

DIARY

Book 58

March 5 - March 8, 1937

- B -

	Book	Page
Bank for International Settlements		
Cochran reports on March meeting - 3/8/37.....	LVIII	357
Bell, Daniel W.		
HMJr tells FDR, Bell is a very sick man; asks FDR to tell him to go away for two weeks - 3/8/37.....		338

- C -

Capone, Al		
Wait (Treasury Attache, Paris) cables concerning transfer of several million dollars gold notes and bonds now in safe deposit vault in United States to Europe in private yacht - 3/5/37.....		45
a) HMJr withholds comment pending receipt of reports referred to		
Cochran, H. Merle		
HMJr asks Hull to make Cochran Counselor in Paris or Counselor at Large; additional rank will help - 3/8/37.....		376

- E -

Enforcement Agencies, Treasury		
Organization and progress of plan of coordination of Treasury Department agencies at Honolulu, Territory of Hawaii, for the suppression of smuggling of narcotics - 3/8/37.....		307

- F -

Financing, Government		
<u>3/15/37</u> - Meeting in HMJr's office; present: Taylor, Bell, Harris, Seltzer, Harrison, Haas, and Lochhead - 3/6/37..		182
a) HMJr decides "to do the conservative thing; par for par - especially with a close of 101.5"		
b) HMJr-Burgess conversations.....		206,213,22 225,242
Announcement of offering of an additional issue of 2 $\frac{1}{2}$ % Treasury bonds of 1949-53, in exchange for 3% Treasury notes of Series B-1937, maturing April 15, 1937; exchanges will be made par for par, with an adjustment of accrued interest *****; \$502,361,900 of the notes of Series B-1937 will mature on April 15, 1937; offering of Treasury bonds will be limited to the amount of such Treasury notes tendered and accepted for exchange; cash subscriptions will not be received - 3/8/37.....		325
France		
For defense loan, see Stabilization: France		

- G -

Governors' Conference on Unemployment
See Unemployment Relief

Book Page

- H -

Hoffman Island

For discussion of transfer from Public Health Service
to New York City, see Book LVI, page 36

Letter signed by HMJr authorizing transfer, lost;

HMJr asks McReynolds to prepare another one -

3/6/37..... LVIII 180

HMJr quotes LaGuardia as saying New York City will take
Island for three years; HMJr says lease will be \$1 a

year - 3/8/37..... 314

a) McReynolds says there are at least three
precedents for this

- L -

LaGuardia, Fiorello (Mayor, New York City)

HMJr's pencilled memorandum after Cabinet meeting:

FDR in hearty sympathy with LaGuardia statement about Hitler but
FDR would have made it stronger - 3/5/37..... 44

- N -

Narcotics

Thompson reports on European visit (Amsterdam) - 3/6/37.. 247

Organization and progress of plan of coordination of

Treasury Department agencies at Honolulu, Territory of
Hawaii, for the suppression of smuggling of narcotics -

3/8/37..... 307

- R -

Railroad Retirement Act

See also resume 2/24/37-4/21/37 - Book LVI, page 175

Magill's memorandum reporting on events to date, which

HMJr took to Cabinet - 3/5/37..... 38

Haas memorandum to Magill on proposed bill - 3/8/37..... 300

Actuarial estimates of cost of proposed bill - 3/8/37..... 302

HMJr tells Magill to "carry the ball and I'll back you
up" - 3/8/37..... 318

Report of conference between Latimer, of Railroad

Retirement Board, and Magill, Haas, Reagh, and D. W. Bell
transmitted to FDR - 3/8/37..... 323

Russia

See U.S.S.R.

St. Pierre, Island of

See Narcotics

Stabilization

Bank for International Settlements:

March meeting reported by Cochran - 3/8/37..... LVIII 357

France:

After Cabinet meeting, Blum announces restoration of freedom of gold movement, effective Monday, March 8 - 3/5/37..... 1

a) Committee of experts to direct Equalization Fund set up: Labeyrie, Rueff, Baudoin, and Riat

b) Beginning Monday, Bank of France will buy and sell gold without identity requirements; hope that this will restore confidence, prevent further export of "frightened" capital, and convince investors to lend the Treasury needed money

c) Bank of France will buy gold at current rate, thereby abandoning the previous policy of buying at pre-devaluation rate

(Cochran's cables on pages 85,111 - 3/5/37)

(Bingham's cable on page 113 - 3/5/37)

