

Confidential
"Treasury"
File

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December 29, 1936

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

Dear Mr. Morgenthau:

For your convenience, the following is a brief review of the situation regarding the replacement of the 1928 series Federal reserve notes which bear the "gold" clause. I should like to be advised as soon as practicable as to the action taken by your Department on this matter so that the Federal reserve banks may be informed:

At your request, I discussed with the Governors of the reserve banks on October 24, 1935, your suggestion that the banks discontinue issuing new 1928 series Federal reserve notes which bear the words "redeemable in gold". The Governors were willing to cooperate but felt the initiative should be taken by you because (1) Section 16 of the Federal Reserve Act provides that Federal reserve notes "shall be in form and tenor as directed by the Secretary of the Treasury" and (2) the need for substituting 1934 series notes arose from action by the Government. The Governors also felt that the replacement of the unissued 1928 notes, which had cost in excess of \$1,500,000, should be at the expense of the Treasury and I so advised you.

On December 13, 1935, you expressed the view that the issuance of new 1928 notes should be discontinued as soon as sufficient 1934 notes were available. You stated that you proposed to instruct the Bureau of Engraving and Printing to cease delivery of the 1928 notes on the assumption that, for the present, the Federal reserve agents would not issue 1928 notes when 1934 notes were available but that before taking this action you felt you should receive the approval of the reserve banks. You also stated that if the contemplated procedure were followed you would submit to Congress the question of an appropriation to defray the cost of replacing the 1928 notes.

On December 20 I advised you that the Governors were in accord with the proposed procedure with the understanding that, if Congress at the next session of Congress did not authorize the Treasury to replace the unissued 1928 notes, the question whether the banks should resume issuing these notes would be given consideration promptly after Congress adjourned. I also advised you that it was understood that acquiescence in the program would not prejudice the right of the reserve banks to resume issuing 1928 notes in case you were not authorized to replace them. On January 3, 1936, Mr. Coolidge wrote me that

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he had noted the conditions referred to above and that he had instructed the Bureau of Engraving and Printing to cease delivery of 1928 notes. The reserve banks were requested by the Board to make no further issues of new 1928 notes and orders were placed by the banks for 1934 notes to meet normal requirements.

When the program for printing notes during the fiscal year 1937 was taken up in April 1936 the Board was advised that, while your Department was entirely willing to replace the 1928 notes, it had been decided that it would not be advisable to seek an appropriation at that time and that the Department would look into the matter again at the next session of Congress and attempt then to obtain the necessary appropriation. The reserve banks were advised accordingly.

Very truly yours,

(Signed) M. S. Eccles

M. S. Eccles,
Chairman.