically alone, in that one, ~~but~~ and we have learned our lesson. The next time we set sail under the gold standard it will be with a full crew. They must all come on board and sign the articles. We want to see the whites of their eyes.

I thank you.

The second draft, which represents the restoration of the material about the record of payments of international balances beginning with 1896, and also includes the inspiration to settle the war debts........inspiration born in this draft and died promptly.

For a clear understanding of the monetary policy of this administration, it is important that we go back to that period when we were a debtor ? nation and trace the developments which have brought us to our present position as the world's largest creditor. Let's see what the record shows on the payment of international balances.

Our rise to a position of great importance in world trade Transition period began in 1896. We were then the world's debtor in the sum of $2,000,000,000. From that time until the outbreak of the world war we exported thirty-one billion dollars worth of merchandise. Two thirds of it was paid for with merchandise that we imported. Tourist and immigrant remittances, shipping service, insurance, dividends, interest, and miscellaneous items not only took care of all of the rest but increased our debt. European capital was flowing into this country for investment, however, and the net balance for the eighteen year period showed us owing Europe three billions of dollars instead of two. Gold shipments for that period were relatively small; the net in our favor was $174,000,000. [illegible] of silver at that time

Period when we [illegible]

development of [illegible]

We come next to the world war period. From 1914 through 1922 we exported forty-seven billion dollars worth of goods. ~~Most~~ Much of this was paid for with merchandise that we imported but there was a balance in our favor of twenty-one billions. Europe sent back to us two and a half billion dollars worth of our securities to apply on account. Europe also sent us ~~one and three quarters of a billion dollars in gold~~ a billion and 3/4 in gold (what in silver). But the largest items received in payment were paper. Under this head come the war loans of about ten billions of dollars and private loans of more than six and a half billion dollars. We were net ~~creditor~~ change the end at the end of 1922 in round numbers nineteen billions of dollars of which nearly seventeen billions were represented by promises to pay.

From 1922 through 1929, the so-called golden era, we continued to export more goods than we imported. We had coming to us now considerable sums in interest on our loans. Presumably there should have been a great inpouring of gold, but nothing of that sort happened. Europe sent us $175,000,000 in gold and $210,000,000 of our currency. (silver) We exported two and a half billions of dollars, ? net, in loans of one sort and another, receiving more promises to pay.

Coming down to 1934 we find Americans owning six billion dollars of the bonds and shares of foreign governments and corporations. Of these about two and a third billions are in partial or complete default. Virtually all of the war debts and accumulated

interest are in default. American citizens also have direct
in plants & factories
investments abroad amounting to seven billion dollars; the exact status of all of these cannot be stated with certainty. But it would be conservative to say that of our net capital investment abroad, more than seventy percent is represented by paper in default.

There, briefly, you have the background. Now, let us consider what happened in Europe in 1931. Beginning in Vienna, credit and currency difficulties spread panic. On September 21, Great Britain ~~was forced to~~ suspended gold payments. Norway, Sweden, and Denmark followed within a week. Japan acted in December. Other nations either went off gold or took equivalent action to control their exchange rates. In this procession, we were not the first; we were the thirty-first.

As the nations went off gold the value of their currencies in international exchange dropped sharply, and our customers found it difficult to buy dollars with which to pay for American products. They could trade with each other to some extent as their various currencies approached parity, but they bought from us only what they couldn't do without. Our exports, which had been more than five billion dollars in 1928 dropped to a billion and a half in 1932. To say that we merely shared in world-wide misfortune isn't entirely accurate because our share included an additional penalty for remaining on the gold standard. While total world export trade declined, those countries which promptly went off gold increased their share. Inevitably the increases were largely at our expense. In this sort of riot we offer such a large target that no matter what any nation's immediate objective might be it could not avoid hitting us.

use figures ?

At its worst, in 1932, the total volume of world trade had declined about one-third compared with 1929. But in the midst of that decline Great Britain's share, after she went off gold, increased seventeen percent, and Japan's share increased thirty percent. Our share decreased about forty percent, measured in volume.

make plainer first date

Some of the countries engaged in this scramble were alarmed because they could see the bottoms of their gold bins. They began to call in foreign credits, among which were about a billion dollars in short term loans in this country. We couldn't use paper in default as an offset to those calls. We were on the gold standard; we had not suspended gold payments, and if they demanded the gold they were entitled to it. Thus it happened that in the winter of 1932, we witnessed the remarkable + incredible spectacle of the greatest gold movement in history..........gold going out of the world's greatest creditor - strange nation on every ship, nearly all of it to nations that were in our debt. This loss was added to the calamity of our falling commodity prices, loss

put in Haas story

of trade, and consequent unemployment. The disaster swept over our country with the force and fury of a hurricane. Our financial structure was in a state of collapse. In the month of February 1933 and up to the time President Roosevelt took office, half a billion dollars in gold and two billion dollars in currency were withdrawn from our banks. They were closing, not individually, but by whole states at a time. That was the situation when this administration came into office. On taking his oath, Mr. Roosevelt assumed both the duties of President and receiver for a bankrupt concern.

We were headed for disaster unless the run on the banks could be stopped, and our gold reserves reassembled. Both objectives were promptly achieved. The President's proclamation closed the banks, ending the run, and the gold was ordered into the custody of Uncle Sam under penalties. Those two acts met the domestic emergency. Gold payments were then suspended and that ended the outward flow which had finally attained a total of three quarters of a billion dollars. This effectively took us off the gold standard and the dollar began to find a lower level in international exchange. The operation was completed in January of 1934 when the exchange value of the dollar was ~~definitely~~ fixed at 59.06. Since that time we have enjoyed the steadiest currency in the world. It is, in fact, so steady that this year we find hundreds of millions in gold flowing back into this country to take refuge in our reliable dollar.

And now let us see what the cheaper ? dollar did to our foreign trade. Measured in volume or tonnage the foreign trade of the whole world was still declining in 1934. We reached our low, however, in the first quarter of 1933 when we caught the full cumulative effects of European devaluation, so the proper basis of comparison for us is the first quarter of 1933 against the average for 1934, and that shows an increase of 22 percent in our share of the world's volume. Measured in terms of value, the increase during the same period was 57 percent. This striking difference between tonnage and value is due to the fact that our exports of such heavy commodities as cotton and wheat did not increase. Most of the increase was in manufactured goods which are lighter in weight but bring back more money. — Compare [illegible] 1933 & first 3 mths 1935

In 1934 we shipped one-third less cotton than in 1932 and got eight per cent more money for it.

We also got more money for our wheat but that was partly due to the drought. Our foreign market for wheat has been suffering from quotas and embargoes. Some of our former customers prefer, for reasons of public policy, to grow their own wheat, regardless of price.

The real test of our monetary policy in relation to foreign trade is offered by manufactured goods because they were not affected by drought and the consequent rise in prices. Let us take the automobile as a perfect example. In 1930 with the world on the gold standard, we exported 238,000 cars. In 1932 with our country almost alone on the gold standard we exported 66,000 cars. But in 1933 we went off the gold standard and our exports shot up to 108,000 cars. Last year they came right back to 238,000, the 1930 figure.

This is a field in which we have always been dominant. The world still wanted American automobiles, but it couldn't buy the dollars to pay for them. During that disastrous period of declining sales, nothing startling in the way of foreign competition developed; our prices didn't go up; quality of our goods did not decline. We simply had an interim during which we couldn't sell because the dollar was too high; this administration lowered the gold content of the dollar, and the foreign automobile market is being restored to our manufacturers with such rapidity that the benefits are nation-wide.

The volume of all our finished manufactures exported in 1934 increased 37 percent compared with 1932. Volume of export of semi-manufactures increased 47 percent in the same period.

(Here the figures on employment and profit)

There are many indications that world trade will increase this year. Our ~~gold~~ monetary policy is not intended to grab all of it, but merely to protect our normal share. The gold content of the dollar is still higher than that of most of the units of currency now in use. So far from engaging in a competitive devaluation race with the other nations we hold out to them a currency of such steadiness that the normal tendency may very well be for the world to move gradually toward stabilization in the form of parity with our dollar. Unless somebody rocks the boat that would be the natural course.

Neither are we stripping the world of gold. We have more gold than ever before, but the world supply of monetary gold is also increasing rapidly. Production now proceeds at the rate of about one billion dollars annually, and will increase. The great nations are restoring their reserves. Meanwhile, percentages of the total held by the various nations show no alarming changes. We had 41.7 percent of all the monetary gold in 1922 and now we have 38.8 percent. France had 8.4 percent in 1922 and now she has 24.8. When Great Britain went off gold in 1931 she had 5.2 percent; now she has 7.2 percent. ~~And all of them have more in ounces, just as we have.~~

In estimating the future of our foreign trade in relation to our monetary policy, we may as well face the question of whether we wish to sell abroad vast quantities of goods that the buyers cannot pay for, unless we lend them the money. Of course, if we want more paper there are plenty of international bankers to arrange the details. We felt rich on that paper during the roaring twenties. Now we know better. The remaining question is whether or not we have learned our lesson. Certainly, some of us have, but others apparently have not.

The normal course of international trade is payment for goods and services mainly with goods and services in exchange - the balance in gold and silver. The policy of this administration leads directly back to that fundamentally just basis. With increasing gold production, and hundreds of millions of dollars worth of the yellow metal being brought out of hiding, some of it can be used to pay balances. We are also endeavoring to restore silver to greater usefulness as a monetary metal, partly by bringing its price closer to its intrinsic worth. It is already the money of a large part of the world's population. Moreover the average annual production of silver outside the United States is in round numbers ten billions of dollars at present prices. A substantial portion of this silver is available to pay for merchandise moving in international trade.

Objection to our course is sometimes based upon the assertion that we would bring vast quantities of the world's gold here, only to be locked up in the United States treasury..... the phrase commonly used is that the gold thus becomes steile. At least, however, it goes to back your dollar. You now have $1.55 in gold and about 26 cents in silver back of every dollar in circulation. That is a comfort to me; I should think it would be for everyone. Loans in default are not very good backing for currency; indeed they might, without undue asperity, be referred to as also sterile. We must choose between the two, and facing the decision, this administration elects payment in monetary metal.

This course naturally adds to the difficulties of the international bankers who floated loans in this country. It becomes harder to pay off those loans, and virtually impossible to pay them with new loans. Such a situation causes international bankers acute distress. They don't like our monetary policy, and they are not backward about saying so. You can get fairly complete details of their point of view by reading after H. Parker Willis, Colonel Leonard P. Ayes, Dr. E. W. Kemmerer, Benjamin Anderson, and several others.

You will find the newspapers flooded with pleas for us to return promptly to the gold standard. Some of the propagandists even go so far as to say that the other nations would follow if we took the lead. As a matter of fact if we took the lead, that would put us right back where we were in 1932 and furnish the soundest reason of all for them not to follow, but again to take advantage of our disadvantage. Moreover, some of them are not in a position to return to the gold standard immediately for other reasons. We realize the importance of world prosperity and will evade no opportunity to assist in that direction.....except the ever-present opportunity to donate prosperity at our own expense. If the nations of Europe, groaning under debt and more especially under the appalling burden of their armaments, were to agree upon a five year holiday in all armaments, and then come to this country and offer just half what the present generous debt settlements call for, they would almost certainly receive a cordial reception and respectful consideration, because if we gave up half of what is due annually from them on interest and principal we could save that much by reducing the cost of our own purely defensive armaments. Get figures Meanwhile, they could balance their budgets and give such an impulse to world trade that recovery would come to all of us together. Moreover, that course would probably avert impending war. As long as the war clouds hang over Europe it seems idle to ask Uncle Sam again to carry the whole burden. More especially when we can go on indefinitely on our present course.

In conclusion, I should like to summarize this statement by saying:

First, you have an absolutely sound dollar that is today the steadiest currency on earth, and has been for more than a year.

Second, the ~~gold~~ monetary policy of this administration held the fort through the most trying period of our recovery program, and is still the spear-head as we advance steadily toward our goal.

Third, we were the last of the great trading nations to go off the gold standard, and when the others are willing to go back to it, we are ready. We can prosper under the gold standard and we are only technically off of it. However, if the great trading nations want to continue under the present rules, we are no longer at a disadvantage. Our hands are untied, and the contest is now fair. There is much to be said for complete stabilization of world currencies, but nothing to be said in favor of our launching out alone to encounter the same hurricane that swept over us in 1932. We were caught, practically alone, in that one, and I hope we have learned our lesson. The next time we set sail under the gold standard it will be with a full crew. They must all come on board and sign the articles. We want to see the whites of their eyes.

I thank you.

The third draft, which represents the speech at a period when it comprised all of the excellent suggestions from all sources, and was in fairly complete shape.......except for the fact that it was about twelve hundred words too long.

For a clear understanding of the monetary policy of this administration, it is important that we go back to that period when we, as a nation, were in debt to the rest of the world, and trace the developments which have brought us to our present position as the world's largest creditor. Let's see what the record shows on the payment of international balances.

Our rise to a position of great importance in world trade began in 1896; and continued steadily for eighteen years. ~~previously we had exported mainly the products of the farm and ranch and forest; now American industry began to pour out a steadily increasing volume of goods to be greeted with wonder and admiration in eager world markets. Our great cities were growing up around new factories.~~ This was the transition period during which our urban population first equalled, and finally out-numbered, our rural population.

In 1896, when this tremendous change began, we owed the world two billion dollars. In the following eighteen years we exported thirty-one billion dollars worth of merchandise. Two thirds of it was paid for with goods that we imported. Tourist and immigrant remittances, shipping service, insurance, dividends, interest, and miscellaneous items not only took care of the other third but increased our debt.

In the previous eighteen year period with our country one of the world's most attractive fields for capital investment we drew in about three billions of dollars from abroad, but when we became a credit nation we loaned nearly seventeen billions of dollars in eight years. Nor did we stop there. We continued to export more than we imported right on through 1929, accumulating an additional two and a third billions of dollars in promises to pay.

If we deduct from the grand total of our loans abroad, all of the loans and credits that foreigners have here, and then examine the status of our net foreign investment, we find that about seventy percent of it is in partial or complete default.

There you have the background, from an American point of view, when the crisis developed in Europe in 1931. ~~Beginning in Vienna in the spring of that year~~ Credit and currency difficulties which had been spread~~ing~~ ~~panic~~ throughout Europe came to a head in the spring of that year. ~~With increasing fear as to the stability of European currencies, a rush for gold began, with the inevitable result that gold went up and commodity prices declined disastrously~~. On September 21, 1931, Great Britain suspended gold payments. Norway, Sweden, and Denmark followed within a week. Japan acted in December. Other nations either went off gold or took equivalent action to control their exchange rates. In this procession, we were not the first; we were the thirty-first. We did nothing until the spring of 1933.

all of it to nations that were in our debt. Still nothing was done to avert the disaster.

Stupendous as the gold movement was, we couldn't ship fast enough to meet the demand, and speculators took advantage of the situation to sell the dollar short. They were not all foreigners, either. However, the citizenship of these snipers is of no importance since their dominant trait is an utter lack of patriotism or loyalty to any nation. They would sell 'civilization' itself short if they could; and for all they knew at that time they might have been doing so.

Our loss of gold, added to the calamity of declining trade, falling commodity prices, and wide-spread unemployment, caused bewilderment and then panic. The disaster swept over our country with the fury of a hurricane. Our financial structure was in a state of collapse. In the month of February 1933 and up to the time President Roosevelt took office, half a billion dollars in gold and two billion dollars in currency were withdrawn from our banks. They were closing, not individually, but by whole states at a time. That was the situation when this administration came into office. On taking his oath, Mr. Roosevelt assumed both the duties of President and receiver for an insolvent concern. The richest on earth .... but on that tragic day insolvent.

We were headed for disaster unless the run on the banks could be stopped, and our gold reserves reassembled. Both objectives were promptly achieved. The President's proclamation closed the banks, ending the run, and the gold was ordered offer such a large target that no matter what any nation's immediate objective might be it could not avoid hitting us.

In 1932 the ~~total~~ physical volume of the whole world's export trade had declined about one-third compared with 1929. ~~But in the midst of that decline the nations that went off gold or otherwise controlled their exchange rates managed to increase their share of whatever world trade remained. We are not particularly interested in the details of what happened to the other innocent by-standers but it will certainly be illuminating to examine carefully the record of what happened to us.~~ **All the innocent by-standers fared badly but I shall recount only what happened to us.** The storm clouds were coming our way from the time Great Britain went off gold in September of 1931; the hurricane struck with full force in the first three months of 1933. ~~and~~ Let us fasten our attention on that period. ~~In~~ that period Great Britain increased her share of world trade seventeen percent and Japan's ~~took action in December of 1931 and from then until the spring of 1933 her~~ share ~~of world trade~~ increased thirty percent. ~~In that same period~~ Our share decreased forty percent. ~~All of~~ These percentages are based on volume. ~~Money~~ Foreign exchange was doing so many funny things during those turbulent times, it would be difficult to give world export figures in ~~terms of~~ money values that would have any meaning.

Some of the countries engaged in this scramble were alarmed because they could see the bottoms of their gold bins. They and others exerted pressure to have foreign credits called home. Sometimes these credits responded by going in the other direction just as

6 1/2

fast as they could travel. Gold was stampeding from country to country, always leaving the place where it was needed, and ~~xxxxxxxxx~~ rarely doing its new host any good. Considerable amounts of it came here. But in 1932 it began to leave more rapidly than it had come. This was fair notice to all concerned that our turn was next. The panic was knocking at our door. ~~Europe~~/ Europeans knew that we couldn't maintain our currency at a level fifty percent above the average for the rest of the world. The effect of it was just the same as though the level of the Atlantic ocean ~~dropped~~ had dropped ~~sixhundred feet~~ fifty yards. Our ports would then be high and dry with tide-water miles away. We were in just as bad a ~~fix~~ predicament with our currency ~~fiftypercentabove~~ sticking up fifty percent above the ~~xxxxx~~/ world level. Facing that crisis, the previous administration stubbornly refused to take action, evidently under the impression that ~~that~~ sticking to the old gold standard was a proud achievement when it was obviously economic suicide, and so recognized by all Europe.