HMJr discusses with FDR - 3/5/37..... 3

a) Explains law whereby gold could have been seized; instead, law is to be rescinded and the holders of gold to be given full benefit of devaluation

b) HMJr considers it a scheme which will not work

c) FDR approves of HMJr sending for Bonnet

HMJr's conversation with Knoke - 3/5/37..... 3-A

a) Both disappointed with last move of French

b) HMJr says Bonnet has been with him one hour and has gone back to call up French; he (Bonnet) does not seem to understand move

c) As HMJr and Knoke understand it, French private individual gets profits under gold holdings

d) HMJr feels French should either devalue further or announce they have no intention of so doing

e) HMJr asks Knoke to call Bank of France and Bank of England

(Actual conversations, pages 36,37)

Bonnet calls on HMJr; present: Jules Henry, Taylor, Lochhead, and Feis - 3/5/37..... 10

a) Conference as reported in "Le Petit Parisien" - 3/5/37..... 23

HMJr-Cochran conversation - 3/5/37..... 26

a) Entire Cabinet meeting discussed

b) Blum to appeal over the radio March 6th, and on Sunday, March 7th, the President of France, President of Chamber (Caillaux), and President of Senate

Oliphant memorandum: No foreseeable development in French situation where United States would have to prepare legal documents to safeguard Government's interests - 3/5/37..... 35

	Book	Page
Stabilization: France (Continued)		
HMJr-FDR conversation at noon - 3/5/37.....	LVIII	48
a) HMJr: "Blum has made statement and said nothing about devaluation; French always rely on United States to support the franc and the pound and so far today we have heard nothing; we think French Stabilization Fund is exhausted"; FDR agrees; HMJr tells Mrs. Klotz he thinks "Hitler will strike either Saturday or Sunday"		
1) HMJr repeats to Harrison that United States will "sit tight" - 3/5/37.....		49
Mallet calls on HMJr; present: Feis, Taylor, and Lochhead - 12:30 P.M. - 3/5/37.....		53
a) Chancellor's communication states, "As regards gold movements position of France today and of United States in 1933, they seem to differ greatly; French difficulty is largely that she has lost great quantity of capital" (Actual message on page 60)		
b) HMJr reports on last-minute action: since Blum's statement at 10 A.M. French time, franc has dropped from 4.64½ to 4.59, and for first time United States has no orders from French Government to buy francs at any price; French "did £13 million today and British did £15 million"		
c) HMJr has begged Chancellor for past week to make statement but he has not done so; United States will carry on for the rest of the day and will <u>not</u> let down sterling dollar rate		
d) Bonnet is returning at 4:30 and HMJr asks Mallet to return after that		
Rates finally received (price that works out at 4.41 - about 6%) and HMJr so informs Cochran - 1:33 P.M., 3/5/37..		63
Bonnet calls on HMJr; also present: Jules Henry, Feis, Taylor, and Lochhead - 4:30 P.M., 3/5/37.....		67
a) Bonnet reports official communication states no change in monetary situation; merely a new order: Bank of France can now purchase gold at daily price and until now could not do so; this is the only change; no definite stabilization of franc; Bonnet gives resume leading up to present step, which is new effort on part of Government to encourage holders of gold to bring it to the Treasury; HMJr adds, "Is it not better to put French currency in line with rest of world voluntarily rather than be forced to do so?"		
Upon departure of Bonnet and Henry, Mallet calls again on HMJr; present: Taylor, Feis, and Lochhead - 3/5/37.....		74
HMJr talks to Knoke at 5:15 P.M. - 3/5/37.....		76
a) HMJr: "I hear you can't buy any sterling; they won't let you have it"		
b) Knoke: "True, but we bought 50,000 at 13/16ths and at the moment we are fishing for a hundred at 3/4; we'll not lose money at 7/8ths"		

