

December 29, 1936.

Dear Henry:

The Paul Mallon article, to which the enclosed letter refers, doubtless was brought to your attention by Mr. Gaston as it was to mine by Mr. Thurston. I deeply regret that Mr. Mallon should so grossly misrepresent the facts. After discussing the matter with Mr. Thurston, it was decided that it would be better for him rather than for me to take this matter up directly as he knows Mr. Mallon personally.

It occurred to me that you might be interested in seeing the copy of the letter enclosed which has gone forward to Mr. Mallon. This expresses fully the sentiments both of the Board and of myself.

Sincerely yours,

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

enclosure

 ET:b

December 28, 1936.

PERSONAL AND CONFIDENTIAL

Mr. Paul Mallon,  
Woodward Building,  
Washington, D. C.

Dear Paul:

Because of our many years of friendship, I feel that I may be permitted to take you to task for that article of yours which appeared in the Star of December 23d. You say in this article that the gold sterilization plan was "not devised in the Treasury at all", that Federal Reserve "idea-men subtly switched their proposed method of handling the coming boom and selected the entirely innocent Treasury Secretary as their agent", and that this step modifies the announced purpose of the Federal Reserve System to deal further with the existing problem of excess reserves.

It looks as if some mischievous person—and I cannot imagine who it would be—has imposed upon you and thus marred your record for accuracy, which Dr. Goldenweiser considers very good. Anyway, you have got this thing completely upside-down, and starting from a one hundred percent erroneous premise, you have arrived at an equally erroneous conclusion. The truth of the matter is that the gold sterilization plan originated wholly and exclusively with the Treasury and was first brought to the attention of Mr. Eccles, his colleagues on the Board and the technical staff here by the Secretary of the Treasury. Therefore, the assertion that this was somehow concocted by some designing Reserve System people and put over on the unsuspecting Treasury is the purest fiction and fancy. The same goes for the corollary that this in effect is an ingenious device to escape from the dilemma of letting more air out of the balloon, as I think you put it. Now, you can confirm any or all of this by checking with anyone on the Board or staff here or at the Treasury who is in the least familiar with the facts.

Mr. Paul Mallon - (2)

I would not presume to take you to the woodshed in this matter but for the fact that quite seriously it has caused the Chairman and all members of the Board as well as of the staff a great deal of heartache. The imputation, naturally, is that something was being put over on the Treasury. Aside from the fact that this is manifestly a reflection on the integrity and good faith of the Reserve officials and staff, the really important point is that it tends to poison the atmosphere and to destroy the very essential spirit of full and frank cooperation which exists between the Treasury and the Reserve System. I am sure you will agree that it is not in the public interest to have anything occur, particularly a gross misrepresentation of the facts, which would disrupt that very necessary cooperation. I do not need to emphasize to you how intolerable the situation would be from the standpoint of the public interest if these two agencies of government, each possessing broad powers affecting credit and monetary conditions, were to attempt to operate separately, without consultation and in an atmosphere of suspicion or rivalry--in short, if they were to attempt to function without the fullest and frankest cooperative spirit. I can assure you, as I know any informed person either here or at the Treasury can, that that kind of cooperation does exist. It is very distressing, to say the least, to have you broadcast an essay that makes it appear that this Board and its staff are not acting in good faith or in conformity with a proper spirit of cooperation.

I am not venturing to suggest that it is possible now to correct this erroneous impression, but it certainly would be much appreciated if you would give us a chance to lay the facts before you in the future before giving circulation to definitely harmful impressions which are, as in this case, exactly contrary to the facts. In the prevailing spirit also of sweetness and light that appears to have descended upon the country temporarily, I trust that you will forgive me for bluntly bringing this matter to your notice. It could not properly go unchallenged. I know that you are very busy, but if you would go to the trouble of phoning, even if you cannot get around here once in a while in person, you could at least check upon the fairy tales that are sometimes purveyed to trusting columnists like yourself, as I know from painful experience.

Please consider this confidential and off the record. I shall not attempt to temper what I have said by any gratuitous



Mr. Paul Mallon - (3)

flattery, but I will add that the attention given here to your cockeyed article and the grief that it has caused are not altogether unflattering. Now, if it were an article by \_\_\_\_\_,-- you can fill in the names,--I would not trouble to explain the facts.

Faithfully,

 ET:b

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The citation for the original is:

Mallon, Paul. "Gold Control Plan Marks Switch – Excess Reserve Boost Limited as Boom Control." *Washington Star*, December 23, 1936.