~~fast as they could travel. Gold was stampeding from country to country, spreading fear and new rumors with every flight. Finally, to our amazement, our turn came.~~ Out of the loans floated in this country, Europe had left here more than a billion dollars to enjoy ~~the astoundingly~~ our high interest rates ~~generated by our rumba dance in the stock market. The dance was over in 1932 and this seemed an appropriate time for visiting capital to go home. There was one last profit left in the game, however, and to get it was simple. All they had to do was depart in wild haste.~~ Knowingwhat was bound to happen they correctly judged that it was high time to take this money home. They did ~~that~~ so, and the panic ~~had come to our door~~ was on. We couldn't offer them their defaulted paper when they called for their money. We couldn't even offer them their paper that wasn't in default. We had let them have the money on long term loans ~~in Europe~~, and they had short term loans here. ~~They had got this money from us but~~ Our long term paper wasn't due while their short term paper could be called. Moreover we were on the gold standard; they could demand the yellow metal for every ~~cent~~ dollar due, and that is precisely what they did. Thus it happened that in the winter of 1932 we witnessed the incredible spectacle of ~~the greatest gold movement in history~~....gold going out of the world's greatest creditor nation on every ship, nearly all of it to nations that were in our debt. ~~The movement was so stupendous that the dollar actually declined abroad and speculators were selling it short. They were not all foreigners either. Among these snipers were citizens of all nations, but~~

7 1/2

Stupendous as the movement was, we still couldn't ship gold fast enough to meet the demands, and speculators took advantage of that situation to sell the dollar short, thus adding to our losses. They were not all foreigners, either. The citizenship of these snipers is of no importance, however, since the one trait they have in common is an utter lack of patriotism or loyalty to any nation.

took us off the gold standard and the dollar began to ~~steady~~ move nearer the world level of ~~lower levels in~~ international exchange. The operation was completed in January of 1934 when the exchange value of the dollar was fixed at 59.06. Since that time we have enjoyed the steadiest currency in the world. It is, in fact, so steady that this year we find ~~200 millions in~~ gold flowing back into this country to take refuge in our reliable dollar; not to pay balances but to find safety. Some of the same sharpshooters who personally conducted the flight of gold from this country during 1932 and the first two months of 1933 are now bringing it back. I deplore their existence but I am willing, however reluctantly, to admit their shrewdness. ~~They wouldn't come back if they sensed danger. I think of them when I hear about sincere and patriotic American citizens who are honestly uneasy about our monetary policy.~~

But let us return to the record, and see what ~~President Roosevelt's 1933~~ our new dollar did to our foreign trade. Measured in volume or tonnage the foreign trade of the whole world was still declining. We had reached our low, however, in the first quarter of 1933 when we caught the full cumulative effects of European devaluation, so the proper basis of comparison for us is ~~the first quarter of 1933~~ our share then against ~~the average for~~ our share in 1934, and that shows an increase of 22 percent ~~in our share of the world's volume~~.

Measured in terms of value, the increase, during the same period was 57 percent.

In 1934 we shipped one-third less cotton than in 1932, and got eight percent more money for it.

We also got a higher price for our wheat but the drought accounts for most of the increase. Due to weather conditions alone, we harvested in 1933 the smallest wheat crop in forty years; and in 1934 the smallest wheat crop in forty-one years.

~~Because of these other factors, I cannot trace with accuracy and fairness the effect of our monetary policy upon agricultural exports.~~

~~A better test is offered by [redacted] manufactured goods~~

Our wheat exports have also been affected by quotas and embargoes. Some of our former customers [redacted] prefer, for reasons of [redacted] national policy, to grow their own wheat, regardless of price.

Because of these factors, I cannot trace with accuracy and fairness the effect of our monetary policy upon agricultural exports.

A better test is offered by manufactured goods.

10 1/2

measured in terms of value, the increase during the same period was 57 percent.

In 1934 we shipped one-third less cotton than in 1932 and got eight percent more money for it.

We also got a higher price for our wheat but ~~that was~~ partly due to the drought. Our foreign market for wheat has been suffering from quotas and embargoes. Some of our former customers prefer, for reasons of public policy, to grow their own wheat, regardless of price.

The real test of our monetary policy in relation to foreign trade is offered by manufactured goods because they were not affected by drought ~~and the consequent rise in price~~.

The volume of all our finished manufactures exported in 1934 increased 37 per cent compared with 1932; semi-manufactures increased 47 percent in the same period.

But the best test is to take a specific article, such as the automobile. In 1930, with the world on the gold standard, we exported 238,000 cars. In 1932, with our country one of the very few remaining on the gold standard, we exported 66,000 cars. In 1933 we went off the gold standard and our exports shot up to 108,000 cars. Last year they more than doubled; they came right back to where they had been in 1930....238,000 cars.

11½

Some people will tell you that there simply couldn't be any benefit in restoring trade by bringing our money into reasonable relation with the other moneys of the world. I decided to get the answer to that question from the exporters, themselves. They ought to know best. I asked the executive heads of twenty-eight large manufacturing firms whose products are a representative cross-section of our export trade to tell me:

First: whether they are getting any more foreign trade,

Second: whether they are making any profit out of it.

Third: whether it has affected employment in their plants; in short, whether it is doing the public any good.

Their reports have been tabulated, and here are the combined answers.

To the first question: whether they are getting any more foreign trade..... they answer yes; in 1934, which is the first full year under the Roosevelt monetary program, their export sales increased in round numbers one hundred million dollars above 1932; in fact they are now ten percent above 1931.

To the second question: whether this trade is doing them any good..... they answer yes......they earned $117,200,000 in 1934 against a loss of $126,400,000 in 1932. These figures include their earnings on domestic sales also; but their reports show that domestic sales followed exactly the same course as their foreign sales...... when foreign sales hit rock bottom so did domestic sales; and when foreign sales recovered under the Roosevelt monetary program, domestic sales recovered with them. Since the percentages are the same they didn't to separate the two items and neither do I.

To the third question.....whether employment in their plants increased.......they again answer yes.......

12

one hundred and ninety-eight thousand more men and women were working in their plants during 1934 than in 1932.........an increase of thirty-one percent.

So there you have the answers of the best qualified witnesses. They say that under the monetary policy of this administration they got more business; they lifted themselves out of a deficit in excess of one hundred million dollars to earnings in excess of one hundred million dollars; and employment increased by nearly 200,000 .

So I judge that everybody from the stockholders to the office boys and night-watchmen benefitted.

~~firms in 1934 than had been working for them in [illegible]~~ ~~say that the benefits were distributed among [illegible] the~~ ~~bondholders to the office boys.~~

There are many indications that world trade will increase this year. Our monetary policy is not intended to capture all of it, but merely to protect our normal share. So far from engaging in a competitive devaluation race with the other nations we hold out to them a currency of such steadiness that the normal tendency may very well be for the rest of the world to move gradually toward practical stabilization. If we can achieve that, the final step ~~is mere detail~~ should come easily and almost of its own accord. Unless somebody rocks the boat that would be the natural course.

In estimating the future of our foreign trade in relation to our monetary policy, we may as well face the question of whether we wish to sell abroad vast quantities of goods that the buyers cannot pay for, unless we lend them the money. Of course, if we want more paper there are plenty ~~of international~~ bankers to arrange the details. We felt rich on that paper during the roaring twenties. Now we know better. The remaining question is whether or not we have learned our lesson. Certainly, some of us have, but others apparently have not.

The normal course of international trade is payment for goods and services mainly with goods and services in exchange — temporary or seasonal balances in gold and silver. The policy of this administration leads directly back to that fundamentally sound basis.

~~I have called attention to the [illegible] part gold played in~~ ~~the settlement of international balances during [illegible]~~

14

I have called attention to the nature of the loans Europe made in this country between 1896 and 1914; they were for productive purposes, self-liquidating, and in reasonable proportion to the security.

Now that we are able to export capital, those same rules should be our guide. Only in that way can we avoid damage to both lender and borrower.

Settlement of international balances in gold and silver restores to the world's monetary reserve its normal function which is simply to act as a traffic policeman for international trade, warning each nation promptly when it buys more goods than it can pay for with goods.

~~period between 1900 and 1914. We are moving back to that basis again; moving in about the only way that is readily and easily available. We have no desire to gather in all the world's gold and silver. Like everything else that humans have ever used as money, even gold and silver have their limitations. The only settlement of international balances that has no limitation is payment for goods and services with goods and services. The normal function of gold and silver is simply to act as a policeman...to tell you when you have bought more goods than you can pay for in goods.~~ If you don't use gold and silver in that way, you run into the difficulty that engulfed us...paper. ~~If we insist upon payment in monetary metals it is simply another way of saying: No more paper, and don't buy what you can't pay for.~~

Some economists will tell you that this policy would end our foreign trade...that, first, we strip the world of gold and then our foreign trade dies. But we are not stripping the world of gold. We have more gold than ever before, but the world supply of monetary gold is also increasing rapidly. Production now proceeds at the rate of about one billion dollars annually, and will increase. The great nations are restoring their reserves. Meanwhile, percentages of the total held by the various nations show no alarming changes. We had 41.7 percent of all the monetary gold in 1922 and now we have 38.8 percent. France had 8.4 percent in 1922 and now she has 24.8. When Great Britain went off gold in 1931 she had 5.2 percent; now she has 7.2 percent. With increasing gold production, and hundreds of millions of dollars worth of the yellow metal being brought out of hiding, some of it can be used to pay balances. We are also endeavoring to restore silver to greater usefulness as a monetary metal. It is already the money of a large part of the world's population. Moreover the average annual production of silver outside the United States is in round numbers 115 millions of dollars at present prices. A substantial portion of this silver is available to finance merchandise moving in international trade.

Objection to our course is sometimes based upon the assertion that we would bring vast quantities of the world's gold here, only to be locked up in the United States treasury....the phrase commonly used is that the gold thus becomes sterile. At least, however, it goes to swell our monetary reserves. You now have $1.55 in gold and about 26 cents in silver back of every dollar actually in circulation. That is a comfort to me; I should think it would be for everyone. Loans in default are not very good backing for currency; indeed they might, without undue asperity, be ~~referred~~ described ~~to~~ as also sterile. if we ~~We~~ must choose between the two, ~~[illegible]~~ ~~[illegible]~~, this administration elects payment in monetary metals.

You will find the newspapers flooded with pleas for us to return promptly to the old gold standard. Some of the propagandists even go so far as to say that the other nations would follow if we took the lead. As a matter of fact if we took the lead that would put us right back where we were in 1932 and furnish the soundest reason of all for them not to follow, but again to take advantage of our disadvantage.

We realize the importance of world prosperity and will evade no opportunity to assist in that direction....except the ever-present opportunity to donate prosperity at our own expense. It seems idle to ask Uncle Sam again to carry the whole burden. More especially when we can go on indefinitely on our present course.

In conclusion, I should like to summarize this statement by saying:

First: You have an absolutely sound dollar that is today the steadiest currency on earth. ~~and has been for more than a year~~

Second: The monetary policy of this administration held the fort through the most trying period of our recovery program, and is ~~[illegible]~~ the spear-head as we advance steadily toward our goal.

Third: Of the great trading nations that re-valued ~~[illegible]~~ their currencies ~~went off the gold standard~~, we were the last until Belgium joined us recently. When the others are ready ~~willing~~ to stabilize currencies, we are ready. However, if the great trading nations want to continue under the present rules, we are no longer at a disadvantage. Our hands are untied.

There is much to be said in favor of complete stabilization of world currencies, but nothing to be said in favor of our launching out alone. Before we make any commitments we ought to be sure that we won't lose what we have just regained. A conference on stabilization must grow out of a sincere desire for fairness and co-operation; the nations must be willing to consider each other's individual difficulties. We are ready for that kind of a conference, and could go with full freedom to advocate a sound and adequate, world-wide monetary standard, probably including a broader and better use of silver.

One lesson I have learned from the study of American history is that we have generally fared best when we stood our ground. If the world wants stabilization, it seems appropriate that those who led in the other direction should about-face, march up, and say so. There will be no stabilization until we [redacted] see the whites of their eyes.

The fourth, and saddest draft of all, which represents Crowell, bewildered by the Peek statement, and groggy after his first encounter with the eminent and scintillating Dr. Viner, who smilingly blew Mr. Crowell's slender stock of economic lore plumb to hell. In that feeble condition, Mr. Crowell tottered off to his typewriter and produced this. On reading it to the editorial board, he was humiliated by discovering Mr. Gaston and Mr. Haas, in acute agony, holding their pained heads in their twitching fingers. The session was brief. A high-ball was ordered. The day ended, for Crowell, in disorderly retreat.

During recent weeks, you have doubtless seen, in your newspapers, various pleas for stabilization of world currencies. Some of these pleas appear to be based on the assumption that the United States is in a position to bring about stabilization whenever it wills to do so. Even if that were true ...... and it is not ...... the responsibility would be so tremendous that for any one nation, however well-meaning, to undertake it, would be presumptious. The peculiar problems and difficulties of every nation affected must be given the most thoughtful consideration before world currencies can be stabilized. The only objectives worth seeking in such an endeavor are justice and the general welfare of the whole world. That assignment is not only too great for any single nation, but for any small group as well.

My purpose tonight is to throw as much light as I can on this difficult problem. Its solution will eventually be found in the light of understanding, and, as we approach it with the will to understand, we shall find that its terrors diminish.

My contribution to friendly understanding I shall make tonight, beginning with a frank explanation of the monetary policy of this administration. First of all, it is necessary to review, briefly, what happened in Europe in the Spring of 1931 for these were the events that led up to our crisis. Beginning in Vienna, credit and currency difficulties spread panic throughout Europe. On September 21st Great Britain suspended gold payments. Norway, Sweden and Denmark followed within a week. Japan acted in December. Other nations either went off the gold standard or took equivalent action to control their foreign exchange rates. In this procession, we were not the first; we were the thirty-first.

As the nations went off gold the value of their currencies in international exchange dropped sharply, and our foreign customers found it difficult to buy dollars with which to pay for American products. They could trade with each other, to some extent, if their various currencies approached equal devaluation, but they bought from us only what they couldn't do without. Our exports, which had been more than five billion dollars in 1928, dropped to a billion and a half in 1932. To say that we merely shared in world-wide misfortune isn't entirely accurate because our share included an additional penalty for remaining on the gold standard. While total world export trade declined, those countries which promptly went off gold, increased their share of what remained. Inevitably the increases were largely at our expense. In this sort of riot we offer such a large target that, even if no nation were aiming at us, we could not avoid being hit.

In 1932 the total physical volume of the whole world's export trade had declined about one-third compared with 1929.

All the innocent by-standers fared badly but I shall recount only what happened to us. The storm clouds were coming our way from the time Great Britain went off gold in September of 1931; the hurricane struck with full force in the first three months of 1933. Let us, therefore, fasten our attention on that period. In those months Great Britain increased her share of world trade seventeen percent. Japan let her exchange be depreciated in December, 1931, and from then until the spring of 1933 her share of world trade increased thirty percent. In about the same period our share decreased forty percent. All of these percentages are based on physical volume. Foreign exchange was doing so many queer things during those turbulent times that it would be difficult to give world export figures in terms of money value that would have any meaning.

Some of the countries engaged in this scramble for trade were alarmed because they could see the bottoms of their gold bins. The countries remaining on the gold standard exerted pressure to have foreign credits called home. Sometimes these credits responded by going in the other direction just as fast as they could travel. Gold was stampeding from country to country, spreading fear and new rumors with every flight. Considerable amounts of it came to our country. And finally, to our amazement, it began to leave much faster than it had come;

but the reason for this departure should have been obvious. After other countries had completed the operation of depreciating their currencies, this gold could find a profit by returning to them. Our country, on the other hand, would eventually have to suspend gold payments and depreciate its currency, just as the others had done. The frightened owners of gold and credits knew this because they had followed the course of depreciation in Europe. They knew that our country, which had not yet depreciated its currency, was not as safe for them as the nations which had already finished the job. Our country, however, stubbornly refused to take any action, evidently under the impression that that was a proud achievement, when, as a matter of fact, it was economic suicide. We were certain to be bled of our gold just as the others had been. Our experience was more sensational, however, because, in addition to the gold that had fled in panic from Europe, there was more than a billion dollars in foreign credits in this country. Of the six and a half billions of dollars in private loans that had been floated in this country Europe had left here upwards of a billion dollars to enjoy our high interest rates. The money had been raised by long term loans. Now it was being loaned back to us as call money in the stock market, or on short term paper, or it was invested in listed securities that could be sold immediately.

This money as well as the gold that had taken refuge here began to leave. The departure of the visiting gold caused no great strain, but the billion dollars in credits were something entirely different. The foreigners had a right to demand American gold for their dollar credits. Of the loans that had established these credits one-third were then in default but that made no difference. They could demand gold and they did. Our banks couldn't offer them their paper in payment. Our's were long term loans and their's were short term loans.

Thus it happened that in the winter of 1932 we witnessed the incredible spectacle of the greatest gold movement in history....gold going out of the world's greatest creditor nation on every ship, nearly all of it to nations that were in our debt.

Stupendous as the movement was, we still couldn't ship gold fast enough to keep up with the demands and speculators took advantage of that situation to sell the dollar short, thus adding to our losses and difficulties. These speculators were not all foreigners either. So grave was the situation, that, for all they knew, they might have been selling civilization, itself, short, but that did not deter them.

Our loss of gold, added to the calamity of declining trade, falling commodity prices, and wide-spread unemployment, caused bewilderment, and then panic. The disaster swept over our country with the force and fury of a hurricane. Our financial structure was in a state of collapse. From February 1, 1933 to the time President Roosevelt took office, half a billion dollars in gold and two billion dollars in currency were withdrawn from our banks. They were closing, not individually, but by whole states at a time. That was the situation when this administration came into office. On taking his oath, Mr. Roosevelt assumed the duties both of President and of receiver for an insolvent concern. The richest on earth....but on that tragic day insolvent.

We were headed for disaster unless the run on the banks could be stopped, and our gold reserves reassembled. Both objectives were promptly achieved. The President's proclamation closed the banks, ending the run, and the gold was ordered into the custody of Uncle Sam under penalties. Those two acts met the domestic emergency. Gold payments were suspended and that ended the outward flow which had attained an aggregate total of three quarters of a billion dollars. This effectively took us off the gold standard and the dollar began to approach the common level of other world currencies. ~~find a lower level in international exchange~~. The operation was completed in January of 1934 when the foreign exchange value of the dollar was fixed at 59.06. Since that time we have enjoyed the steadiest currency in the world. It is, in fact, so steady that this year we find gold flowing back into this country to take refuge in our new dollar..... not to pay balances but to find safety. Some of the same sharpshooters who personally conducted the flight of gold from this country during 1932 and the first two months of 1933 are now bringing it back. I deplore their existence but I am willing, however reluctantly, to admit their shrewdness. They wouldn't come here if they knew of a safer place. Sincere and patriotic American citizens who are honestly uneasy about our monetary policy might be reassured by noting this return of capital.