	Book	Page
Stabilization: France (Continued)		
HMJr talks to Knoke (Continued).....	LVIII	76
c) HMJr: "Push it to the limit - 7/8ths"		
d) HMJr: "French Ambassador to 'phone Auriol tonight and report 9:30 tomorrow morning"		
After Mallet's departure, Taylor hands HMJr his "guess" on what will happen - 3/5/37.....		82
Cochran cables after conference with Rueff - 8 P.M., 3/5/37.....		116,148, 231,233
(For previous Cochran cables, same day, see pages 85,111)		
a) Rueff inquires whether United States will object if French Government named some bank or firm in New York, such as J. P. Morgan and Company, to act as agent in United States for purpose of paying coupons of proposed loan in cases where payment is requested in dollars; stresses fact there would be no subscription in United States		
Press comment on French Cabinet meeting - 3/5/37.....		123,177
Bonnet and Henry call on HMJr - 9:40 A.M., 3/6/37.....		150
a) After departure of Ambassador, George Harrison and Oliphant join group (Livesey, Taylor, and Lochhead also present) - 3/6/37.....		157
1) HMJr tells group Ambassador added nothing new		
2) Oliphant reports opinion of Department of Justice on "some bank or firm in New York, such as J. P. Morgan and Company, to act as agent in United States for purpose of paying coupons on French loan" that, while such designation might not be violation of Johnson Act, nevertheless the sale of bonds to Americans would be a violation and no officer of the Government can undertake to approve any measure calculated to encourage such sales.....		158
a) Actual dictated opinion.....		161
b) Later, Attorney General Cummings adds he deemed it largely a question of policy.....		200
(Actual statement in Cummings' handwriting, page 263)		
3) In midst of conference, ticker reports (not officially confirmed) agreement under which American banks may invest in forthcoming French defense loan without infringing the Johnson Act		
a) HMJr: "Nice thing about French is they never wait for your answer"		
Mallet confers with HMJr - 10:35 A.M., 3/6/37.....		162
a) Cable, probably from Sir Warren Fisher, states constant attention will be given to pound dollar fluctuations today		
b) HMJr tells Mallet of French proposal that bank or firm in New York act for them in cashing coupons		

	Book	Page
Stabilization: France (Continued)		
HMJr informs Hull of conferences - 3/6/37.....	LVIII	174,235
Bank of England tells Knoke "things not too bad at the moment" - 3/6/37.....		259
HMJr discusses Cummings' opinion (see page 263) with FDR - 3/6/37.....		267
Gaston reports newspaper reports want conference "even though you won't tell them anything" - 3/6/37.....		270
HMJr dictates Cummings' opinion to Cochran - 3:30 P.M., 3/6/37.....		271
HMJr reports Cummings' opinion to French Embassy.....		277
" " " " " Mallet.....		282
Paris newspaper comment indicates French loan may be postponed - 3/6/37.....		284
Butterworth (American Embassy, London) tells HMJr British Treasury has been informed by French that Bonnet has obtained HMJr's consent "to allow French loan to be ***** to the American market" - 3/6/37.....		285
a) HMJr tells Butterworth, Lochhead will read to him opinion from Justice Department which will show "United States has turned him down"		
Newspaper comment on status of French loan - London, Washington, Paris, New York - 3/6/37.....		289
French loan postponed for two or three days; Wilson reports confirmation at the Presidency of the Council (Cochran at Basel) - 3/7/37.....		299
Mallet delivers to HMJr, Chancellor's message, "We have already refused a corresponding request for paying arrangements in London" - 3/8/37.....		331
a) HMJr informs FDR, who has no comment		
b) Cochran reports receipt of French answer by French - 3/8/37.....		375
1) Cochran has been requested by Rist to ask HMJr to reconsider refusal; HMJr says "no"		
2) HMJr reports conversation to Hull - 3/8/37.....		376
"Storm rising in Congress on Paris loan" - New York Herald Tribune - 3/8/37.....		337
a) HMJr tells FDR he has asked Robinson's office to call in Committee of Foreign Affairs and let him (HMJr) tell them what he has done to "save us from attack on the Hill"; FDR says to omit Borah and Johnson - he wants to lay a trap for Borah.....		338
Press conference - 3/8/37.....		339
Press comment - Paris, Washington - 3/8/37.....		377
Bonnet confers with HMJr - 2:30 P.M., 3/8/37.....		401
a) Asks reconsideration of American decision		
b) HMJr says it is not fair to place responsibility for success of loan on decision of American Government		
c) HMJr-Fels reaction.....		417
Mallet confers with HMJr - 4:45 P.M., 3/8/37.....		418
a) Chancellor's message on British reaction to French position in spite of objections of both British and United States Governments, given		

	Book	Page
Stabilization: France (Continued)		
American Embassy (Paris) cables concerning Blum's broadcast on March 6th and Chauteemps speech at Chartres on March 6th - 3/8/37.....	LVIII	437
Cochran cable on Rist call with regard to exchange option clause and Leith-Ross visit - 3/8/37.....		441

Unemployment Relief

HMJr reports on conference with Governors at White House - 3/6/37.....		249,250,2
Hopkins asks HMJr (1) should he (Hopkins) make second appointment for Governors with FDR; HMJr says "no"; (2) should he make an appointment with Lehman as spokesman; HMJr does not see how FDR can refuse this - 3/6/37.....		279
HMJr tells 9:30 group about conference with six Governors at White House - 3/8/37.....		311
a) HMJr tells group that Hopkins asked him, on a personal basis, for advice as to whether he should tell the Governors that he would or would not stop cutting his relief rolls at this time; HMJr tells him that it's his problem		

U.S.S.R.

