

Washington
April 15, 1935

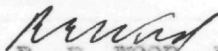
Mr. Henry Morgenthau, Jr.
Secretary of the Treasury
Washington, D. C.

My dear Mr. Morgenthau:

I attach, for your information, copy
of a letter I received from a banker in London,
whose name, however, I would withhold.

In my visit to England two years ago
at the time we went off the gold standard, this man
impressed me as the ablest and most intelligent of
all the bankers I met at the conference. I thought
his views might be of interest to you.

Very truly yours,


R. E. WOOD, President

Received
Governor's Office
APR 17 1935

London
21st March, 1935.

PER S. S. "BREMEN."

General R. S. Wood,
Messrs. Sears, Roebuck & Co.,
C H I C A G O.

Dear General,

I duly received your letter of March 6th and I sent you following telegram:

"ENGLISH GOLDPRICE LIKELY RISE ABOVE 150 ONLY WHEN GOLDBLOC FORCED OFF AS POUNDLEVEL CORRESPONDING GOLDPRICE 150 ALREADY SO OPPRESSIVE AS INDUCE FLIGHT FROM GOLD COUNTRIES OFFSETTING PRESSURE ON POUND DUE INTERNAL ENGLISH FACTORS LIKE POLITICAL ECONOMIC UNCERTAINTY LIKELIHOOD PUBLIC WORKS (Stop) PARTS GOLDBLOC MAY BE FORCED OFF NEAR FUTURE BELIEVE HOWEVER FRANCE STILL STRONGLY OPPOSED AND ABLE DEFEND OLD PARITY HELP OTHERS (Stop) THEREFORE BELIEVE ABANDONMENT GOLDSTANDARD GOLDBLOC BE FORCED BY POLITICAL DEVELOPMENTS FOLLOWING ECONOMIC PRESSURE NOT FINANCIAL CRISIS (Stop) MAY TAKE FORM NOW UNDER CONTEMPLATION ISOLATION GOLDBLOC BY PROHIBITION GOLDEXPORT NONGOLD COUNTRIES THIS WOULD BRING DOWN FRANCS AND FORCE POUNDS LOWER IN DOLLARS (Stop) IF THEN ALL COUNTRIES THROUGH ESTABLISHMENT EQUALISATION FUNDS KEEP EXCHANGES RELATIVELY STABLE AND INSTITUTE CONCERTED EXPANSION POLICIES BELIEVE INTERNATIONAL RECOVERY MAY BE AIDED (Stop) MORE LIKELY HOWEVER INTENSIFICATION ECONOMIC NATIONALISM AND TENDENCY RECOVERY RESTRICTED TO HOME MARKETS (Stop) BEST REGARDS LETTER FOLLOWS."

In the meantime, the troubles in Belgium did come to a head and we have witnessed a flight from the gold currencies depressing the gold price in London. It now appears to be probable that a national government will be formed which will maintain the parity for a limited period of time in order to calm the fears and initiate a new régime, probably of managed currency linked to sterling, as soon as the internal and international difficulties show some abatement. Obviously, the Belgian and all other gold bloc difficulties will have a tendency to strengthen sterling, and as these difficulties would enormously increase with sterling falling below 70 French francs, i.e. the gold price rising above 150/-, it seems unlikely that a gold price of over 150 should be established before France should come off.

As to the probability of this latter event, it must be borne in mind that Flandin has stated his will to maintain the gold standard in very firm terms. Nor must it be forgotten that the general fear which holds France in its grip as a result of the international political events, especially the rearmament of Germany, produces a psychological position where a change in the currency standard would have quite different and very serious effects internally, both from an economic and from a political point of view. On the other hand, France is in a very good technical

financial position. Therefore it is very probable that we shall have to see a further corrosion of the French determination to maintain the gold standard a tout prix, by the way of a continuation of deflation and depression in France.

There can be little doubt that, with the international risks increasing and with the uncertainty about the pound made more acute, such deflation and depression will in fact occur in France.

Eventually, therefore, we may anticipate an abandonment of the present gold parities by all the gold countries. It would be unwise, however, to put very much faith on this happening, at a relatively early date. However, the differences between the relative strength of the gold countries are great indeed, and it is more probable that the abandonment of the parities will happen individually rather than by concerted action. According to our informations, the French and other governments have from time to time considered the possibility of isolating the gold bloc countries from those which have already abandoned the gold standard. That would have allowed a readjustment of the external value of the gold currencies according to their balance of payments, without a formal abandonment of gold. Lately, however, these plans seem to have receded into the background.

Were there any possibility of convoking a world economic and monetary conference to come to some agreement about stabilization of currencies as part of a general agreement on tariffs, other restrictions of trade, and currency and public works policy, I could imagine that some progress could be achieved in the direction of the restoration of something akin to pre-crash prosperity.

However, there is no such possibility. Under these circumstances one will have to expect from the renewed uncertainty in the exchange markets an intensification of the protective measures (already we have an increase of our tariff schedule on steel).

Contrary to your letter, I should have thought that the sequence of events would be: a maintenance of the gold price in London around 160; a break in the gold bloc; an increase of the London price of gold up to, say, 170, according to the extent of the depreciation of the former gold countries; a further devaluation in America; and yet another struggle on the part of the European Powers to steal a march on America.

The troubles will have the effect of increasing the wish within each country to isolate itself from the rest of the world; at the same time the race in armaments will force the governments to spend freely. I can see very little possibility - at least as far as Europe is concerned - of a reversal of the trend of economic nationalism and more and more stringent regulation of business by governments. I should definitely regard a restoration of stability of currencies in terms of each other, without a similar agreement on the other points, as impossible and inopportune. I do not think that, without having flexibility recreated in economics, we can stand the strain emanating from fixed parities; and no matter how we may feel about it, I have no doubt that that is too much to hope for.

I had hoped to come to America this year; but the uncertainties and difficulties on this side are such as to vitiate any such hopes. I hope, however, that it will not be long before we see you over here.

Very truly yours,