But let us return to the record, and see what President Roosevelt's 1933 dollar did to our foreign trade. Measured in physical volume or tonnage the foreign trade of the whole world was still declining. Our share of the world's trade reached its low, however, in the first quarter

~~of 1933 against the average for 1934, and that shows an increase of [illegible] percent in our share of the world's volume.~~

1933, so the proper basis of comparison for us,is the first quarter of 933 against the average for 1934, and that shows an increase of twenty-two rcent in our share of the world's volume.

This is the more remarkable in view of the fact that our exports of agricultural products, which have always been such a large proportion of our total, were still declining. World competition, higher prices, drought, and other developments introduced so many new factors into this situation that I cannot trace with accuracy and fairness the effect of our monetary policy upon agricultural products.

Our wheat exports, for example, have been suffering from quotas and embargoes. Some of our former customers prefer, for reasons of public policy, to grow their own wheat, regardless of price.

Due to the drought alone, we harvested in 1933 the smallest wheat crop in forty years; and in 1934 the smallest wheat crop in forty-one years.

The real test of our monetary policy, in relation to foreign trade, is therefore offered by manufactured goods because they were not affected by drought and the consequent rise in prices.

The physical volume of all our finished manufactures, exported in 1934, increased 37 percent, compared with 1932; semi-manufactures increased 47 percent in the same period.

But the best test of all is to take a specific article, such as the automobile. In 1930, with the world on the gold standard, we exported 238,000 cars. In 1932, with our country one of the very few remaining on the gold standard, we exported 66,000 cars. In 1933, under the Roosevelt monetary program, our exports shot up to 108,000 cars. In 1934 they more than doubled; they came right back to where they had been in 1930.....238,000 cars.

(9)

In 1929 our share of the whole world's export trade in automobiles was seventy percent. In 1931 the grand march away from the gold standard began and our share dropped from seventy to fifty-eight. In 1932 our share dropped to forty-one percent. We started to climb again in 1933 and our share rose to forty-seven percent. But it takes a little time to recover lost foreign trade. The 1934 figure is therefore more important. In that year our percentage of the whole world's export trade in automobiles rose to a fraction above sixty and it is still climbing steadily back toward the peak.

During the disastrous period of declining sales, the world still wanted American automobiles but it couldn't buy the dollars to pay for them. Nothing startling developed in the way of foreign competition; our prices didn't go up; and quality remained just as good or improved.

We simply had an interim during which we couldn't sell because the dollar was too high in relation to other world currencies; this administration lowered the gold content of the dollar, and the foreign market is being restored to our automobile manufacturers with such rapidity that the benefits are already nation-wide.

Some people will tell you that there simply couldn't be any benefit in restoring trade by bringing our money into reasonable relation with the other moneys of the world. But let's see what the manufacturers testify on that point. They ought to know best. I asked the heads of twenty-six companies that have large and diversified export trade to tell me, first, whether they are getting any more foreign trade; next whether it is doing them any good, and next whether it has affected employment in their plants; in short, whether it is doing the public any good.

These reports have been tabulated. We began with 1931 because that was the year when other nations began to depreciate their currencies. The value of the combined exports of these representative firms in 1932 dropped forty percent below 1931. In 1933, under the Roosevelt monetary program, they started to come back; and in 1934 they were eight and a half percent above the 1931 figure.

Domestic sales of these corporations followed almost the same course.

And now let's see what these changes did to profits. In 1931 the combined earnings of these firms had been $86,800,000. In 1932 they had a deficit of $114,500,000. In 1933, under the Roosevelt monetary program, they came out of the red and earned $9,400,000. And in 1934 they earned $84,400,000, which is almost what they had earned in 1931.

These representative firms report that employment dropped fourteen percent in 1932 compared with their 1931 figures. In 1933 it rose twenty-two percent above 1932 employment; and in 1934 it rose again to thirty-one percent above 1932 employment. One hundred and seventy-nine thousand more men and women were working for these firms in 1934 than in 1932.

~~Saxtx~~ There you have the answers to my three questions. d they get any more foreign trade? Yes. Did it do them any good? s it turned a loss of more than one hundred million ollars into a profit of eighty-four million dollars. Did ey employ any more people? Yes, they employed 178,000 re men and women. So I should say that everyone from the tockholders to the office boys and night watchmen were benefitted.

There are many indications that world trade will increase this year. Our monetary policy is not intended to capture an unfair part of it but merely to protect our normal share. Winning trade on any other basis than the quality and desirability of the goods is a short-sighted policy. So far from engaging in a competitive devaluation race with the other nations, we hold out to them the lively prospect of an American currency so steady and working so well that the rest of the world shall find in our policy a weighty inducement for practical and actual stabilization. If that can be achieved, the ultimate step To ~~definite~~ definitive, stabilized world currencies will come easily and almost of its own accord. Unless somebody rocks the boat that would be the natural course.

Foreign trade is normally a simple matter of exchanging goods and services for goods and services.....the small seasonal or temporary balances to be paid in gold or silver. The policy of this administration leads directly back to that fundamentally sound basis. ~~However,~~ There should be no objection to reasonable movements of capital for foreign investment but these loans should be for productive purposes, self-liquidating, and extended with every reasonable prospect of the full payment of interest and principal. We have, in the past, burdened ourselves with ill-advised foreign loans some of which were more profitable to the firms underwriting them than to anybody else. Their part in our foreign trade is now history. We have learned our lesson. We have also learned much about the dangers of fear money that dashes in panic flight from country to country, always leaving the place where it is needed and rarely doing its new host ~~no~~ any good. So far as our country is concerned these mysterious movements will never again be invisible. We keep ourselves informed on this subject, and if ever again the time comes when action is imperatively necessary we will know what action to take.

But let us return to the record of our new dollar. Some economists will tell you that we are stripping the world of gold. We have more gold than ever before, but the world supply of monetary gold is also increasing rapidly. Production now proceeds at the rate of about one billion dollars annually, and will increase. The great nations are restoring their reserves. Meanwhile, percentages of the total held by the various nations show no alarming changes. We had 41.7 percent of all the monetary gold in 1922 and now we have 38.8 percent. France had 8.4 percent in 1922 and now she has 24.8. When Great Britain went off gold in 1931 she had 5.2 percent; now she has 7.2 percent. With increasing gold production, and hundreds of millions of dollars worth of the yellow metal being brought out of hiding, some of it can be used to pay balances. We are also endeavoring to restore silver to greater usefulness as a monetary metal. It is already the money of a large part of the world's population. Moreover the average annual production of silver outside the United States is in round numbers 115 millions of dollars at present prices. A substantial portion of this silver is available to finance merchandise moving in international trade.

Objection to our course is sometimes based upon the assertion that we would bring vast quantities of the world's gold here, only to be locked up in the United States treasury.....the phrase commonly used is that the gold thus becomes sterile. At least, however, it goes to swell our monetary reserves. You now have $1.55 in gold and about 26 cents in silver back of every dollar actually in circulation. That is a comfort to me; I should think it would be for everyone.

The fifith draft, which represents, restoration of the speech to nearly its original form....that is, nearly the form of the fourth draft. Whereupon, it became necessary to attack the problem of length again; and decide which of the paragraphs (all having been voted essential) should come out.

The markings and substitutions in this draft are by Mr. Gaston and Mr. Crowell.

It is my purpose, tonight, to state a few simple facts which I hope will contribute to a clearer understanding of the monetary policy of this administration. I shall not enter into complicated discussion of the theory of money. I shall merely tell you what was done....why.....and the effect.

For an orderly presentation of the facts it is important that we go back to that period when goods and capital flowed freely from continent to continent, wherever profit beckoned enterprise, and see what the record shows on the payment of international balances.

We may begin with the eighteen years between 1896 and 1914. In that period we exported thirty-one billion dollars worth of goods that were paid for with goods and services. At the end of that period, Europe had invested in the United States, about three billion dollars in loans for productive purposes. The gold movement was smaller than the silver movement. We exported a billion dollars worth of silver; and imported two-thirds of a billion dollars worth.

With the beginning of the World War a tremendous change took place. From July 1914 to July 1922 we exported forty-seven billion dollars worth of goods. Most of this was paid for with goods that we imported but in balancing the account we received nearly seventeen billions of dollars worth of promises to pay.

In the previous eighteen year period with our country one ofthe world's most attractive fields for capital investment we drew in about three billions of dollars from abroad, ~~in eighteen years.~~

ut when we became a credit nation we loaned nearly seventeen billions of ollars in eight years. Nor did we stop there. We continued to export ore than we imported right on through 1929, accumulating an additional wo and a third billions of dollars in promises to pay.

If we deduct from the grand total of our loans abroad, all of the loans and credits that foreigners have here, and then examine the status of our net foreign investment, we find that about seventy percent of it is in partial or complete default.

There you have the background from an American point of view when the crisis developed in Europe in 1931. Beginning in Vienna in the spring of that year credit and currency difficulties spread panic throughout Europe. With increasing fear as to the stability of European currencies, a rush for gold began, with the inevitable result that gold went up and commodity prices declined disastrously.

~~only the net counts. After every off-set has been allowed and we get right down to the rock bottom sum we find that seventy percent of it is represented by paper in default.~~

~~There, briefly, you have the background, and now let us take a closer view of the events that led to the crisis. Beginning in Vienna in the spring of 1931, credit and currency difficulties spread panic through Europe.~~ On September 21, 1931, Great Britain suspended gold payments. Norway, Sweden, and Denmark followed within a week. Japan acted in December. Other nations either went off gold or took equivalent action to control their exchange rates. In this procession, we were not the first; we were the thirty-first. We did nothing until the spring of 1933.

As the nations went off gold the value of their currencies in international exchange dropped sharply, and our customers found it difficult to buy dollars with which to pay for American products. They could trade with each other to some extent if their various currencies approached equal rate devaluation, about but they bought from us only what they couldn't do without. The physical volume of world export dropped one-third from 1929 to 1932, but our exports, which had been more than five billion dollars in 1928, dropped to a billion and a half in 1932, a loss of more than two-thirds of our business. To say that we merely shared in world-wide misfortune isn't ~~entirely~~ accurate because our share included an additional penalty for remaining on the gold standard. While total world export trade declined, those countries which promptly went off gold increased their share to what remained. ~~Inevitably the increases were largely at our expense. In this sort of riot we~~

offer such a large target that ~~no~~ matter what any nation's immediate objective might be it could ~~not~~ avoid hitting ~~us~~.

In 1932 the physical volume of the whole world's export trade had declined about one-third compared with 1929. ~~All the innocent by-standers fared badly, but I shall recount only what happened to us. The storm clouds were coming our way from the time Great Britain went off gold, in September of 1931; the hurricane struck with full force in the first three months of 1933. Figures focus our attention on that period. Great Britain~~ From September, 1931, to the end of the first quarter of 1933 Great Britain increased her share of world trade seventeen percent, ~~in that period~~. Japan's share increased thirty percent. Our share decreased forty percent. These percentages are based on physical volume, not money values. ~~Foreign exchange was doing so many funny things during those turbulent times, it would be difficult to give world export figures in money values that would have any meaning.~~

Some of the countries engaged in this scramble were alarmed because they could see the bottoms of their gold bins. They and others exerted pressure to have foreign credits called home. Sometimes these credits responded by going in the other direction just as fast as they could travel. Gold was stampeding from country to country, always leaving the place where it was needed, and rarely doing its new hosts any good. Considerable amounts of it came here. But in 1932 it began to leave more rapidly than it had come.

This was fair notice to all concerned that our turn was next. The panic was knocking at our door, but nothing effective was done to avert it. ~~Europeans knew that we~~ could~~n't maint~~ain our currency at a level fifty percent above the average for the rest of the world. ~~[illegible] just the same as though the level of the Atlantic ocean had dropped fifty yards. Our ports would then be high and dry with tide-water miles away. We were in just as bad a predicament with our currency sticking up fifty percent above the world level.~~ Facing that crisis, the previous administration stubbornly refused to take action, evidently under the impression that that ~~sticking to the old gold standard~~ was a proud achievement when it was obviously economic suicide, and so recognized by all Europe.

Out of the loans floated in this country, Europe had left here more than a billion dollars to enjoy our high interest rates. Knowing what was bound to happen they correctly judged that it was high time to take this money home. They did so, and the panic was on. We couldn't offer them their defaulted paper when they called for their money. We couldn't even offer them their paper that wasn't in default. We had let them have the money on long term loans, and they had short term loans here. Our long term paper wasn't due while their short term paper could be called. ~~Moreover we were on the gold standard.~~ They could demand ~~the yellow metal~~ gold for every dollar due, and that is ~~precisely~~ what they did. Thus it happened that in the winter of 1932 we

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witnessed the incredible spectacle of gold going out ~~anzvury~~ ~~ps~~ of the world's greatest creditor nation on every ship...nearly all of to nations that were in our debt. ~~[illegible]~~ Still nothing was e to avert the disaster.

Stupendous ~~xx~~ as the gold movement was, we couldn't ship t enough to meet the demand, and speculators took advantage of the situation sell the dollar short. They were not all fore igners, either. However, citizenship of these snipers is of no impertance since their dominant it is an utter lack of patrictism or loyalty to any nation.

~~one thing they have in common. They are utterly devoid of patriotism or loyalty~~. They would ~~sell~~ civilization ~~itself~~ short if they could; and for all they knew at ~~that~~ time ~~they~~ might have been doing ~~so~~.

Our loss of gold, added to the calamity of declining trade, falling commodity prices, and wide-spread unemployment, caused bewilderment and then panic. The disaster swept over our country with the ~~force and~~ fury of a hurricane. Our financial structure was in a state of collapse. In the month of February 1933 and up to the time President Roosevelt took office, half a billion dollars in gold and two billion dollars in currency were withdrawn from our banks. They were closing, not individually, but by whole states at a time. That was the situation when this administration came into office. On taking his oath, Mr. Roosevelt assumed both the duties of President and receiver for an insolvent concern. The richest on earth....but on that tragic day insolvent.

We were headed for disaster unless the run on the banks could be stopped, and our gold reserves reassembled. Both objectives were promptly achieved. The President's proclamation closed the banks, ending the run, and the gold was ordered into the custody of Uncle Sam under penalties. Those two acts met the domestic emergency. Gold payments were then suspended and that ended the outward flow which had finally attained a total of three quarters of a billion dollars. This effectively took us off the gold standard and the dollar began to ~~move~~ adjust itself to the realities of the world situation. ~~Great damage had been~~ ~~nearer the world level of international exchange.~~ The oper- ~~but at least vigorous steps had been taken to~~ ation was completed in January of 1934 when the exchange value of the dollar was ~~fixed~~ set at 59.06 per cent of its former gold value. Since that time we have enjoyed the steadiest currency in the world. It is, in fact, so steady that this year we find gold flowing back into this country to take refuge in our ~~[illegible]~~ dollar; not to pay balances but to find safety. Some of the same sharp-shooters who personally conducted the flight of gold from this country during 1932 and the first two months of 1933 are now bringing it back. I deplore their existence but I am willing, however, reluctantly, to admit their shrewdness.

But let us return to the record, and see what our new dollar did to our foreign trade. Measured in volume or tonnage the foreign trade of the whole world ~~was still declining. We had reached our low, however, in the first quarter of 1933 when we caught the full cumulative effects of European devaluation, so the proper basis of comparison for us is~~ but from the Spring of 1933 to the close of 1934 our share ~~then against our share in 1934, and that shows an~~ increased of 22 percent. Measured in terms of value, the increase ~~during the same period~~ was 57 percent.

In 1934 we shipped one-third less cotton than in 1932, and got eight percent more money for it.

We also got a higher price for our wheat but the drought can ~~accounts~~ account for most of the increase. Due to weather conditions alone, we harvested in 1933 the smallest wheat crop in forty years; and in 1934 the smallest wheat crop in forty-one years.

Our wheat exports have also been affected by quotas and embargoes. Some of our former customers prefer, for reasons of national policy, to grow their own wheat, regardless of price.

Because of these factors, I cannot trace with accuracy and fairness the effect of our monetary policy upon agricultural exports.

A better test is offered by manufactured goods.

The volume of all our finished manufactures exported in 1934 increased 37 per cent compared with 1932; semi-manufactures increased 47 percent in the same period.

But the best test is to take a specific article, such as the automobile. In 1930, with the world on the gold standard, we exported 238,000 cars. In 1932, with our country one of the very few remaining on the gold standard, we exported 66,000 cars. In 1933 ~~we went off the gold standard and~~ under the Roosevelt monetary program our exports shot up to 108,000 cars. Last year they more than doubled; they came right back to where they had been in 1930.....238,000 cars.

In 1929 our share of the whole world's export trade in automobiles was seventy percent. In 1931 the grand march away from the former gold ~~standard~~ yardsticks began and our share dropped from seventy to fifty-eight. In 1932 our share dropped to forty-one percent. We started to climb again in 1933 and our share rose to forty-seven percent. But it takes a little time to recover lost foreign trade. The 1934 figure is therefore more important. In that year our percentage of the whole world's export trade in automobiles rose to a fraction above sixty ~~and it is still climbing steadily back~~

During the disastrous period of declining sales, the world still wanted American automobiles but it couldn't buy the dollars to pay for them. Nothing startling developed in the way of foreign competition; our prices didn't go up; and quality remained just as good or improved.

We simply had an interim during which we couldn't sell because the dollar was too high in relation to other world currencies; this administration lowered the gold content of the dollar and the foreign market is being restored to our automobile manufacturers with such rapidity that the benefits are already nation-wide.

~~Some people will tell you that there simply couldn't be any benefit in restoring trade by bringing our money into reasonable relation with the other moneys of the world but let's see what the manufacturers testify on that point. They ought to~~

Some people will tell you that there simply couldn't be any benefit in restoring trade by bringing our money into reasonable relation with the other moneys of the world. I decided to get the answer to that question from the ~~exporters~~ manufacturers, themselves. They ought to know best. I asked the executive heads of twenty-eight large ~~manufacturing~~ firms whose products are a representative cross-section of our export trade to tell me:

First: whether they are getting any more foreign trade.