HMJr tells Oliphant, Wallace is worried because Russia has bought couple of million pounds of alfalfa seed; real shortage of good seed in United States; Garner inquires whether there is some clause in Customs laws by which United States could keep agricultural products from going out; Oliphant will investigate - 3/5/37.....		102
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366
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March 5, 1937

9:15 a. m.

HM, Jr. called the President and said to him, "I got quite a lot of stuff as to what the French Cabinet did this morning." The Secretary then read the following ticker reports to the President:

Paris - U P - Premier Leon Blum announced after a cabinet meeting today the restoration of freedom of gold movement effective Monday.

He denied that the Government intended to devalue currency or control exchange but said that on the contrary the Government would liberalize finances.

The Cabinet decided to create a committee of experts to direct the equalization fund composed of Emile Labeyrie, Governor of the Bank of France, J. Rueff, Director of the Bank and Paul Baudoin.

It was decided to issue a national defense loan to cover the rearmament program.

Premier Blum announced that as a result of the freeing of gold movement the Bank of France beginning Monday would buy and sell gold without identity requirements.

This measure Blum explained was intended to restore confidence, prevent further export of "frightened" capital and convince investors to lend the Treasury the money it needs.

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8:25 a.m. Blum said at the end of a two-hour cabinet meeting the Tripartite accord - France, the United States and Great Britain

~~307~~
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remains the base of French monetary policy.

He said that he would address the nation by radio tonight to explain the Government's financial decisions.

President Albert Lebrun also will break precedent to speak to the nation on the radio appealing for support of the national defense loan which Minister of Finance Vincent Auriol said would be opened Monday morning. He did not specify the total.

Purchases of gold by Bank of France will be made at current rates.

The Committee appointed will also control the rentes market.

Various measures providing for economy in expenditures have been adopted.

8.35 a.m. The Cabinet decided that the Bank of France would buy gold at the current rate thereby abandoning the previous policy of buying at the pre-devaluation rate.

The stabilization committee was given surveillance powers over the Government security market.

It was decided that there should be no new expenditures except to raise the pay of the lower levels of civil servants.

As the result of the new gold policy the Government hopes that part of the hoarded gold estimated to total around 20,000,000,000 francs will return to the Bank of France.

The national defense loan it was said would

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be issued with a guarantee and exchange option and would be the only loan issued this year.

The Committee of experts to direct the equalization fund also includes Charles Rist, noted economist.

Premier Blum it was later announced will address the nation tomorrow night and not tonight.

HM, Jr. then said to the President, "What they have done is this: they had a law where they could have seized gold, but instead of that they are now going to rescind that law and give the holders of the gold the full benefit of devaluation, the same as if we had given the holders of gold in the United States \$35.00 an ounce instead of \$20.87 an ounce, with the hope that gold will come out.

"Of course it is just a cock-eyed scheme, which will not work.

"We are having a very bad day today and had a very bad one yesterday. I would like to have your permission to send for Bonnet and be very frank with him and tell him that this thing is not going to be of any use, and then if he asks me, 'What do you suggest?' then I will tell him that they must devalue further."

The President approved of HM, Jr's sending for Bonnet.

The Secretary then said to the President, "I was thrilled to death by your speech of last night. It was marvelous. It hooked right on to your Madison Square speech. You said you wanted this power because you needed it -- not because you do not like the color of the eyes of the judges."

The President answered, "They were not particularly friendly in the beginning, but I think they liked it before I got through." HM, Jr's next statement was, "I would not be discouraged if the press does not give you a good review. That was a great speech and I wanted to tell you that."

March 5, 1937.
9:13 a. m.

H.M.Jr: Hello.

Knoke: Good morning, Mr. Secretary.

H.M.Jr: Well Professor Knoke how do you feel about the last move at the bank?

K: Very little satisfied - very disappointed.

H.M.Jr: Me too.

K: Yes.

H.M.Jr: I just had the French Ambassador here for one hour.

K: Yes.