Second: whether they are making any profit out of it.

Third: whether it has affected employment in their plants; in short, whether it is doing the public any good.

Their reports have been tabulated, and here are the combined answers.

To the first question: whether they are getting any more foreign trade, they answer yes: In 1934, which is the first full year under the Roosevelt monetary program, their export sales increased in round numbers one hundred million dollars above 1932. ~~in fact they are now ten percent above 1931.~~

To the second question, whether this trade is doing them any good they answer yes; they earned \$117,200,000 in 1934 against a loss of \$126,400,000 in 1932. These figures include their losses and earnings on domestic sales also. ~~but their reports show that~~ Domestic sales followed exactly the same course as their foreign sales — when foreign sales hit rock bottom so did domestic sales; and when foreign sales recovered under the Roosevelt monetary program, domestic sales recovered with them. ~~[illegible]~~

~~are the same they didn't separate the two items and neither do~~ I.

To the third question, whether employment in their plants increased, they again answer yes; one hundred and ninety-eight thousand more men and women were working in their plants during 1934 than in 1932, an increase of thirty-one percent.

So there you have the answers of the best qualified witnesses. ~~They say that~~ Under the monetary policy of this administration they got more business; they lifted themselves out of a deficit in excess of one hundred million dollars to earnings in excess of one hundred million dollars; and employment increased by nearly 200,000.

~~So I judge that everybody from the stockholders to the office boys and night-watchmen benefitted.~~

There are many indications that world trade will increase this year. Our monetary policy is not intended to capture trade ~~of it~~, but merely to protect our normal share. So far from engaging in a competitive devaluation race with the other nations we hold out to them a currency of such steadiness that the normal tendency may very well be for the rest of the world to move gradually toward ~~practical~~ exchange stabilization. If ~~we can~~ that can be achieve~~d that~~d, the final step should come easily and almost of its own accord. Unless somebody rocks the boat that would be the natural course.

In estimating the future of our foreign trade in relation to our monetary policy, we may as well face the question of whether we wish to sell abroad vast quantities of goods that the buyers cannot pay for, unless we lend them the money. Of course, 14 - insert

In place of paper under the operation of our new monetary policy we have been receiving large shipments of gold and silver. Some of it came to settle trade balances, but more of it is of the class I mentioned a moment ago; it represents capital seeking refuge in our sound currency. — Some economists will tell you that this policy is likely to end our foreign trade, if we want more paper there are plenty of international bankers to arrange the details. We felt rich on that paper during the roaring twenties. Now we know better. ~~The remaining question is whether or not we have learned our lesson. Certainly, some of us have, but others apparently have not.~~ (Insert)

~~The normal course of international trade is payment for goods and services mainly with goods and services in exchange -- temporary or seasonal balances in gold and silver. The policy of this administration leads directly back to that fundamentally sound basis.~~

~~I have called attention to the nature of the loans Europe made in this country between 1896 and 1914. They were for productive purposes, largely self-liquidating, and in reasonable proportion to the security. Now that we are able to export capital, those same rules should be our guide. Only in that way can we avoid damage to both lender and borrower.~~

Europeans made loans in large amount to the American people.

~~Settlement of international balances in gold and silver restores to the world's monetary reserve its normal function which is simply to act as a traffic policeman for international trade, warning each nation promptly when it buys more goods than it can pay for with goods. If you don't use gold and silver in that way, you run into the difficulty that engulfed us ... paper.~~

~~Some economists will tell you that this policy would end our foreign trade~~ ... that, first, we strip the world of gold and then our foreign trade dies. But we are not stripping the world of gold. We have more gold than ever before, but the world supply of monetary gold is also increasing rapidly. Production now proceeds at the rate of about one billion dollars annually, and will increase. The great nations are restoring their reserves. Meanwhile, percentages of the total held by the various nations show no alarming changes. We had 41.7 percent of all the monetary gold in 1922 and now we have 38.8 percent. France had 8.4 percent in 1922 and now she has 24.8. ~~When~~ Great Britain ~~went off~~ lost gold ~~in~~ heavily before she suspended gold payments in 1931, but since then has increased her share from ~~1931 she had~~ 5.2 percent, ~~now she has~~ to 7.2 percent. With increasing gold production, and hundreds of millions of dollars worth of the yellow metal being brought out of hiding, some of it can be used to pay balances. We are also endeavoring to restore silver to greater usefulness as a monetary metal. It is already the money of a large part of the world's population. ~~Moreover the average annual production of silver outside the United States is in round numbers 115 millions of dollars at present prices. A substantial portion of this silver is available to finance merchandise moving in international trade.~~

Objection to our course is sometimes based upon the assertion that we would bring vast quantities of the world's gold here, only to be locked up in the United States treasury -- the phrase commonly used is that the gold thus becomes sterile. At least, however, it goes to swell our monetary reserves. You now have \$1.55 in gold and about 26 cents in silver back of every dollar actually in circulation. ~~That is a comfort to me; I should think it would be for everyone.~~ Loans in default are not very good backing for currency; indeed they might, without undue asperity, be described as also sterile. If we must choose between the two, this administration elects payment in monetary metals.

You will find the newspapers flooded with pleas for us to return promptly to the old gold standard. Some of the propagandists even go so far as to say that the other nations would follow if we took the lead. As a matter of fact if we took the lead that would put us right back where we were in 1932 and furnish the soundest reason of all for them not to follow, but again to take advantage of our disadvantage.

We realize the importance of world prosperity and will evade no opportunity to assist in that direction....except the ever-present opportunity to donate prosperity at our own expense. ~~It seems idle to ask Uncle Sam again to carry the whole burden. More especially when we can go on indefinitely on our present course.~~

In conclusion, I should like to summarize this statement by saying:

First: You have an absolutely sound dollar that is today the steadiest currency on earth.

Second: The monetary policy of this administration ~~held the fort through the most trying period of~~ halted a disastrous deflation, turned the current of depression and remains a powerful factor in our recovery program.

The world should know that when it is ready to seek exchange stabilization, Washington will not be an obstacle. Our position was that of one who suffered terrific loss in a disaster for which he was not responsible. Why should we be singled out and admonished that the moral duty to restore order is primarily ours? Before we make any commitments we must be sure that we will not lose what we have just regained. We have never been unwilling to stabilize. However, if the great trading nations elect to continue without any monetary agreements, we are no longer at a disadvantage. Our hands are untied.

The sixth draft which took a ride to Baltimore and came back improved by the outing.

For a clear understanding of the monetary policy of this administration, it is important that we go back to that period when we, as a nation, were in debt to the rest of the world, and trace the developments which have brought us to our present position as the world's largest creditor. Let's us see what the record shows on the payment of international balances.

Our rise to a position of great importance in world trade began in 1896; and continued steadily for eighteen years. This was the transition period during which our urban population first equalled, and finally out-numbered, our rural population.

In 1896, when this tremendous change began, we owed the world two billion dollars. In the following eighteen years we exported thirty-one billion dollars worth of merchandise. Two thirds of it was paid for with goods that we imported. the other 1/3 was paid for with Tourist and immigrant remittances, shipping service, insurance, dividends, interest, and miscellaneous items, ~~not only took care~~ of the other third but increased our debt. ?

On the balance of trade we would have owed Europe about four billion dollars, instead of the two we owed at the beginning of this period. Another item appears on the ledger, however, to wipe off one of those four billions....it is the investment of foreign capital in our country. We were building railroads and some of them were financed in Europe; cattle loans and farm loans ~~and many other kinds~~ other loans for productive purposes attracted foreign capital by offering very profitable terms.

Thus, in finding a world market, and at the same time becoming a market for the world, we found ourselves at the close of that busy eighteen years, owing the world three billions of dollars. It is interesting to observe what a small part gold shipments played in the settlement of international balances during that period. ~~Instead of shipping our gold,~~ we received $174,000,000 worth, mainly for investment. Silver was a larger item in our world trade. We exported more than a billion dollars worth and imported two-thirds of a billion dollars worth.

This is an interesting period of our history because we participated in and contributed to the great up-surge of world trade. Capital and goods flowed easily from continent to continent wherever profit beckoned enterprise. But the end of that eighteen years brings us to 1914 and the beginning of the world war.

All former achievements were soon made insignificant as we crowded the oceans with our exports. From July of 1914 to July of 1920 we shipped out forty-seven billions dollars worth of merchandise. Much of this was paid for with goods that we imported but there remained a balance in our favor of twenty-one billions of dollars. Europe sent back to us two and a half billions of dollars worth of our securities to apply on account. Europe also sent us $1,750,000,000 in gold. But the largest items received in payment were paper. Under this head come the war loans of about ten billion dollars, and private loans of more than six and a half billion dollars. At the end of 1922 we had wiped out our indebtedness abroad; we had brought back nearly all of our stocks and bonds and other securities held there; ~~and the ledger was balanced with $1,750,000,000 in gold and~~ sixteen and a half billions of ~~dollars in loans~~. During this period we were still exporting silver. A little less than a billion dollars went out, and a little more than half a billion dollars worth came in.

We come now to the so-called golden era....1922 to July of 1929. During this period we continued to export more goods than we imported but the balance in our favor was much smaller. However, we had coming to us now each year considerable sums in interest on our loans. Presumably there should have been a great in-pouring of gold or silver or goods but nothing of that sort happened. Europe sent back to us $210,000,000 of our currency and $175,000,000 in gold which was far short of balancing accounts. We shipped out more than half a billion dollars worth of silver and received somewhat less, the net export being

$150,000,000. worth, so that didn't help balance the books. The way they were balanced was with an additional two and a half billion dollars in loans. The actual total of these loans was more than two and a half billion dollars, but at the same time some European capital came into this country so we have to subtract that before we arrive at the net balance. We closed this booming period with a net gain of a little more than three hundred million dollars in money and two and a half billions of dollars worth of promises to pay.

Cut

Coming down to 1934 we find American citizens owning six billion dollars ~~worth of~~ the bonds and shares of foreign governments and corporations. Of these about two and a third billion dollars worth are in partial or complete default. Virtually all of the war debts and accumulated interest are in default. American citizens have direct investments abroad amounting to about seven billions of dollars. These are represented by industrial plants, lands, and buildings, as distinguished from paper. The exact status of all of these cannot be stated with certainty. There have been some losses but at least a direct investment is not subject to default. Let's return to the paper because the record is clear on that point. Let's also get down to our net capital investment abroad. We can do this by subtracting from the grand total of our loans any loans that foreigners had made here. In international balances only the net counts. After every off-set has been allowed and we get right down to the rock bottom sum we find that seventy percent of ~~it is~~ represented by paper in default.

There, briefly, you have the background, and now let us take a closer view of the events that led to the crisis. Beginning in Vienna in the spring of 1931, credit and currency difficulties spread panic through Europe. On September 21, Great Britain suspended gold payments. Norway, Sweden, and Denmark followed within a week. Japan acted in December. Other nations either went off gold or took equivalent action to control their exchange rates. In this procession, we were not the first; we were the thirty-first.

As the nations went off gold the value of the currencies in international exchange dropped sharply, and our customers found it difficult to buy dollars with which to pay for American products. They could trade with each other to some extent if their various currencies approached equal devaluation, but they bought from us only what they couldn't do without. Our exports, which had been more than five billion dollars in 1928, dropped to a billion and a half in 1932. To say that we merely shared in world-wide misfortune isn't entirely accurate because our share included an additional penalty for remaining on the gold standard. While total world export trade declined, those countries which promptly went off gold increased their share of what remained. Inevitably the increases were largely at our expense. In this sort of riot we offer such a large target that no matter what any nation's immediate objective might be it could not avoid hitting us.

In 1932 the physical volume of the whole world's export trade had declined about one-third compared with 1929. All the innocent by-standers fared badly, but I shall recount only what happened to us. The storm clouds were coming our way from the time Great Britain went off gold in September of 1931; the hurricane struck with full force in the first three months of 1933. Let us fasten our attention on that period. Great Britain increased her share of world trade seventeen percent in that period. Japan's share increased thirty percent. Our share decreased forty percent. These percentages are based on volume. Foreign exchange was doing so many funny things during those turbulent times, it would be difficult to give world export figures in money values that would have any meaning.

Some of the countries engaged in this scramble were alarmed because they could see the bottoms of their gold bins. They and others exerted pressure to have foreign credits called home. Sometimes these credits responded by going in the other direction just as fast as they could travel. Gold was stampeding from country to country, always leaving the place where it was needed, and rarely doing its new hosts any good. Considerable amounts of it came here. But in 1932 it began to leave more rapidly than it had come.

This was fair notice to all concerned that our turn was next. The panic was knocking at our door. Europeans knew that we couldn't maintain our currency at a level fifty percent above the average for the rest of the world. The effect of it was just the same as though the level of the Atlantic ocean had dropped fifty yards. Our ports would then be high and dry with tide-water miles away. We were in just as bad a predicament with our currency sticking up fifty percent above the world level. Facing that crisis, the previous administration stubbornly refused to take action, evidently under the impression that sticking to the old gold standard was a proud achievement when it was obviously economic suicide, and so recognized by all Europe.

Out of the loans floated in this country, Europe had left here more than a billion dollars to enjoy our high interest rates. Knowing what was bound to happen they correctly judged that it was high time to take this money home. They did so, and the panic was on. We couldn't offer them their defaulted paper when they called for their money. We couldn't even offer them their paper that wasn't in default. We had let them have the money on long term loans, and they had short term loans here. Our long term paper wasn't due while their short term paper could be called. Moreover we were on the gold standard; they could demand the yellow metal for every dollar due, and that is precisely what they did. Thus it happened that in the winter of 1932 we witnessed the incredible spectacle of gold going out of the world's greatest creditor nation on every ship, nearly all of it to nations that were in our debt.

Stupendous as the movement was, we still couldn't ship gold fast enough to meet the demands, and speculators took advantage of that situation to sell the dollar short, thus adding to our losses. They were not all foreigners, either. The citizenship of these snipers is of no importance, however, since the one trait they have in common is an utter lack of patriotism or loyalty to any nation.

~~one thing they have in common; they are utterly [illegible] patriotism or loyalty~~. They would sell civilization itself short if they could; and for all they knew at that time they might have been doing so.

Our loss of gold, added to the calamity of declining trade, falling commodity prices, and wide-spread unemployment caused bewilderment, and then panic. The disaster swept over our country with the force and fury of a hurricane. Our financial structure was in a state of collapse. ~~In the month of~~ February 1933 ~~and~~ up to the time President Roosevelt took office, half a billion dollars in gold and two billion dollars in currency were withdrawn from our banks. They were closing, not individually, but by whole states at a time. That was the situation when this administration came into office. On taking his oath, Mr. Roosevelt assumed both the duties of President and receiver for an insolvent concern. The richest on earth....but on that tragic day insolvent.

We were headed for disaster unless the run on the banks could be stopped, and our gold reserves reassembled. Both objectives were promptly achieved. The President's proclamation closed the banks, ending the run, and the gold was ordered into the custody of Uncle Sam under penalties. Those two acts met the domestic emergency. Gold payments were then suspended and that ended the outward flow which had ~~finally~~ attained a total of three quarters of a billion dollars. This effectively took us off the gold standard and the dollar began to move nearer the world level of international exchange. The operation was completed in January of 1934 when the exchange value of the dollar was fixed at 59.06. Since that time we have enjoyed the steadiest currency in the world. It is, in fact, so steady that this year we find gold flowing back into this country to take refuge in our reliable dollar; not to pay balances but to find safety. Some of the same sharpshooters who personally conducted the flight of gold from this country during 1932 and the first two months of 1933 are now bringing it back. I deplore their existence but I am willing, however, reluctantly, to admit their shrewdness.

But let us return to the record, and see what our new dollar did to our foreign trade. Measured in volume or tonnage the foreign trade of the whole world was still declining. We had reached our low, however, in the first quarter of 1933 when we caught the full cumulative effects of European devaluation, so the proper basis of comparison for us is our share then against our share in 1934, and that shows an increase of 22 percent. Measured in terms of value, the increase, during the same period was 57 percent.

In 1934 we shipped one-third less cotton than in 1932, and got eight percent more money for it.

We also got a higher price for our wheat but the drought accounts for most of the increase. Due to weather conditions alone, we harvested in 1933 the smallest wheat crop in forty years; and in 1934 the smallest wheat crop in forty-one years.

Our wheat exports have also been affected by quotas and embargoes. Some of our former customers prefer, for reasons of national policy, to grow their own wheat, regardless of price.

Because of these factors, I cannot trace with accuracy and fairness the effect of our monetary policy upon agricultural exports.

A better test is offered by manufactured goods.

The volume of all our finished manufactures exported in 1934 increased 37 per cent compared with 1932; semi-manufactures increased 47 percent in the same period.

But the best test is to take a specific article, such as the automobile. In 1930, with the world on the gold standard, we exported 238,000 cars. In 1932, with our country one of the very few remaining on the gold standard, we exported 66,000 cars. In 1933 we went off the gold standard and our exports shot up to 106,000 cars. Last year they more than doubled; they came right back to where they had been in 1930.....238,000 cars.

Some people will tell you that there simply couldn't be any benefit in restoring trade by bringing our money into reasonable relation with the other moneys of the world. I decided to get the answer to that question from the ~~exporters~~ manuf. themselves. They ought to know best. I asked the executive heads of twenty-eight large manufacturing firms whose products are a representative cross-section of our export trade to tell me:

First: whether they are getting any more foreign trade.

Second: whether they are making any profit out of it.

Third: whether it has affected employment in their plants; in short, whether it is doing the public any good.

Their reports have been tabulated, and here are the combined answers.

To the first question: whether they are getting any more foreign trade...... they answer yes; in 1934, which is the first full year under the Roosevelt monetary program, their export sales increased in round numbers one hundred million dollars above 1932; ~~in fact they are now ten percent above 1931.~~

To the second question: whether this trade is doing them any good ...... they answer yes ...... they earned $117,800,000 in 1934 against a loss of $126,400,000 in 1932. These figures include their earnings on both their foreign and domestic sales ~~[illegible] reports show that domestic sales followed exactly the same course as their foreign sales~~...... when foreign sales hit rock bottom so did domestic sales; and when foreign sales recovered under the Roosevelt monetary program, domestic sales recovered with them. ~~[illegible]~~

~~are the same they didn't~~ separate the two ~~items and neither do I.~~

To the third question....whether employment in their plants increased ..... they again answer yes ..... one hundred and ninety-eight thousand more men and women were working in their plants during the year 1934 than in 1932 ..... an increase of thirty-one percent.

So there you have the answers of the best qualified witnesses. I ~~[illegible]~~ say that under the monetary policy of this administration they got more business; they lifted themselves out of a deficit in excess of one hundred million dollars to earnings in excess of one hundred million dollars; and employment increased by nearly 200,000.

~~So I judge that everybody from the stockholders to the office boys and night-watchmen benefitted.~~

There are many indications that world trade will increase this year. Our monetary policy is not intended to capture ~~all of it~~ trade, but merely to protect our normal share. So far from engaging in a competitive devaluation race with the other nations we hold out to them a currency of such steadiness that the normal tendency may very well be for the rest of the world to move gradually toward practical stabilization. If ~~we~~ that can be achieve ~~that~~ the final step should come easily and almost of its own accord. Unless somebody rocks the boat that would be the natural course.

In estimating the future of our foreign trade in relation to our monetary policy, we may as well face the question of whether we wish to sell abroad vast quantities of goods that the buyers cannot pay for, unless we lend them the money. Of course, X OK.

if we want more paper there are plenty of international bankers to arrange the details. We felt rich on that paper during the roaring twenties. Now we know better. The remaining question is whether or not we have learned our lesson. Certainly, some of us have, but others apparently have not.

The normal course of international trade is payment for goods and services mainly with goods and services in exchange -- temporary or seasonal balances in gold and silver. The policy of this administration leads directly back to that fundamentally sound basis.

I have called attention to the nature of the loans Europe made in this country between 1896 and 1914; they were for productive purposes, self-liquidating, and in reasonable proportion to the security. Now that we are able to export capital, those same rules should be our guide. Only in that way can we avoid damage to both lender and borrower.

Settlement of international balances in gold and silver restores to the world's monetary reserve its normal function which is simply to act as a traffic policeman for international trade, warning each nation promptly when it buys more goods than it can pay for with goods. If you don't use gold and silver in that way, you run into the difficulty that engulfed us ... paper.

Some economists will tell you that this policy would end our foreign trade ... that, first, we strip the world of gold and then our foreign trade dies. But we are not stripping the world of gold. We have more gold than ever before, but the world supply of monetary gold is also increasing rapidly. Production now proceeds at the rate of about one billion dollars annually, and will increase. The great nations are restoring their reserves. Meanwhile, percentages of the total held by the various nations show no alarming changes. We had 41.7 percent of all the monetary gold in 1922 and now we have 38.8 percent. France had 8.4 percent in 1922 and now she has 24.8. When Great Britain went off gold in 1931 she had 5.2 percent; now she has 7.2 percent. With increasing gold production, and hundreds of millions of dollars worth of the yellow metal being brought out of hiding, some of it can be used to pay balances. We are also endeavoring to restore silver to greater usefulness as a monetary metal. It is already the money of a large part of the world's population. Moreover the average annual production of silver outside the United States is in round numbers 115 millions of dollars at present prices. A substantial portion of this silver is available to finance merchandise moving in international trade.

Objection to our course is sometimes based upon the assertion that we would bring vast quantities of the world's gold here, only to be locked up in the United States treasury ....the phrase commonly used is that the gold thus becomes sterile. At least, however, it goes to swell our monetary reserves. You now have $1.55 in gold and about 26 cents in silver back of every dollar actually in circulation. That is a comfort to me; I should think it would be for everyone. Loans in default are not very good backing for currency; indeed they might, without undue asperity, be described as also sterile. If we must choose between the two, this administration elects payment in monetary metals.

You will find the newspapers flooded with pleas for us to return promptly to the old gold standard. Some of the propagandists even go so far as to say that the other nations would follow if we took the lead. As a matter of fact if we took the lead that would put us right back where we were in 1932 and furnish the soundest reason of all for them not to follow, but again to take advantage of our disadvantage.

We realize the importance of world prosperity and will evade no opportunity to assist in that direction....except the ever-present opportunity to donate prosperity at our own expense. It seems idle to ask Uncle Sam again to carry the whole burden. More especially when we can go on indefinitely on our present course.

In conclusion, I shoula like to summarize this statement by saying:

First: You have an absolutely sound dollar that is today the steadiest currency on earth.

Second: The monetary policy of this administration held the fort through the most trying period of our recovery program,

(We can move in either direction) Our hands are untied. That fact alone

~~[illegible]~~

constitutes ~~xx~~ such a powerful a bulwark against any competitive devaluation race that the danger is diminishing.

That fact alone is today the ~~[illegible]~~ most powerful ~~[illegible]~~ reason for not starting a devaluation race.

Upon that fact, ~~[illegible]~~ a large part of the world is basing its hope and confidence that there will be no competitive devaluation race.

From the day this administration untied them , ~~[illegible]~~ the danger of a world-wide competitive devaluation racehas been diminishing

And from the day we untied them ~~the~~ world currencies have been a little steadier; alarmist rumors are no longer shouted; another year, and even the whispering

Substitute ending

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In conclusion, I should like to summarize this statement by saying:

First; You have an absolutely sound dollar that is today the steadiest currency on earth, ~~and has been for more than a year.~~

Second; The monetary policy of this administration rescued us from impending chaos and held the fort through the most trying period of our recovery program.

Third; Of the great trading nations that depreciated their currencies, we were the last until quite recently when Belgium joined us.

The world should know that when it sincerely desires stabilization, Washington will not be an obstacle. Our ~~[illegible]~~ moderation in depreciating the foreign exchange value of the dollar is sufficient proof of this.

Our position is simply that of an innocent by-stander who suffered untold loss in a fight that he didn't start, but from which he could not escape. Now that we have laboriously barricaded our corner, it seems strange that we should be singled out and admonished ~~about our~~ that the moral duty to restore order is primarily ours.

We have never been unwilling or unprepared to stabilize.
enter into world-wide
However, if the great trading nations want to continue under the present absence of rules, we are no longer at a disadvantage. We depreciated our currency just barely to the absolutely necessary level and we can go either way. Our hands are untied.

~~There is much to be said in favor of complete stabilization of world currencies, but nothing to be said in favor of our launching out alone. Before we make any commitments we ought to be sure that we won't lose what we have just regained. A conference on stabilization must grow out of a sincere desire for fairness and co-operation; the nations must be willing to consider each other's individual difficulties. We have long been ready for that kind of a conference, and now could enter it with full freedom to advocate a sound and adequate, world-wide monetary standard, ~~probably~~ if possible including a broader and better use of silver.~~

#

and is the spear-head as we advance steadily toward our goal.

Third: Of the great trading nations that revalued their currencies, we were the last until Belgium joined us recently. When the others are ready to stabilize currencies, we are ready. However, if the great trading nations want to continue under the present rules, we are no longer at a disadvantage. Our hands are untied.

There is much to be said in favor of complete stabilization of world currencies, but nothing to be said in favor of our launching out alone. Before we make any commitments we ought to be sure that we won't lose what we have just regained. A conference on stabilization must grow out of a sincere desire for fairness and co-operation; the nations must be willing to consider each other's individual difficulties. We are ready for that kind of a conference, and could go with full freedom to advocate a sound and adequate, world-wide monetary standard, probably including a broader and better use of silver.

One lesson I have learned from the study of American history is that we have generally fared best when we stood our ground. If the world wants stabilization, it seems appropriate that those who led in the other direction should about-face, march up, and say so. There will be no stabilization until we see the whites of their eyes.

In 1929 our share of the whole world's export trade in automobiles was seventy percent. In 1931 the grand march away from the gold standard began and our share dropped from seventy to fifty-eight. In 1932 our share dropped to forty-one percent. We started to climb again in 1933 and our share rose to forty-seven percent. But it takes a little time to recover lost foreign trade. The 1934 figure is therefore more important. In that year our percentage of the whole world's export trade in automobiles rose to a fraction above sixty and it is still climbing steadily back toward the pre depr peak.

During the disastrous period of declining sales, the world still wanted American automobiles but it couldn't buy the dollars to pay for them. Nothing startling developed in the way of foreign competition; our prices didn't go up; and quality ~~remained just as good or~~ improved.

We simply had an interim during which we couldn't sell because the dollar was too high in relation to other world currencies; this administration lowered the gold content of the dollar and the foreign market is being restored to our automobile manufacturers with such rapidity that the benefits are already nation-wide.

~~Some people will tell [illegible] simply couldn't [illegible] benefit [illegible] our money into reasonable relation [illegible] on that point. They ought to~~

SUBSTITUTE ENDING

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Third: Of the great trading nations that depreciated their currencies, we were the last until quite recently when Belgium joined us.

The world should know that when it sincerely desires stabilization, Washington will not be an obstacle. Our moderation in depreciating the foreign exchange value of the dollar is sufficient proof of this.

Our position is simply that of an innocent by-stander who suffered untold loss in a fight that he didn't start, but from which he could not escape. Now that we have laboriously barricaded our corner, it seems strange that we should be singled out and admonished that the moral duty to restore order is primarily ours.

We have never been unwilling or unprepared to stabilize. However, if the great trading nations want to continue under the present absence of rules, we are no longer at a disadvantage. We depreciated our currency just barely to the absolutely necessary level and we can go either way. Our hands are untied.

The seventh draft which represents additional fruits of the excursion to Baltimore, and some wholesome work by Mr. Gaston in the interest of brevity.

It is my purpose, tonight, to state a few simple facts which I hope will contribute to a clearer understanding of the monetary policy of the United States. I shall not enter into complicated discussion of the theory of money. I shall merely tell you what was done .... why .... and the effect.

For an orderly presentation of the facts it is important that we go back to that period when goods and capital flowed freely from continent to continent, wherever profit beckoned enterprise, and see what the record shows on the payment of international balances.

We may begin with the eighteen years between 1896 and 1914 -- the pre-war period. In that period we exported thirty-one billion dollars worth of goods that were paid for with goods and services. The gold movement was smaller than the silver movement. We exported a billion dollars worth of silver; and imported two-thirds of a billion dollars worth. At the end of that period, Europe had invested in the United States, about three billion dollars in loans for productive purposes.

With the beginning of the World War a tremendous change took place. From July 1914 to July 1922 we exported forty-seven billion dollars worth of goods. Much of this was paid for with goods that we imported, but in balancing the account we received nearly seventeen billions of dollars worth of promises to pay.

In the previous eighteen year period, with our country one of the world's most attractive fields for capital investment, we drew in about three billions of dollars from abroad, but when we became a creditor nation we loaned nearly seventeen billions of dollars in eight years. Nor did we stop there. We continued to export more than we imported right on through 1929, accumulating an additional two and a third billions of dollars in promises to pay.

If we deduct from the grand total of our loans abroad, all of the loans and credits that foreigners have here, and then examine the status of our net foreign investment, we find that about seventy percent of it is in partial or complete default.

There you have the background, from an American point of view, when in 1931 things headed towards a crisis all over the world. Credit and currency difficulties which had been spreading throughout Europe came to a head in the spring of that year. On September 21, 1931, Great Britain suspended gold payments. Norway, Sweden, and Denmark followed within a week. Japan acted in December. Other nations either went off gold or took equivalent action to control their exchange rates. In this procession, we were not the first; we were the thirty-first. We did nothing until the spring of 1933.

As the nations went off gold, the value of their currencies in international exchange dropped sharply, and our customers found it difficult to buy dollars with which to pay for American products. They could trade with each other, to some extent, if their various currencies approached equal devaluation, but they bought from us only what they couldn't do without. The physical volume of world export trade dropped about one-third from 1929 to 1932, but our exports, which had been more than five billion dollars in 1928, dropped to a billion and a half in 1932, a loss of more than two-thirds of our business. To say that we merely shared in world-wide misfortune is not entirely accurate because our share included an additional penalty for remaining on the gold standard. While total world export trade declined, those countries which promptly went off gold increased their share of what remained.

From September 1931, to the end of the first quarter of 1933, Great Britain increased her share of world trade seventeen percent. Japan's share increased thirty percent. Our share decreased forty percent. These percentages are based on physical volume, not money values.

Some of the countries engaged in this scramble were alarmed because they could see the bottoms of their gold bins. They and others exerted pressure to have foreign credits called home. Sometimes these credits responded by going in the other direction just as fast as they could travel. Gold was stampeding from country to country, always leaving the place where it was needed, and rarely doing its new hosts any good. Considerable amounts of it came here. But in 1932 it began to leave more rapidly than it had come. This was fair notice to all concerned that our turn was next. The Panic was knocking at our door, but nothing effective was done to avert it. Europeans knew that we couldn't maintain our currency at a level fifty percent above the average for the rest of the world. Facing that crisis, the previous administration stubbornly refused to take action, evidently under the impression that that was a proud achievement when it was obviously economic suicide.

Out of the loans floated in this country, Europe had left here more than a billion dollars to enjoy our high interest rates. Knowing what was bound to happen they correctly judged that it was high time to take this money home. They did so, and the panic was on. We couldn't offer them their defaulted paper when they called for their money. We couldn't even offer them their paper that wasn't in default. We had let them have the money on long term loans, and they had short term loans here. Our long term paper wasn't due, while their short term paper could be called. They could demand gold for every dollar due, and that is what they did. Thus it happened that in the winter of 1932 we witnesses the incredible spectacle of gold going out of the world's greatest creditor nation on every ship .... nearly all of it to nations that were in our debt. Still nothing was done to avert the disaster.

Stupendous as the gold movement was, we couldn't ship fast enough to meet the demand, and speculators took advantage of the situation to sell the dollar short. They were not all foreigners, either. However, the citizenship of these snipers is of no importance since their dominant trait is an utter lack of patriotism or loyalty to any nation. They would sell civilization, itself, short if they could; and for all they knew at that time they might have been doing so.

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We were headed for disaster unless the run on the banks could be stopped, and our gold reserves reassembled. Both objectives were promptly achieved. The President's proclamation closed the banks, ending the run, and the gold was ordered into the custody of Uncle Sam under penalties. Those two acts met the domestic emergency. Gold payments were then suspended and that ended the outward flow which had finally attained a total of three quarters of a billion dollars. This effectively took us off the gold standard and the dollar began to adjust itself to the realities of the world situation. The operation was completed in January of 1934 when the exchange value of the dollar was set at 59.06 percent of its former gold measure. Since that time we have enjoyed the steadiest currency in the world. It is, in fact, so steady that this year we find gold flowing back into this country to take refuge in our dollar; not to pay balances but to find safety. Some of the same sharp-shooters who personally conducted the flight of gold from this country during 1932 and the first two months of 1933 are now bringing it back. I deplore their existence but I admit their shrewdness.

But let us return to the record, and see what our new dollar did to our foreign trade. Measured in volume or tonnage the foreign trade of the whole world was still declining, but from the spring of 1933 to the close of 1934 our share increased 22 per cent. Measured in terms of value, the increase was 57 percent.

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To the first question, whether they are getting any more foreign trade, they answer yes. In 1934, which is the first full year under the Roosevelt monetary program, their export sales increased in round numbers one hundred million dollars above 1932.

To the second question, whether this trade is doing them any good, they answer yes; they earned $117,200,000 in 1934 against a loss of $126,400,000 in 1932. These figures include their losses and earnings on domestic sales also. Domestic sales followed exactly the same course as their foreign sales -- when foreign sales hit rock bottom so did domestic sales; and when foreign sales recovered under the Roosevelt monetary program, domestic sales recovered with them.

To the third question, whether employment in their plants increased, they again answer yes; one hundred and ninety-eight thousand more men and women were working in their plants during 1934 than in 1932, an increase of thirty-one percent.

So there you have the answers of the best qualified witnesses. Under the monetary policy of this administration they got more business; they lifted themselves out of a deficit in excess of one hundred million dollars to earnings in excess of one hundred million dollars; and employment increased by nearly 200,000.

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In estimating the future of our foreign trade in relation to our monetary policy, we may as well face the question of whether we wish to sell abroad vast quantities of goods that the buyers cannot pay for, unless we lend them the money. Of course, if we want more paper there are plenty of international bankers to arrange the details. We felt rich on that paper during the roaring twenties. Now we know better.

In place of paper under the operation of our new monetary policy we have been receiving large shipments of gold and silver. Some of it came to settle trade balances, and some represents capital seeking refuge in our sound currency. Various economists will tell you that this policy is likely to end our foreign trade; that first we strip the world of gold and then our foreign trade dies. But we are not stripping the world of gold. We have more gold than ever before, but the world supply of monetary gold is also increasing rapidly. Production now proceeds at the rate of about one billion dollars annually, and will continue to increase. The great nations are restoring their reserves. Meanwhile, percentages of the total held by the various nations show no alarming changes. We had 41.7 percent of all the monetary gold in 1922 and now we have 38.8 percent. France had 8.4 percent in 1922 and now she has 24.8. Great Britain lost gold heavily before she suspended gold payments in 1931, but since then has increased her share from 5.2 percent to 7.2 percent.

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Objection to our course is sometimes based upon the assertion that we would bring vast quantities of the world's gold here, only to be locked up in the United States Treasury — the phrase commonly used is that the gold thus becomes sterile. At least, however, it goes to swell our monetary reserves. You now have $1.55 in gold and about 26 cents in silver back of every dollar actually in circulation. Loans in default are not very good backing for currency; indeed they might, without undue asperity, be described as also sterile. If we must choose between the two, this administration elects payment in monetary metals.

Settlement of international balances in gold and silver restores to the world's monetary reserves their normal function which is to act as a traffic policeman, warning each nation promptly, when it buys more goods than it can pay for with goods. If we don't use gold and silver in that way, we run into the difficulty that engulfed us .... paper.

You will find the newspapers flooded with pleas for us to return promptly to the old gold standard. Some of the propagandists even go so far as to say that the other nations would follow if we took the lead. As a matter of fact, if we took the lead, that would put us right back where we were in 1932, and furnish the soundest reason of all for them not to follow, but again to take advantage of our disadvantage.

We realize the importance of world prosperity and will evade no opportunity to assist in that direction .... except the ever-present opportunity to donate prosperity at our own expense.

In conclusion, I should like to summarize this statement by saying:

First: You have an absolutely sound dollar that is, today, the steadiest currency on earth.

Second: The monetary policy of this administration rescued us from chaos; held the fort through the most trying period of our recovery program; and is now the spearhead as we advance steadily toward our goal.