H.M.Jr: And he's gone back to call up the French because he - he doesn't seem to understand it. This is my own guess. I can't see on this move that the French investors are going to rush back to France on Monday and borrow - and buy French government bonds, do you?

K: No reason to assume that whatever.

H.M.Jr: Yes. Now until - until the French - now the way this decree reads they now - the French private individual gets the profit under the gold holdings.

K: That's right.

H.M.Jr: And knowing that they can go another 8% he's going to sit tight in London until he gets his profit, isn't he?

K: Yes that's (laughs) that's probably the prime reason for him not to move. Another reason is that I think the - ah - he will turn in his gold only if, as and when confidence is reestablished - it isn't reestablished yet.

H.M.Jr: Yes. But the French have got - the way I sum up the thing the French have got to do one or two things. They've either got to say "We're not going to devalue further," or "We are going to devalue further."

K: Yes.

H.M.Jr: But they've said nothing about that this morning.

K: Right.

H.M.Jr: Am I right?

K: That's correct.

H.M.Jr: And until that thing is settled nobody is going to rush back with their gold.

K: Yes sir.

H.M.Jr: What?

K: That's right and may I just add one thing. I venture even to say that they won't devalue I think won't do any more. I think they'll have to be positive and say that they will either - that they will go down to the 43 milligram. I don't think that stabilization at the present price - say 4.65 in terms of the dollar will do the trick any more.

H.M.Jr: No, they've got to go down to 43.

K: Right.

H.M.Jr: Well you and I check.

K: Yes.

H.M.Jr: That's what I was saying around here for ten days but they - everybody's got me scared from saying it.

K: Well you know last Friday when I was down there I pointed out....

H.M.Jr: What's that?

K: When I was down there last Friday I pointed out that Baudouin originally thought he was willing to do it - to definitely stabilize at present levels.

H.M.Jr: Who's Baudouin?

K: Baudouin, you know the fellow who was suggested.

H.M.Jr: Yes, but that was his position.

K: Pardon me?

H.M.Jr: That his position that he took.

K: Yes, now since then more water has gone over the dam.....

H.M.Jr: Yes.

K: ... and I very much doubt whether he would be willing to try it to-day at the present level any more.

H.M.Jr: Yes. Well you and I check - ah - you might tell Governor Harrison of our conversation, will you please?

K: All right, sir. I checked with him this morning and....

H.M.Jr: Well you tell him the French Ambassador is coming back here at 4:30 and if I have anything I'll let you know.

K: Thank you very much, sir.

H.M.Jr: Have you talked to Cariguel to-day?

K: Well - ah - I hadn't planned to.

H.M.Jr: Well you might. You might call him up I think.

K: All right.

H.M.Jr: Please.

K: Yes, all right.

H.M.Jr: Have I got any excuse to call up the Bank of England?

K: Well I spoke to him at 12 o'clock yesterday.

H.M.Jr: Well talk to him again to-day.

K: All right. All right, I will.

H.M.Jr: Please. Thank you.

GROUP MEETING

March 5, 1937

9:30 a.m.

Present: Mrs. Klotz
Mr. McReynolds
Mr. Lochhead
Miss Roche
Mr. Haas
Mr. Taylor
Mr. Gaston
Mr. Oliphant
Mr. Magill

H.M.Jr: I'd like to make this very short and snappy this morning, because I've got troubles. How are you (McReynolds)?

McReynolds: I am feeling very well.

H.M.Jr: Good. Well, they call it intestinal flu now; I used to call it something else. Mrs. McReynolds said that you got it before you came to my house Monday night.

McReynolds: That's true. I didn't get anything there. I got it over here at Dikeman's Lunch. I've been advertising the place. I just went over there and got a sandwich. We fussed around with that stuff until it was almost time to go, then I went over and got a sandwich.

H.M.Jr: You looked awful, but I didn't say so because I don't believe in telling people they looked awful until they look better.

Mac, take a look at the letter which I sent to McIntyre on alcohol.

McReynolds: I've read it; I thought it was very appropriate.

H.M.Jr: I'll go you one better; I thought it was a masterpiece.

McReynolds: I thought it was perfect.

H.M.Jr: If anybody is interested, it is available. We went very noble and said we were setting an example on what a good piece of legislation should be, and that the critics of the President's reorganization plan naturally would look at any reorganization with a magnifying glass and, therefore, this must be a model; that Mr. Alexander's criticisms were not

- 2 -

pertinent at this time. Let them laugh that one off.

Oliphant: You had asked him to report to the President?

H.M.Jr: Who?