Third: Of the great trading nations that revalued their currencies, we were the last, until quite recently, when Belgium joined us.

The world should know that when it is ready to seek foreign exchange stabilization, Washington will not be an obstacle. Our position was that of an innocent by-stander who suffered untold loss in a fight that he did not start, and from which he could not escape. Why should we be singled out and admonished that the moral duty to restore order is primarily ours? Before we make any commitments, we must be sure that we will not lose what we have just regained. We have never been unwilling to stabilize. However, if the great trading nations elect to continue under the present absence of rules we are no longer at a disadvantage. We revalued our currency just barely to the absolutely necessary level, and we can go either way. Our hands are untied.

The eighth draft which represents Mr. Haas and Mr. Seltzer and Collado, correcting both the figures and the text. This draft came y close to causing the death of Mr. Crowell who feared, for a tragic f hour, that the corrections in a previous draft(in the hand-writing the President) had been lost. He restored them from memory, and on checking, nd them correct. If they had not been found correct, he planned to order mpt delivery of a nice, clean,grave.

The Secretary had no knowledge of this draft.

The hen-scratches represent Mr. Crowell, saving his child.

It is my purpose, tonight, to state a few simple facts which I hope will contribute to a clearer understanding of the monetary policy of this Administration. I shall not enter into complicated discussion of the theory of money. I shall merely tell you what was done .... why .... and the effect.

Let us first look at the background. At the outbreak of the World War, Europeans had a net capital investment in the United States of about 3 billion dollars. In the 18 years preceding the World War, we had exported 31 billion dollars worth of merchandise, [redacted] all of which was paid for with goods and services. ~~This was a period during which capital and goods flowed freely from continent to continent wherever profit beckoned enterprise.~~ The net gold movement for that entire period was only 174 million dollars which we received. With the beginning of the World War, a tremendous change took place. From July 1914 to the end of 1922, we exported 47 billion dollars worth of merchandise. Much of this was paid for with goods and services, but there remained ~~capital flowed~~ due us a [illegible] balance of ~~out of this country to the net amount of~~ 19 billion dollars, for ~~which~~ which we took ~~[illegible]~~ mostly ~~of~~ promises to pay. ~~This made us international creditors to a net amount of 19 billion dollars. (Insert)~~ (Insert)

Nor did we stop there. We continued to export more than we imported, ~~and we continued to take promises in partial~~ right on through 1929, this accumulating an additional ... and a half billions of dollars

Insert Now note the contrasts.

In the previous 18-year period, with our country one of the world's [redacted] attractive fields for capital investment, we drew in about $1 billion net from abroad, but when we became a creditor nation, the outflow of capital reached $19 billions net in the eight years between the beginning of the World War and the end of 1922.

net foreign investment.

~~payment for our exports right through 1929. By the end of that year, we had added another 2-1/2 billion dollars to our net capital investment abroad. When we consider our international position today, we find that of the foreign claims we hold, an amount equal to about two-thirds of our net investments abroad is in partial or complete default.~~

If we deduct from the grand total of our loans and investments abroad all of the loans and credits that foreigners have here and then examine the status of our ~~net~~ foreign investment, we find that an amount equal to two thirds of it is today in partial or complete default.

There you have the background, from an American point of view, when the monetary crisis developed in Europe in 1931. Credit and currency difficulties which had been spreading throughout Europe came to a head in the spring of that year. On September 21, 1931, Great Britain suspended gold payments. Norway, Sweden, and Denmark followed within a week. Japan acted in December. Other nations either went off gold or took equivalent action to control their foreign exchange, ~~rates~~.

As the nations went off gold, the value of their currencies in international exchange dropped sharply, and ~~they~~ our customers found it difficult to buy dollars with which to pay for American products. They could trade with each other to some extent, but they bought from us only what they couldn't do without. The physical volume of world export trade dropped about one-fourth from 1929 to 1932, but our exports dropped almost one-half in the same period. During 1932, England increased her share by 16 percent over the previous year; and Japan by 29 percent. To say that we merely shared in world-wide misfortune isn't accurate because our share included an additional penalty for remaining on the old gold standard. While total world export trade declined, those countries which promptly went off gold increased their share of what remained, ~~while our share continued to decline.~~

Some of the countries engaged in this scramble were alarmed because they could see the bottoms of their gold bins. They and others exerted pressure to have foreign credits called home. Sometimes these credits responded by going in the other direction just as fast as they could travel. Gold was stampeding from country to country, always leaving the place where it was needed, and rarely doing its new hosts any good.

In January of ~~In~~ 1932, gold began to leave the United States in alarming amounts. This was fair notice to all concerned that our turn was next. The panic was knocking at our door, but nothing effective was done to avert it. Europeans knew that we could ~~n't~~ not maintain our currency at the old gold level without a further ruinous deflation of our prices, trade, and industrial activity. Facing that crisis, the previous Administration stubbornly refused to take action, evidently under the impression that that was a ~~peaceful~~ proud achievement when it was obviously economic suicide.

Europeans had left here more than a billion dollars to enjoy our high interest rates and prospects of quick profits. Seeing what was happening, they judged that it was high time to take this money home. They did so, and the panic was on. We couldn't offer them their defaulted paper when they called for their money.

We couldn't even offer them their paper that wasn't in default. We had let them have the money on long-term loans; and they had short-term loans here. Our long-term paper wasn't due, while their short-term paper could be called and their stocks sold. They could demand gold for every dollar due, and that is what they did. Thus it happened that in the ~~winter of~~ first six months of 1932, we witnessed the incredible spectacle of gold going out of the world's greatest creditor nation on every ship .... nearly all of it to nations that were in our debt. Still nothing was done to avert the disaster.

Stupendous as the gold movement was, we couldn't ship fast enough to meet the demand, and speculators took advantage of the situation to sell the dollar short. They were not all foreigners, either. However, the citizenship of these snipers is not important since their dominant trait is an utter lack of patriotism or loyalty to any nation. They would sell civilization itself short if they could, and for all they knew at that time, they might have been doing so.

Our loss of gold, added to the calamity of declining trade, falling commodity prices, and wide-spread unemployment, caused bewilderment and then panic. The disaster swept over our country with the fury of a hurricane. Within a few months Our financial structure was in a state of collapse. In the month of February 1933, and up to the time President Roosevelt took office, about one-half billion dollars in gold and nearly 2 billion dollars in currency was

Stupendous as the gold movement was, we couldn't ship fast enough to meet the demand, and speculators took advantage of the situation to sell the dollar short. They were not all foreigners, either. (insert [illegible] sell [illegible] etc

Our loss of gold, added to the calamity of declining trade, falling commodity prices, and wide-spread unemployment, caused bewilderment and then panic. The disaster swept over our country with the fury of a hurricane. Our financial structure was in a state of collapse. In the month of February 1933 and up to the time President Roosevelt took office, about two billion dollars ~~in gold and other currency was~~ withdrawn from our banks. They were closing, not individually, but by whole states at a time. That was the situation when this administration came into office. On taking his oath, Mr. Roosevelt assumed both the duties of President and receiver for an insolvent concern. The richest on earth .... but on that tragic day insolvent.

We were headed for disaster unless the run on the banks could be stopped, and our gold reserves reassembled. Both objectives were promptly achieved. The President's proclamation closed the banks, ending the run, and the gold was ordered into the custody of Uncle Sam under penalties. Those two acts met the domestic emergency. An embargo on gold exports was declared and that ended the outward flow. This effectively took us off the old gold standard and the dollar began to adjust itself to the realities of the world situation. In going off gold, we were not the first, we were the 31st. The operation was completed in January of 1934 when the dollar was revalued and set at 59.06 per cent of its former gold content. Since that time we have enjoyed the steadiest currency in the world. It is, in fact, so steady that this year we find gold flowing back into this country to take refuge in our dollar; not to pay balances but to find safety. Some of the same sharp-shooters who personally conducted the flight of gold from this country during 1932 and the first two months of 1933 are now bringing it back. I deplore their existence but I am willing to admit their shrewdness.

But let us return to the record and see what our new dollar did to our foreign trade. Measured in physical volume of tonnage the United States increased its export trade during 1934 as compared with both 1932 and 1933. Measured in dollar value it increased its foreign trade in 1934 as compared with 1932 and 1933. Measured by percentage share in the physical volume of total world trade, we again show an increased over both 1932 and 1933.

In 1934 we shipped one-third less cotton than in 1932, and got seven percent more money for it.

We also got a higher price for our wheat but the drought can account for most of the increase. Due to weather conditions alone, we harvested in 1933 the smallest wheat crop in thirty-nine ~~forty~~ years; and in 1934 the smallest wheat crop in forty-one years.

Our wheat exports have also been affected by quotas and embargoes. Some of our former customers prefer, for reasons of national policy, to grow their own wheat, regardless of price.

Because of these factors, I cannot trace with accuracy and fairness the effect of our monetary policy upon agricultural exports.

A better test is offered by manufactured goods.

The physical volume of all our finished manufactures exported in 1934 increased 37 percent compared with 1932; semi-manufactures increased 47 percent in the same period.

But the best test is to take a specific article, such as the automobile. In 1930, with the most of the world on the old gold standard, we exported 238,000 cars. In 1932, with our country one of the very few remaining on the old gold standard, we exported 6~~0~~5,000 cars. In 1933 under the Roosevelt monetary program our exports shot up to 10~~0~~7,000 cars. Last year they more than doubled; they came right back to where they had been in 1930 ..... 25~~0~~6,000 cars.

During the disastrous period of declining sales, the world still wanted American automobiles but it couldn't buy the dollars to pay for them. Nothing startling developed in the way of foreign competition; our dollar prices didn't go up; and quality remained just as good or improved.

We simply had an interim during which we couldn't sell because the dollar was too high in relation to other world currencies; this Administration lowered the gold content of the dollar and the foreign market is being restored to our automobile manufacturers with such rapidity that the benefits are already nation-wide.

Some people will tell you that there simply couldn't be any benefit in restoring trade by bringing our money into reasonable relation with the other moneys of the world. I decided to get the answer to that question from the manufacturers themselves. They ought to know best. I asked the executive heads of twenty-~~eight~~ nine large firms whose products are a representative cross-section of our trade to tell me:

First: Whether they are getting any more foreign trade. ~~as well as home trade.~~

Second: Whether they are employing more workers.

Then, I examined the published reports ~~of their profits~~ to find out whether they are making any money. ~~Their reports have been tabulated, and~~ Here are the combined answers.

To the question, whether they are getting any more foreign trade, — the answer is yes. In 1934, which was the first full year under the Roosevelt monetary program, their export sales were ~~47~~ 37 ~~percent greater than in 1933, and~~ ~~69~~ 59 percent greater than in 1932. ~~The relative importance of their export sales in their total sales increased over 1933 by 37 percent, and over 1932 by 15 percent.~~

To the second question, whether the number of their employees has increased, the answer is also yes. Total employment ~~The numbers of their workers were 9 percent greater in 1934 than in 1933, and 35~~ was 34 percent greater ~~in 1934~~ than in 1932.

Both their export business and the number of their employees were not only substantially in excess of 1933 and 1932, but also exceeded the figures for 1931 by ~~10.5~~ 8.7 percent in the case of export sales and ~~16.5~~ 17.6 percent in the case of the number of employees.

As respects profits, I found that the published reports of these 28 companies reveals the following: As against a combined loss of ~~$120~~ 121 millions in 1932, and a combined profit of ~~$25~~ 39 millions in 1933, the combined profits for 1934 were in excess of ~~$117~~ 128 millions, ~~or 35~~ and was 65 percent greater than the combined profits in 1931.

The figures that I have cited for profits, losses, and employment cover the domestic as well as the foreign businesses of these companies. But the domestic and foreign businesses of these companies have followed substantially the same upward pattern. When foreign sales recovered under the Roosevelt monetary program, domestic sales recovered with them.

So there you have the answers of the best qualified witnesses. Under the monetary policy of this Administration they got more business; they lifted themselves out of a deficit in excess of $100 millions to earnings in excess of $100 millions; and employment increased by ~~35~~ 34 percent.

Insert new page - unnumbered.

A-D

There are many indications that world trade will increase this year. Our monetary policy is not intended to capture trade, but merely to protect our normal share. So far from engaging in a competitive devaluation race with the other nations we hold out to them a currency of such steadiness that the normal tendency may very well be for the rest of the world to move gradually toward practical exchange stabilization. Unless somebody rocks the boat that would be the natural course.

In estimating the future of our foreign trade in relation to our monetary policy, we may as well face the question of whether we wish to sell abroad vast quantities of goods that the buyers cannot pay for, unless we lend them the money. Of course, if we want more paper there are plenty of international bankers to arrange the details. We felt rich on that paper during the roaring twenties. Now we know better.

In place of paper, under the operation of our new monetary policy, we have been receiving large shipments of gold and silver. Some of it came to settle trade balances, ~~but~~ and some of it ~~is of the class I mentioned a moment ago~~ represents capital seeking refuge in our sound currency. ~~Some~~ Various economists will tell ~~you~~ that this policy is likely to end our foreign trade, that ~~when~~ we strip the world of gold our foreign trade dies. But we are not stripping the world of gold. We

26 cents in silver back of every dollar actually in circulation. Loans in default are not very good backing for currency; indeed they might, without undue asperity, be described as also sterile. If we must choose between the two, this Administration elects payment in monetary metals. These, at least, can be spent again in the future.

In conclusion, let me emphasize certain things: First, you have an absolutely sound dollar that is today the steadiest currency on earth. Second, the monetary policy of this Administration rescued us from a chaotic situation; and it held the fort through the most trying period of our recovery program. And, finally, we seek no unfair competitive advantage in international trade by monetary manipulation. The world should know that when other countries are ready to seek practical exchange stabilization, Washington will not be an obstacle.

Before we make any hard and fast international commitments, however, we must be sure that the rules are fair and that they will be observed. We must be sure that we will not lose our normal trade position, which our new monetary policy is enabling us to regain. If, on the other hand, the great trading nations elect to continue under the present absence of rules, we are no longer at a disadvantage. Our hands are untied. We will evade no opportunity to assist in the restoration of world prosperity-- except the ever-present opportunity to donate prosperity at our own expense.

Miss Diamond:

This is photostat of draft which Pres reviewed, with his changes in his own handwriting.

The original is filed with a folder we have of papers with ~~F~~DR's hand-writing, etc.

It is my purpose, tonight, to state a few simple facts which I hope will contribute to a clearer understanding of the monetary policy of this administration. I shall not enter into complicated discussion of the theory of money. I shall merely tell you what was done .... why .... and the effect.

For an orderly presentation of the facts it is important that we go back to that period when goods and capital flowed freely from continent to continent, wherever profit beckoned enterprise, and see what the record shows on the payment of international balances.

We may begin with the eighteen years between 1896 and 1914. In that period we exported thirty-one billion dollars worth of goods that were paid for with goods and services. The gold movement was smaller than the silver movement. We exported a billion dollars worth of silver; and imported two-thirds of a billion dollars worth. At the end of that period, Europe had invested in the United States, about three billion dollars in loans for productive purposes.

With the beginning of the World War a tremendous change took place. From July 1914 to July 1922 we exported forty-seven billion dollars worth of goods. ~~Most~~ Much of this was paid for with goods that we imported but in balancing the account we received nearly seventeen billions of dollars worth of promises to pay.

In the previous eighteen year period with our country one
f the world's most attractive fields for capital investment
e drew in about three billions of dollars from abroad, but when
e became a credit nation we loaned nearly seventeen billions of
ollars in eight years. Nor did we stop there. We continued to
xport more than we imported right on through 1929, accumulating
n additional two and a third billions of dollars in promises to
ay.

If we deduct from the grand total of our loans abroad, all
f the loans and credits that foreigners have here, and then
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bout seventy percent of it is in partial or complete default.

There you have the background, from an American point of
iew, when the crisis ~~developed in Europe~~ in 1931. Credit and
urrency difficulties which had been spreading throughout Europe
ame to a head in the spring of that year. On September 21, 1931,
reat Britain suspended gold payments. Norway, Sweden, and
enmark followed within a week. Japan acted in December. Other
ations either went off gold or took equivalent action to control
their exchange rates. In this procession, we were not the first;
e were the thirty-first. We did nothing until the spring of 1933.

As the nations went off gold, the value of their currencies in international exchange dropped sharply, and our customers found it difficult to buy dollars with which to pay for American products. They could trade with each other, to some extent, if their various currencies approached equal devaluation, but they bought from us only what they couldn't do without. The physical volume of world export trade dropped about one-third from 1929 to 1932, but our exports, which had been more than five billion dollars in 1928, dropped to a billion and a half in 1932, a loss of more than two-thirds of our business. To say that we merely shared in world-wide misfortune ~~isn't~~ is not entirely accurate because our share included an additional penalty for remaining on the gold standard. While total world export trade declined, those countries which promptly went off gold increased their share of what remained.

From September, 1931, to the end of the first quarter of 1933 Great Britain increased her share of world trade seventeen percent. Japan's share increased thirty percent. Our share decreased forty percent. These percentages are based on physical volume, not money values.

Some of the countries engaged in this scramble were alarmed because they could see the bottoms of their gold bins. They and others exerted pressure to have foreign credits called home. Sometimes these credits responded by going in the other direction just as fast as they could travel. Gold was stampeding from country to country, always leaving the place where it was needed, and rarely doing its new hosts any good. Considerable amounts of it came here. But in 1932 it began to leave more rapidly than it had come. This was fair notice to all concerned that our turn was next. The panic was knocking at our door, but nothing effective was done to avert it. Europeans knew that we couldn't maintain our currency at a level fifty percent above the average for the rest of the world. Facing that crisis, the previous administration stubbornly refused to take action, evidently under the impression that that was a proud achievement when it was obviously economic suicide, and so recognized ~~by all~~ in Europe.

Out of the loans floated in this country, Europe had left here more than a billion dollars to enjoy our high interest rates. Knowing what was bound to happen they correctly judged that it was high time to take this money home. They did so, and the panic was on. We couldn't offer them their defaulted paper when they called for their money. We couldn't even offer them their paper that wasn't in default. We had let them have the money on long term loans, and they had short term loans here. Our long term paper wasn't due, while their short term paper could be called. They could demand gold for every dollar due, and that is what they did. Thus it happened that in the winter of 1932 we witnessed the incredible spectacle of gold going out of the world's greatest creditor nation on every ship .... nearly all of it to nations that were in our debt. Still nothing was done to avert the disaster.