Oliphant: Alexander.

H.M.Jr: Oh, no. Oh, no.

McReynolds: At the meeting the last Friday - last staff meeting, you had told Alexander that if he had anything to say about it, he was at liberty to present it, and you would see that it got to the President.

H.M.Jr: But it didn't clear through us, did it?

McReynolds: No, it didn't clear through us. He tried to give me a copy but I wouldn't take it.

H.M.Jr: Miss Roche, did you say

Roche: It seems to be relatively calm so far. I'm just waiting for a call. I think it's going to be all right.

H.M.Jr: George?

Haas: I have nothing.

H.M.Jr: Wayne?

Taylor: Nothing.

H.M.Jr: If you will stay after this meeting.

Gaston: Mr. Upham wired me yesterday his Mother was operated on yesterday and was doing very well.

H.M.Jr: Suppose you (Mrs. Klotz) send a telegram that I am glad to hear his Mother is feeling better, hope she will have a quick recovery - best regards. Not best regards, but best wishes - just a friendly telegram.

Gaston: I had some inquiries from the Chicago newspapers about a rumor which is said to be circulating in Chicago that various people of our Treasury people in Chicago were to be shifted out of there; included about everybody

of any - Callaghan and Tidwell and Yellowley was at the head of the list, and Mrs. Bass and Madden. The story in circulation was that they were all to be removed out of there. Obviously some of Frank Igoe's propaganda. Harold Graves has some more information about it that he can give to you if you are at all interested.

H.M.Jr: Well, only if it is important. Huh?

Gaston: Well, it's going to get important sooner or later. This fellow - there just has got to be a showdown with this fellow Igoe sooner or later. He got the Grand Jury to make a report criticizing Yellowley.

McReynolds: But it was a very poorly done job, because the kind of criticism made by the foreman of the Grand Jury of Yellowley's people would only have been made by their legal adviser.

Gaston: Yes.

McReynolds: Who - this fellow Glazer - and he criticizes their legal presentation.

H.M.Jr: Well, you fellows will have to carry the ball on this because I just can't be bothered now. All I can do is - I told Yellowley I'd see him through and he's got nothing to worry about and to carry on; that's all I can do today.

Gaston: Stewart Berkshire went out there, and he's going again.

H.M.Jr: Well, I just can't worry; I mean I told Yellowley face to face.

Now one thing I am worried about, and I don't know just how this thing works - I'd like a lawyer. Here is a piece in the paper that Mr. Harlan is a member of the firm of Moyle, Wilkinson, Suydam, and Harlan, and I'd like to find out whether that firm is going to practice before the Treasury.

McReynolds: They do practice before the Treasury. They are admitted to practice. That's an old firm and he is merely joining up.

H.M.Jr: What's Commissioner Moyle going to do?

Mrs. Klotz: That's his son.

H.M.Jr: I know, but I still say, what's Commissioner Moyle going to do? I'm not going to have another case like the former Senator from Utah and his son. What was his name?

Haas: Smoot.

H.M.Jr: Reed Smoot, his son. Mac, I haven't got time, but you send for Commissioner Moyle and ask him just what he is going to do. I mean

McReynolds: See, this boy - Moyle has been a member of that firm for quite some time.

H.M.Jr: All right, but I want to know what Commissioner Moyle is going to do. I mean is he staying in the Treasury or not. I want to know flatly.

McReynolds: O.K., I'll get it cleared.

H.M.Jr: What?

McReynolds: Yes, sir, I'll find out flat.

H.M.Jr: I want to know. Think I'm within my rights (to Oliphant)?

Oliphant: (Nods yes.)

H.M.Jr: What?

Oliphant: You know what I told you.

H.M.Jr: I know.

Oliphant: The arrangement has not been carried out.

H.M.Jr: What?

Oliphant: The arrangement has not been carried out.

H.M.Jr: No. Well, let Mac start something on it today. Are you (McReynolds) up to it physically?

- 5 -

McReynolds: Yes.

H.M.Jr: All right. You see, I was told that upon Harlan's entering this firm, Commissioner Moyle expected to resign from the Treasury. That's what I was told. Now I'd like to know whether that is so or not, see? I wouldn't mince words.

McReynolds: I won't.

H.M.Jr: I mean would you mind?

McReynolds: Not a bit.

H.M.Jr: What?

McReynolds: Not a particle.

Gaston: By the way, those documents went out last night to the three editors, and the rest of the stuff I will deliver.

H.M.Jr: Better do it today.