Stupendous as the gold movement was, we couldn't ship fast enough to meet the demand, and speculators took advantage of the situation to sell the dollar short. They were not all foreigners, either. However, the citizenship of these snipers is of no importance since their dominant trait is an utter lack of patriotism or loyalty to any nation. They would sell civilization, itself, short if they could; and for all they knew at that time they might have been doing so.

Our loss of gold, added to the calamity of declining trade, falling commodity prices, and wide-spread unemployment, caused bewilderment and then panic. The disaster swept over our country with the fury of a hurricane. Our financial structure was in a state of collapse. In the month of February 1933 and up to the time President Roosevelt took office, half a billion dollars in gold and two billion dollars in currency were withdrawn from our banks. They were closing, not individually, but by whole states at a time. That was the situation when this administration came into office. On taking his oath, Mr. Roosevelt assumed both the duties of President and receiver for an insolvent concern. The richest on earth ....but on that tragic day insolvent.

We were headed for disaster unless the run on the banks could be stopped, and our gold reserves reassembled. Both objectives were promptly achieved. The President's proclamation closed the banks, ending the run, and the gold was ordered into the custody of Uncle Sam under penalties. Those two acts met the domestic emergency. Gold payments were then suspended and that ended the outward flow which had finally attained a total of three quarters of a billion dollars. This effectively took us off the gold standard and the dollar began to adjust itself to the realities of the world situation. The operation was completed in January of 1934 when the exchange value of the dollar was set at 59.06 percent of its former gold measure. Since that time we have enjoyed the steadiest currency in the world. It is, in fact, so steady that this year we find gold flowing back into this country to take refuge in our dollar; not to pay balances but to find safety. Some of the same sharp-shooters who personally conducted the flight of gold from this country during 1932 and the first two months of 1933 are now bringing it back. I deplore their existence but I ~~am willing, however reluctantly, to~~ admit their shrewdness.

But let us return to the record, and see what our new dollar did to our foreign trade. Measured in volume or tonnage the foreign trade of the whole world was still declining, but from the spring of 1933 to the close of 1934 our share increased 22 percent. Measured in terms of value, the increase was 57 percent.

In 1934 we shipped one-third less cotton than in 1932, but ~~and~~ got eight percent more money for it.

We also got a higher price for our wheat but the drought can account for most of the increase. Due to weather conditions alone, we harvested in 1933 the smallest wheat crop in forty years; and in 1934 the smallest wheat crop in forty-one years.

Our wheat exports have also been affected by quotas and embargoes. Some of our former customers prefer, for reasons of national policy, to grow their own wheat, regardless of price.

Because of these factors, I cannot trace with accuracy and fairness the effect of our monetary policy upon agricultural exports.

A better test is offered by manufactured goods.

The volume of all our finished manufactures exported in 1934 increased 37 percent compared with 1932; semi-manufactures increased 47 percent in the same period.

But the best test is to take a specific article, such as the automobile. In 1930, with the world on the gold standard, we exported 238,000 cars. In 1932, with our country one of the very few remaining on the gold standard, we exported 66,000 cars. In 1933, under the Roosevelt monetary program, our exports shot up to 108,000 cars. Last year they more than doubled; they came right back to where they had been in 1930 .... 238,000 cars.

During the disastrous period of declining sales, the world still wanted American automobiles but it couldn't buy the dollars to pay for them. Nothing startling developed in the way of foreign competition; our prices didn't go up; and quality ~~remained just as good or~~ improved.

We simply had an interim during which we couldn't sell because the dollar was too high in relation to other world currencies; this administration lowered the gold content of the dollar and the foreign market is being restored to our automobile manufacturers with such rapidity that the benefits are already nation-wide.

Some people will tell you that there simply couldn't be any benefit in restoring trade by bringing our money into reasonable relation with the other moneys of the world. I decided to get the answer to that question from the manufacturers themselves. They ought to know best. I asked the executive heads of twenty-eight large firms, whose products are a representative cross-section of our export trade, to tell me:

First: whether they are getting any more foreign trade.

Second: whether they are making any profit out of it.

Third: whether it has affected employment in their plants.

~~In short, whether it is doing the public any good.~~

Their reports have been tabulated, and here are the combined answers.

To the first question, whether they are getting any more foreign trade, they answer yes. In 1934, which is the first full year under the Roosevelt monetary program, their export sales increased in round numbers one hundred million dollars above 1932.

To the second question, whether this trade is doing them any good, they answer yes; they earned $117,200,000 in 1934 against a loss of $126,400,000 in 1932. These figures include their losses and earnings on domestic sales also. Domestic sales followed exactly the same course as their foreign sales - when foreign sales hit rock bottom so did domestic sales; and when foreign sales recovered under the Roosevelt monetary program, domestic sales recovered with them.

To the third question, whether employment in their plants increased, they again answer yes; one hundred and ninety-eight thousand more men and women were working in their plants during 1934 than in 1932, an increase of thirty-one percent.

So there you have the answers of the best qualified witnesses. Under the monetary policy of this administration they got more business; they lifted themselves out of a deficit in excess of one hundred million dollars to earnings in excess of one hundred million dollars; and employment increased by nearly 200,000.

There are many indications that world trade will increase this year. Our monetary policy is not intended to capture trade, but merely to protect our normal share. So far from engaging in a competitive devaluation race with the other nations we hold out to them a currency of such steadiness that the normal tendency may very well be for the rest of the world to move gradually toward practical exchange stabilization. If that can be achieved, the final step should come easily and almost of its own accord. Unless somebody rocks the boat that would be the natural course.

In estimating the future of our foreign trade in relation to our monetary policy, we may as well face the question of whether we wish to sell abroad vast quantities of goods that the buyers cannot pay for, unless we lend them the money. Of course, if we want more paper there are plenty of international bankers to arrange the details. We felt rich on that paper during the roaring twenties. Now we know better.

In place of paper under the operation of our new monetary policy we have been receiving large shipments of gold and silver. Some of it came to settle trade balances, ~~but some~~ and some ~~of it is of the class I mentioned a moment ago, it~~ represents capital seeking refuge in our sound currency. ~~[illegible]~~ Various economists will tell you that this policy is likely to end our foreign trade; that first we strip the world of gold and then our foreign trade dies. But we are not stripping the world of gold. We have more gold than ever before, but the world supply of monetary gold is also increasing rapidly. Production now proceeds at the rate of about one billion dollars annually, and will continue to increase. The great nations are restoring their reserves. Meanwhile, percentages of the total held by the various nations show no alarming changes. We had 41.7 percent of all the monetary gold in 1922 and now we have 38.8 percent. France had 8.4 percent in 1922 and now she has 24.8. Great Britain lost gold heavily before she suspended gold payments in 1931, but since then has increased her share from 5.2 percent to 7.2 percent.

With increasing gold production, and hundreds of millions of dollars worth of the yellow metal being brought out of hiding, [illegible] some of it can be used to pay balances. We are also endeavoring to restore silver to greater usefulness as a monetary metal. It is already the money of a large part of the world's population.

Objection to our course is sometimes based upon the assertion that we would bring vast quantities of the world's gold here, only to be locked up in the United States treasury - the phrase commonly used is that the gold thus becomes sterile. At least, however, it goes to swell our monetary reserves. You now have $1.55 in gold and about

Insert for page 12

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26 cents in silver back of every dollar actually in circulation. Loans in default are not very good backing for currency; indeed they might, without undue asperity, be described as also sterile. If we must choose between the two, this administration elects payment in monetary metals.

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In conclusion, I should like to summarize this statement by saying:

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The world should know that when it is ready to seek foreign exchange stabilization, Washington will not be an obstacle. Our position was that of an innocent by-stander who suffered untold loss in a fight that he did not start, and from which he could not escape. Why should we be singled out and admonished that the moral duty to restore order is primarily our's? Before we make any commitments, we must be sure that we will not lose what we have just regained. We have never been unwilling to stabilize. However, if the great trading nations elect to continue under the present absence of rules we are no longer at a disadvantage. We revalued our currency just barely to the absolutely necessary level, and we can go either way. Our hands are untied.

The ninth draft, representing what was done at the conference on the morning of Monday, May 13, 1935. The marks are on this draft. (The speech was delivered at lo oclock that night.

First: The disputed figures from the Agricultural Department were omitted.

Second: The amount of monetary metals behind each paper dollar now in actual circulation was omitted because the Patman bill was pending.

Third: The phrase "We have never been unwilling to stabilize" was changed to "We are not unwilling to stabilize" in order to avoid making the London Economic Conference an issue in the speech...... the important point being not our position in the past but our present position.

Fourth: The well-loved phrase "I deplore their existence but admit their shrewdness" was slaughtered lest it be construed as an attack upon the tottering gold bloc.

Point Four was raised by Mr. Collidge. Points One, Two and THree raised by Mr. Crowell, Mr. Gaston and Mr. Haas concurring.

Very important change in next to last sentence of speech dictated by Mr. Oliphant.

Tenth draft of speech went on the air at ten oclock that night.

It is my purpose, tonight, to state a few simple facts which I hope will contribute to a clearer understanding of the monetary policy of the United States. I shall not enter into complicated discussion of the theory of money. I shall merely tell you what was done .... why .... and the effect.

For an orderly presentation of the facts it is important that we go back to that period when goods and capital flowed freely from continent to continent, wherever profit beckoned enterprise, and see what the record shows on the payment of international balances.

We may begin with the eighteen years between 1896 and 1914 -- the pre-war period. In that period we exported thirty-one billion dollars worth of goods that were paid for with goods and services. The gold movement was smaller than the silver movement. We exported a billion dollars worth of silver; and imported two-thirds of a billion dollars worth. At the end of that period, Europe had invested in the United States, about three billion dollars in loans for productive purposes.

With the beginning of the World War a tremendous change took place. From July 1914 to July 1922 we exported forty-seven billion dollars worth of goods. Much of this was paid for with goods that we imported, but in balancing the account we received nearly seventeen billions of dollars worth of promises to pay.

In the previous eighteen year period with our country, one of the world's most attractive fields for capital investment we drew in about three billions of dollars from abroad, but when we became a creditor nation we loaned nearly seventeen billions of dollars in eight years. Nor did we stop there. We continued to export more than we imported right on through 1929, accumulating an additional two and a third billions of dollars in promises to pay.

If we deduct from the grand total of our loans abroad, all of the loans and credits that foreigners have here, and then examine the status of our net foreign investment, we find that about seventy percent of it is in partial or complete default.

There you have the background, from an American point of view, when in 1931 things headed towards a crisis all over the world. Credit and currency difficulties which had been spreading throughout Europe came to a head in the spring of that year. On September 21, 1931, Great Britain suspended gold payments. Norway, Sweden, and Denmark followed within a week. Japan acted in December. Other nations either went off gold or took equivalent action to control their foreign exchange ~~rates.~~ ~~In this procession, we were~~

~~not the first; we were the thirty-first. We did nothing~~ until ~~the spring of 1933.~~

As the nations went off gold, the value of their currencies in international exchange dropped sharply, and our customers found it difficult to buy dollars with which to pay for American products. They could trade with each other, to some extent, ~~if their various currencies approached equal devaluation~~, but they bought from us only what they couldn't do without. The physical volume of world export trade dropped about ~~one-third~~ 1/4 from 1929 to 1932, but our exports, which had been more than five billion dollars in 1928, dropped to a billion and a half in 1932, a loss of more than two-thirds of our business. To say that we merely shared in world-wide misfortune is not entirely accurate because our share included an additional penalty for remaining on the gold standard. While total world export trade declined, those countries which promptly went off gold increased their share of what remained.

From September 1931, to the end of the first quarter of 1933, Great Britain increased her share of world trade seventeen percent. Japan's share increased thirty percent. Our share decreased forty percent. These percentages are based on physical volume, not money values.

Some of the countries engaged in this scramble were alarmed because they could see the bottoms of their gold bins. They and others exerted pressure to have foreign credits called home. Sometimes these credits responded by going in the other direction just as fast as they could travel. Gold was stampeding from country to country, always leaving the place where it was needed, and rarely doing its new hosts any good. Considerable amounts of it came here. But in 1932 it began to leave more rapidly than it had come. This was fair notice to all concerned that our turn was next.

The Panic was knocking at our door, but nothing effective was done to avert it. Europeans knew that we couldn't maintain our currency at a level fifty percent above the average for the rest of the world. Facing that crisis, the previous administration stubbornly refused to take action, evidently under the impression that that was a proud achievement when it was obviously economic suicide.

Out of the loans floated in this country, Europe had left here more than a billion dollars to enjoy our high interest rates. Knowing what was bound to happen they correctly judged that it was high time to take this money home. They did so, and the panic was on. We couldn't offer them their defaulted paper when they called for their money. We couldn't even offer them their paper that wasn't in default. We had let them have the money on long term loans, and they had short term loans here. Our long term paper wasn't due, while their short term paper could be called. They could demand gold for every dollar due, and that is what they did. Thus it happened that in the winter of 1932 we witnessed the incredible spectacle of gold going out of the world's greatest creditor nation on every ship .... nearly all of it to nations that were in our debt. Still nothing was done to avert the disaster.

Stupendous as the gold movement was, we couldn't ship fast enough to meet the demand, and speculators took advantage of the situation to sell the dollar short. They were not all foreigners, either. However, the citizenship of these snipers is of no importance since their dominant trait is an utter lack of patriotism or loyalty to any nation. They would sell civilization, itself, short if they could; and for all they knew at that time they might have been doing so.

Our loss of gold, added to the calamity of declining trade, falling commodity prices, and wide-spread unemployment, caused bewilderment and then panic. The disaster swept over our country with the fury of a hurricane. Our financial structure was in a state of collapse. In the month of February 1933 and up to the time President Roosevelt took office, half a billion dollars in gold and two billion dollars in currency were withdrawn from our banks. They were closing, not individually, but by whole states at a time. That was the situation when this administration came into office. On taking his oath, Mr. Roosevelt assumed both the duties of President and receiver for an insolvent concern. The richest on earth .... but on that tragic day insolvent.

We were headed for disaster unless the run on the banks could be stopped, and our gold reserves reassembled. Both objectives were promptly achieved. The President's proclamation closed the banks, ending the run, and the gold was ordered into the custody of Uncle Sam under penalties. Those two acts met the domestic emergency. Gold payments were then suspended and that ended the outward flow which had finally attained a total of three quarters of a billion dollars. This effectively took us off the gold standard and the dollar began to adjust itself to the realities of the world situation. The operation was completed in January of 1934 when the exchange value of the dollar was set at 59.06 percent of its former gold measure. Since that time we have enjoyed the steadiest currency in the world. It is, in fact, so steady that this year we find gold flowing back into this country to take refuge in our dollar; not to pay balances but to find safety. Some of the same sharp-shooters who personally conducted the flight of gold from this country during 1932 and the first two months of 1933 are now bringing it back. ~~I deplore their existence but I admit their shrewdness.~~

But let us return to the record, and see what our new dollar did to our foreign trade. Measured in volume or tonnage the foreign trade of the whole world was still declining, but from the spring of 1933 to the close of 1934 our share increased 22 per cent. Measured in terms of value, the increase was 57 percent.

In 1934 we shipped one-third less cotton than in 1932, but we got eight percent more money for it.

We also got a higher price for our wheat but the drought can account for most of the increase. ~~Due to weather conditions alone, we harvested in 1933 the smallest wheat crop in forty years; and in 1934 the smallest wheat crop in forty-one years.~~

Our wheat exports have also been affected by quotas and embargoes. Some of our former customers prefer, for reasons of national policy, to grow their own wheat, regardless of price.

Because of these factors, I cannot trace with accuracy and fairness the effect of our monetary policy upon agricultural exports.

A better test is offered by manufactured goods.

The volume of all our finished manufactures exported in 1934 increased 37 percent compared with 1932; semi-manufactures increased 47 percent in the same period.

But the best test is to take a specific article, such as the automobile. In 1930, with the world on the gold standard, we exported 238,000 cars. In 1932, with our country one of the very few remaining on the gold standard, we exported 66,000 cars. In 1933, under the Roosevelt monetary program, our exports shot up to 108,000 cars. Last year they more than doubled; in fact they came right back to where they had been in 1930 .... 238,000 cars.

During the disastrous period of declining sales, the world still wanted American automobiles but it couldn't buy the dollars to pay for them. Nothing startling developed in the way of foreign competition; our prices didn't go up; and quality improved.

We simply had an interim during which we couldn't sell because the dollar was too high in relation to other world currencies; this administration lowered the gold content of the dollar and the foreign market is being restored to our automobile manufacturers with such rapidity that the benefits are already nation-wide.

Some people will tell you that there simply couldn't be any benefit in restoring trade by bringing our money into reasonable relation with the other moneys of the world. I decided to get the answer to that question from the manufacturers themselves. They ought to know best. I asked the executive heads of twenty-eight representative large firms, whose products are a cross-section of our export trade, to tell me:

First: Whether they are getting any more foreign trade.

Second: Whether they are making any profit out of it.

Third: Whether it has affected employment in their plants.

Their reports have been tabulated, and here are the combined answers.

To the first question, whether they are getting any more foreign trade, they answer yes. In 1934, which is the first full year under the Roosevelt monetary program, their export sales increased in round numbers one hundred million dollars above 1932.

To the second question, whether this trade is doing them any good, they answer yes; they earned $117,200,000 in 1934 against a loss of $126,400,000 in 1932. These figures include their losses and earnings on domestic sales also. Domestic sales followed exactly the same course as their foreign sales -- when foreign sales hit rock bottom so did domestic sales; and when foreign sales recovered under the Roosevelt monetary program, domestic sales recovered with them.

To the third question, whether employment in their plants increased, they again answer yes; one hundred and ninety-eight thousand more men and women were working in their plants during 1934 than in 1932, an increase of thirty-one percent.

So there you have the answers of the best qualified witnesses. Under the monetary policy of this administration they got more business; they lifted themselves out of a deficit in excess of one hundred million dollars to earnings in excess of one hundred million dollars; and employment increased by nearly 200,000.

There are many indications that world trade will increase ~~this year~~. Our monetary policy is not intended to capture trade, but merely to protect our normal share. So far from engaging in a competitive devaluation race with the other nations we hold out to them a currency of such steadiness that the normal tendency may very well be for the rest of the world to move gradually toward practical exchange stabilization. If that can be achieved, the final step should come easily and almost of its own accord. Unless somebody rocks the boat that would be the natural course.