Gaston: Yes, I will.

H.M.Jr: Lay it all, with a schedule, on Steve's desk.

Oliphant: I'd like to have three minutes.

H.M.Jr: Right after this.

Magill: Nothing new.

H.M.Jr: All right.

Haas: May I ask a question?

H.M.Jr: Sure.

Haas: Is it convenient for you if I be away on the 18th - that's Thursday - 18th, 19th, and Saturday is the 20th - to go up to this Harvard thing? Otherwise, I can forget about it altogether. I thought maybe you were going to be away.

- 6 -

H.M.Jr: I am, if the Lord is good to me. Yes, sure.

Haas: O.K.

H.M.Jr: I tell you (Taylor) what you better do. If you haven't seen that, read this stuff, Wayne, will you? Then be back at five minutes of ten. Suppose we do it that way, see? Feis will be here at five minutes of ten. That will give you five minutes to sound off. And you (Lochhead) be back at five minutes of ten.

And then if Dr. Oliphant will stay.

March 5, 1937

10 a. m.

Present:

- Ambassador Bonnet
- Mr. Jules Henry
- Mr. Taylor
- Mr. Lochhead
- Dr. Feis.

(Note: Unless otherwise specifically stated, the Ambassador's remarks were in French and were interpreted by Mr. Jules Henry.)

HM, Jr: Mr. Ambassador, the reason that I asked you to come at this hour, I don't know whether you have had time to get your despatches, but this news comes over our ticker service and if you haven't read it, possibly you would like to read it. I don't know whether you have had your despatches yet, but this is what your Cabinet have done.

(The Ambassador read the ticker announcement as recorded in the transcript of HM, Jr's conversation with the President at 9:15 today.)

The Ambassador: Thank you very much, Mr. Secretary.

HM, Jr: I think that this is approximately correct, because I talked to our embassy at 7:30 this morning and they had a report then (it was 12:30 Paris time) which was about the same as this.

Now, Mr. Ambassador, I need not tell you that my only interest is to see your Government succeed.

The Ambassador: Thank you.

HM, Jr: And anything that I say is from the standpoint of friendship and wishing to be helpful. And I want to be able to talk very frankly and in the strictest of confidence, because if there are any leaks it makes my work and your work impossible.

Mr. Henry: The Ambassador says he is a most discreet man.

~~11~~

The Ambassador: (In English) Certainly.

HM, Jr: When I read this, my reaction was I was terribly disappointed, because sitting here, several thousand miles away, my guess is that it will not be enough, and I wonder if the Ambassador would give me his quick reaction.

The Ambassador: (Mr. Henry interpreting.) It is easier for me to speak French because it is very difficult to explain these questions.

He speaks to you very frankly and in all confidence. He thinks it was the only measure that the French Government could take in order to remedy the situation in which it found itself, and because if the Government now had taken more drastic measures and had gone further in their devaluation, a very serious political crisis would have taken place.

Before I came to Washington I saw on many occasions the Prime Minister. He had consulted me. And at a conference I gave him advice to decide on the definite stabilization of the franc. Why? Because in my opinion the crisis in France -- two technical reasons: the first one was that since the stabilization fund in France -- since the fund had stabilized the dollar and the pound at a fixed ratio with the margin of large enough fluctation, all the French people and mostly the exporters thought that they would leave abroad the foreign money that they had because they were sure that the dollar and the pound would not go down; that, on the contrary, the pound and the dollar had chances to go up. The French dealers and business men who had pounds, due to the policy of the French equalization fund, they knew that the pound they had was worth 105 francs; that the pound would not go below that, and, on the contrary, that if there was any chances of movement the movement would be better -- that the pound would be worth more than 105 francs, due to the French temper. When the people sold, the pound was never fluctuating below 105. The French business men had decided impression that the pound would never go below 105. If it was going to fluctuate, it would fluctuate up and not down.

That, in my opinion, says the Ambassador, is one of

causes that was hanging over the French financial situation.

The second reason was not a monetary one, but was the Treasury situation. They knew in France that due to the very heavy expenditures of the Treasury, the Treasury would have to borrow a considerable amount of money and it was the opinion that the present Government, due to the very strong opposition on the part of the capitalists of France, could not succeed in its borrowing policy of placing loans. And so the idea was spread -- the opinion was spread -- the Government would not succeed to place loans. Therefore the Government would be bound to take some inflationist measures. And that opinion spread over the country and became another reason for the weakness of the franc. The measures just taken by the Government put an end to those two causes.