In estimating the future of our foreign trade in relation to our monetary policy, we may as well face the question of whether we wish to sell abroad vast quantities of goods that the buyers cannot pay for, unless we lend them the money. Of course, if we want more paper there are plenty of international bankers to arrange the details. We felt rich on that paper during the roaring twenties. Now we know better.

In place of paper under the operation of our new monetary policy we have been receiving large shipments of gold and silver. Some of it came to settle trade balances, and some represents capital seeking refuge in our sound currency. Various economists will tell you that this policy is likely to end our foreign trade; that first we strip the world of gold and then our foreign trade dies. But we are not stripping the world of gold. We have more gold than ever before, but the world supply of monetary gold is also increasing rapidly. Production now proceeds at the rate of about one billion dollars annually, and will continue to increase. The great nations are restoring their reserves. Meanwhile, percentages of the total held by the various nations show no alarming changes. We had 41.7 percent of all the monetary gold in 1922 and now we have 32.8 percent. France had 8.4 percent in 1922 and now she has 24.8. Great Britain lost gold heavily before she suspended gold payments in 1931, but since then has increased her share from 5.2 percent to 7.2 percent.

With increasing gold production, and hundreds of millions of dollars worth of the yellow metal being brought out of hiding, surely some of it can be used to pay balances. We are also endeavoring to restore silver to greater usefulness as a monetary metal. It is already the money of a large part of the world's population.

Objection to our course is sometimes based upon the assertion that we would bring vast quantities of the world's gold here, only to be locked up in the United States Treasury -- the phrase commonly used is that the gold thus becomes nations would follow if we took the lead. As a matter of fact, if we took the lead, that would put us right back where we were in 1932, and furnish the soundest reason of all for them not to follow, but again to take advantage of our disadvantage.

We realize the importance of world prosperity and will evade no opportunity to assist in that direction .... except the ever-present opportunity to donate prosperity at our own expense.

In conclusion, I should like to summarize this statement by saying:

First: You have an absolutely sound dollar that is, today, the steadiest currency on earth.

Second: The monetary policy of this administration rescued us from chaos; held the fort through the most trying period of our recovery program; and is now the spearhead sterile. At least, however, it goes to swell our monetary reserves. ~~You now have $1.55 in gold and about 26 cents in silver back of every dollar actually in circulation.~~ Loans in default are not very good backing for currency; indeed they might, without undue asperity, be described as also sterile. If we must choose between the two, this administration elects payment in monetary metals.

Settlement of international balances in gold and silver restores to the world's monetary reserves their normal function which is to act as a traffic policeman, warning each nation promptly, when it buys more goods than it can pay for with goods. If we don't use gold and silver in that way, we run into the difficulty that engulfed us .... paper.

You will find the newspapers flooded with pleas for us to return promptly to the old gold standard. Some of the propagandists even go so far as to say that the other as we advance steadily toward our goal.

Third: Of the great trading nations that revalued their currencies, we were the last, until quite recently, when Belgium joined us.

The world should know that when it is ready to seek foreign exchange stabilization, Washington will not be an obstacle. Our position was that of an innocent bystander who suffered untold loss in a fight that he did not start, and from which he could not escape. Why should we be singled out and admonished that the moral duty to restore order is primarily ours?. Before we make any commitments, we must be sure that we will not lose what we have just regained. We ~~have never been~~ are not unwilling to stabilize. However, if the great trading nations elect to continue under the present absence of rules we are no longer at a disadvantage. We revalued our currency ~~just barely~~ no

more than was
~~to the absolutely~~ necessary ~~level~~, and we can go either way. Our hands are untied.

TREASURY DEPARTMENT

May 13, 1935.

Washington

Press Service
No. 4-93

Following is the text of a radio address by Henry Morgenthau, Jr., Secretary of the Treasury, to be delivered over a joint hook-up of the National Broadcasting Company and Columbia Broadcasting System, at 10:00 P.M., Eastern Standard Time, Monday, May 13, 1935. It is for release after delivery has actually begun and no portion or synopsis of its contents may be given out in advance.

THE AMERICAN DOLLAR.

It is my purpose, tonight, to state a few simple facts which, I hope, will contribute to a clearer understanding of the monetary policy of the United States. I shall not enter into complicated discussion of the theory of money. I shall merely tell you what was done....why....and the effect.

In order to examine the record in logical sequence, it is necessary to review, briefly, the background of our present problems. Foreign trade has, from the beginning, been an important factor in the business of the American people. During the eighteen years immediately preceding the out-break of the World War, we exported thirty-one billion dollars worth of merchandise, almost all of which was paid for with goods and services that we received. The net gold movement to us was relatively small, amounting to $174,000,000. Foreigners invested in the United States, during those eighteen years, two billion dollars; Americans invested abroad, one billion dollars. At the out-break of the World War, the American people owed the world three billion dollars more than foreigners owed us. That was what the ledger showed on July 1, 1914.

With the beginning of the World War, a tremendous change took place. From July of 1914 to the end of 1922, we exported forty-seven billion dollars worth of merchandise. Much of this was paid for with goods, services and gold, but there remained due us a balance of 19 billion dollars, for which we took mostly promises to pay.

Now note the contrast. In the previous 18-year period, with our country one of the world's attractive fields for capital investment, we drew in about one billion dollars net from abroad, but when we became a creditor nation, the net outflow of capital reached nineteen billion dollars in the eight years between the beginning of the World War and the end of 1922.

Nor did we stop there. We continued to export more than we imported, thus accumulating an additional two and a half billions of dollars of net foreign investment by the end of 1929.

If we deduct from the grand total of our loans and investments abroad all of the loans and credits that foreigners have here and then examine the status of our net foreign investment, we find that an amount equal to two-thirds of it is today in partial or complete default.

There you have the background, from an American point of view, when in 1931 things headed toward a crisis all over the world. Credit and currency difficulties which had been spreading throughout Europe came to a head in the Spring of that year. On September 21, 1931, Great Britain suspended gold payments. Norway, Sweden, and Denmark followed within a week. Japan acted in December. Other nations either went off gold or took equivalent action to control their foreign exchange.

As the nations went off gold, the value of their currencies in international exchange dropped sharply, and our customers found it difficult to get dollars with which to pay for American products. They could trade with each other to some extent, but they bought from us only what they could not do without. The physical volume of world export trade dropped about one-fourth from 1929 to 1932, but our exports dropped almost one-half in the same period.

During 1932, England increased her share of the world trade by 16 percent over the previous year; and Japan by 29 percent. To say that we merely shared in world-wide misfortune is not entirely accurate, because our share included an additional penalty for remaining on the old gold standard.

While total world export trade declined, those countries which promptly went off gold increased their share of what remained.

Some of the countries became alarmed because they could see the bottoms of their gold bins. They and others exerted pressure to have foreign credits called home. Sometimes these credits responded by going in the other direction just as fast as they could travel. Gold was stampeding from country to country, always leaving the place where it was needed, and rarely doing its new hosts any good.

In January of 1932, gold began to leave the United States in alarming amounts. This was fair notice to all concerned that our turn was next. The panic was knocking at our door, but nothing effective was done to avert it. Europeans knew that we could not maintain our currency at the old gold level without a further ruinous deflation of our prices, trade, and industrial activity. Facing that crisis, the previous Administration stubbornly refused to take action, evidently under the impression that that was a proud achievement, when it was obviously economic suicide.

Foreigners had left here more than a billion dollars to enjoy our high interest rates and prospects of quick profits. Seeing what was happening, they judged that it was high time to take this money home. They did so, and the panic was on. We could not offer them their defaulted paper when they called for their money. We could not even offer them their paper that was not in default. We had let them have the money on long-term loans; and they had short-term loans here. Our long-term paper was not due, while their short-term loans could be collected and their stocks sold. They could demand gold for every dollar due, and that is what they did. Thus it happened that, in the first six months of 1932, we witnessed the incredible spectacle of gold going out of the world's greatest creditor nation on every ship....nearly all of it to nations that were in our debt. Still nothing effective was done to avert the disaster.

Stupendous as the gold movement was, we could not ship fast enough to meet the demand, and speculators took advantage of the situation to sell the dollar. They were not all foreigners, either. However, the citizenship of those snipers is not important since their dominant trait is an utter lack of patriotism or loyalty to any nation. They would sell civilization itself short if they could, and for all they knew at that time, they might have been doing so.

Our loss of gold, added to the calamity of declining trade, falling commodity prices, and widespread unemployment, caused bewilderment and then panic. The disaster swept over our country with the fury of a hurricane. Within a few months our financial structure was in a state of collapse. In the month of February, 1933, and up to the time President Roosevelt took office, about half a billion dollars in gold and nearly two billion dollars in currency were withdrawn from our banks. They were closing, not individually, but by whole states at a time. That was the situation when this Administration came into office. On taking his oath, Mr. Roosevelt assumed both the duties of President and receiver for a concern...the richest on earth....but on that tragic day face to face with insolvency.

We were headed for disaster unless the run on the banks could be stopped, and our gold reserves reassembled. Both objectives were promptly achieved. The President's Proclamation closed the banks, ending the run, and the gold was ordered into the custody of Uncle Sam under penalties. Those two acts met the domestic emergency. An embargo on gold exports was declared and that ended the outward flow. This effectively took us off the old gold standard and the dollar began to adjust itself to the realities of the world situation.

In going off gold, we were not the first, we were the thirty-first. The operation was completed in January of 1934 when the dollar was revalued and set at 59.06 percent of its former gold content. Since that time we have enjoyed the soundest currency in the world. It is, in fact, so sound that we find gold flowing back into this country to take refuge in our dollar; not to pay balances but to find safety. Some of the same sharp-shooters who personally conducted the flight of gold from this country during 1932 and the first two months of 1933 are now bringing it back.

But let us return to the record and see what our new dollar did for our foreign trade. I shall take all three of the commonly used yardsticks and apply them.

First: Measured in physical volume, the United States increased its export trade during 1934 as compared with both 1932 and 1933.

Second: Measured in dollar value the United States increased its foreign trade in 1934 as compared with 1932 and 1933.

And, finally: Measured by percentage share in the physical volume of total world trade, we again show an increase over both 1932 and 1933.

This is the more remarkable because the volume of our agricultural exports was declining.

In 1934 we shipped one-third less cotton than in 1932; but....we got seven percent more money for it.

We also got a higher price for our wheat, but the drought can account for most of the increase.

Our wheat exports have also been affected by quotas and embargoes. Some of our former customers prefer, for reasons of national policy, to grow their own wheat, regardless of price.

Because of these unusual factors, I can not trace with accuracy and fairness the full effect of our monetary policy upon agricultural exports.

A better test is offered by manufactured goods.

The physical volume of all our finished manufactures exported in 1934 increased 37 percent compared with 1932; semi-manufactures increased 47 percent in the same period.

To be concrete, let us take a specific article, such as the automobile. In 1930 we exported 238,000 cars. In 1932, with our country one of the very few remaining on the old gold standard, we exported 65,000 cars. In 1933 under the Roosevelt monetary program our exports shot up to 107,000 cars. Last year they more than doubled; they came right back to where they had been in 1930.

During the disastrous period of declining sales, the world still wanted American automobiles but it could not get the dollars to pay for them. Nothing startling developed in the way of foreign competition; our dollar prices had not gone up; and quality remained just as good, or improved.

We simply had an interim during which we could not sell because the dollar was too high in relation to other world currencies; this Administration lowered the gold content of the dollar and the foreign market is being restored to our automobile manufacturers with such rapidity that the benefits are already nation-wide.

Some people have been telling you that there simply could not be any benefit in restoring trade by bringing our money into reasonable relation with the other moneys of the world. I decided to get the answer to that question from the manufacturers themselves. They ought to know best. I asked the executive heads of twenty-nine large representative firms whose products are a cross-section of our industry to tell me:

First: Whether they are getting any more foreign trade.

Second: Whether employment in their plants has increased.

Then, I examined their published reports to find out whether they were making any profits. Here are the combined answers.

To the first question....whether they are getting any more foreign trade ....they answer "yes". In 1934, which was the first full year under the Roosevelt monetary program, their export sales were 59 percent greater than in 1932.

To the second question....whether the number of their employees has increased....they also answer "yes". Two hundred and four thousand more men and women were working in their plants during 1934 than in 1932, an increase of 34 percent.

To the third question....whether they are making any money....the answer is again "yes". Their combined loss in 1932 was one hundred and twenty-one million dollars; their combined profits for 1934 were in excess of one hundred and twenty-eight million dollars. These figures include their losses and earnings on domestic sales also. Domestic sales followed substantially the same course as their foreign sales. When foreign sales hit rock botton so did domestic sales; and when foreign sales recovered under the Roosevelt monetary program, domestic sales recovered with them. So there you have the testimony of the best qualified witnesses.

Under the monetary policy of this Administration, they lifted themselves out of a deficit in excess of one hundred million dollars to earnings in excess of one hundred million dollars; and employment increased by more than 200,000.

There are many indications that world trade will continue to increase. Our monetary policy in relation to foreign trade is not intended to capture business, but merely to protect our normal share. So far from engaging in a competitive devaluation race with the other nations, we hold out to them a currency of such steadiness that the normal tendency may very well be for the rest of the world to move gradually toward practical exchange stabilization. If that can be achieved, the final step should come easily and almost of its own accord. Unless somebody rocks the boat that would be the natural course.

In estimating the future of our foreign trade in relation to our monetary policy, we may as well face the question whether we wish to sell abroad vast quantities of goods that the buyers can not pay for, unless we lend them the money. Of course, if we want more paper there are plenty of international bankers to arrange the details. We felt rich on that paper during the roaring twenties. Now we know better.

In place of paper, under the operation of our new monetary policy, we have been receiving large shipments of gold and silver. Some of it came to settle trade balances, and some represents capital seeking refuge in our sound currency. Various economists will tell you that this policy is likely to end our foreign trade; that first we strip the world of gold and then our foreign trade dies. But we are not stripping the world of gold. We have more gold than ever before, but the world supply of monetary gold is also increasing rapidly. Production now proceeds at the rate of about one billion dollars annually, and will continue to increase. The great nations are restoring their reserves. Meanwhile, percentages of the total held by the various nations show no alarming changes. We had 41.7 percent of all the monetary gold in 1922 and now we have 38.8 percent. France had 8.4 percent in 1922 and now she has 24.8. Great Britain lost gold heavily before she suspended gold payments in 1931, but since then has increased her share from 5.2 percent to 7.2 percent.

With increasing gold production, and hundreds of millions of dollars worth of the yellow metal being brought out of hiding, surely some of it can be used to pay balances. We are also endeavoring to restore silver to greater usefulness as a monetary metal. It is the money of a large part of the world's population.

Objection to our course is sometimes based upon the assertion that we would bring vast quantities of the world's gold and silver here, only to be locked up in the United States Treasury,...the phrase commonly used is that the gold and silver thus become sterile. At least, however, it goes to swell our monetary reserves. Loans in default are not very good backing for currency; indeed they might, without undue asperity, be described as also sterile. If we must choose between the two, this Administration elects payment of international balances in monetary metals.

You have heard the argument that we should stabilize by declaring that we will not change the present gold content of the dollar. Some even go so far as to say that the other nations would certainly follow, if we took the lead. If we launched out alone on such a course, it would put us right back where we were in 1932, and offer a tempting invitation for the others not to follow, but again to take advantage of our disadvantage.

We realize the importance of world prosperity, and will evade no opportunity to assist in that direction....except the ever-present opportunity to donate prosperity at our own expense.

In conclusion, I should like to summarize this statement by saying:

First: You have an absolutely sound dollar.

Second: The monetary policy of this Administration rescued us from chaos; held the fort through the most trying period of our recovery program; and is now the spearhead as we advance steadily toward our goal.

Third: Of the great trading nations that revalued their currencies, we were the last, until quite recently, when Belgium joined us.

The world should know that when it is ready to seek foreign exchange stabilization, Washington will not be an obstacle. Our position was that of an innocent bystander who suffered untold loss in a fight that he did not start, and from which he could not escape. Why should we be singled out and admonished that the moral duty to restore order is primarily ours? Before we make any commitments, we must be sure that we will not lose what we have just regained. We are not unwilling to stabilize. However, if the great trading nations elect to continue under the present absence of rules we are no longer at a disadvantage. We revalued our currency no more than was necessary and we can go either way. Our hands are untied.

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Treasury Department May 13, 1935

The following data, to which reference is made in Secretary Morgenthau's radio address of May 13, are for release simultaneously with the address.

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Domestic Sales, Export Sales, Profits and Employment, 1931-1934
Summary of Reports From Twenty-nine Companies

	Value of domestic sales (mill.$)	Percent of 1931	Value of export sales (mill.$)	Percent of 1931	Total sales (mill.$)	Percent of 1931	Percent export to total	Published profits* (mill.$)	Number of employees as of December 31st (thous.)	Percent of 1931
1931	3,475	100.0	264	100.0	3,739	100.0	7.1	77.4	677	100.0
1932	2,380	68.5	181	68.6	2,561	68.5	7.1	121.0 d/	592	87.4
1933	2,571	74.0	209	79.2	2,780	74.4	7.5	39.1	732	108.1
1934	3,220	92.7	287	108.7	3,507	93.8	8.2	128.1	796	117.6

* Profits before dividends
d/ Deficit

Reports from the following companies are included in this tabulation:

Allied Chemical and Dye Corp.
Allis-Chalmers Mfg. Co.
American Rolling Mill Co.
Anaconda Copper Mining Co.
Armour and Co.
Bethlehem Steel Corp.
Burroughs Adding Machine Co.
Cannon Mills Co.
Chrysler Corp.
General Electric Co.
Ingersoll-Rand Co.
International Business Machines Corp.
International Harvester Co.
Johns-Manville Corp.
National Cash Register Co.
National Supply Co. of Delaware
Pepperell Manufacturing Co.
Remington Rand, Inc.
Sherwin-Williams Co.
Socony-Vacuum Oil Co.
Standard Oil Co. of California
Sterling Products, Inc.
Swift and Co.
Texas Gulf Sulphur Co.
Underwood Elliott Fisher Corp.
United States Rubber Co.
United States Steel Corp.
Westinghouse Electric & Mfg. Co.
Youngstown Sheet & Tube Co.