First, concerning the uncertainty of the franc. Now the franc is fixed -- is definitely fixed -- and the cause of uncertainty disappears. The second cause also disappears, because by fixing -- by deciding a definite stabilization -- the French Government can dispose of several billions of francs due to the devaluation of the gold of the Bank of France. In fact, one should not forget that it was the lowest rate. That devaluation of the gold of the Bank of France had been established last September. If the French Government stabilized at the rate of the franc held since last September they would be able to dispose, besides the equalization fund, of a revaluation of the gold reserves about 8,000,000,000 francs. If, on the contrary, the Government goes to the lowest rate of the Tripartite Agreement, it would not be 8,000,000,000 francs, but 12,000,000,000 francs that it could dispose of, since the revaluation of the reserve of the Bank of France and the new resources of the Treasury will permit our Government to spend at least six months without being compelled to issue loans on the domestic market immediately.

I wish to add that before I left France I had indicated to Mr. Blum, who had consulted me the day before I left, that in my opinion there were two other things to do. First, say very strongly to the public that a stop would be put to the expenditures of the Budget. Second, that the Government would do all in its power in order to stop rising prices. The process would be through the new

~~28~~

opening of the market for foreign products which would help stop the very rapid rise in prices.

Since I have come to this country I have been glad to see that, on the first point, a stopping in the expenses, Mr. Blum in one of his last speeches at San Nazaire, Paris, when he addressed the public servants of France, said he could not grant any more raises in salaries -- was agreed with my views. As to the second recommendation, the necessity to lower prices through granting more facilities to foreign products on the French market, I know that since I left France the Prime Minister has encountered some difficulties on the part of the political population which, of course, are pleased by the rise in prices. But my impression is that the appointment of Mr. Rist, who is a personal friend of mine and colleague and worked with me, means that Mr. Blum is willing to enter into -- to accept that second recommendation.

Therefore, my conviction is he has done the only thing which could remedy the present situation.

Now I understand fully the opposition of Mr. Morgenthau -- your objection, your opinion that it is not enough. (Mr. Henry explained: You started by saying it is not enough and he understands that.) He understands your fear that it is not enough. Maybe it would have been necessary to go further. But the French Government could not do it, first, because the Tripartite Agreement to which the Government remains faithful is there, in existence. Second, on account of the promises he made to the Parliament; that if Mr. Blum had been advised to decide upon a greater devaluation, a devaluation of course bigger, more important, than the one promulgated in the Tripartite Agreement, it would have precipitated immediately a crisis.

HM, Jr: I don't want the Ambassador to think that I am implying that he should devalue beyond what your own law provides. You see, after all, when I came to the Treasury here, in the fall of 1933 -- if I talk slowly you understand?

Mr. Henry: Yes, he understands.

HM, Jr: Our Treasury could not borrow either, and the financial interests were all opposed to us -- bankers,

14
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everybody. So I have the greatest sympathy for your Government who are more or less in the same predicament that we were a little over three years ago. But I just want to point out that we followed a different course than you have followed. That after we devalued, we took all of the gold held by our citizens at the price before devaluation, namely, at \$20.67 an ounce. And, of course, you passed a decree which would have given you the same power -- to take the gold at the price before you devalued. But you didn't enforce the decree. Now, instead of following the same plan which we did, you are permitting the holders of gold to turn their gold in at the new price of gold. Furthermore, we experimented with the price of gold and kept raising it until we reached the price of \$35.00, and when we reached \$35.00 we felt that was the right price. Up until now it has proven to be the right price, for three years.

Now, when you devalued, you only went half way. You only went half way. And it looks to an observer outside of France who is not familiar with the internal political problems that you didn't go far enough. Possibly the moves which your Government took today will correct that. I sincerely hope so. But I am very doubtful.

The Ambassador: (Mr. Henry interpreting) The Ambassador says that although he is bound to observe a certain reserve, he fully understands your point of view and does not contest your opinion.

The Ambassador: I agree with your opinion.

(Mr. Henry interpreting) But the situation was this: due to what happened and due to what has happened the last month, he does not want to go further back and just wants to look at the situation as it happened. He thinks that due to the situation today, he doubts if the Government could have done differently.

HM, Jr: Nobody but a Frenchman can understand your internal situation. I don't pretend to. But the thing I am afraid of is that knowing your investors -- your people who have money -- knowing that you can go another 8%, that they will decide to keep their money outside of France waiting to see whether you devalue another 8%, especially if

~~16~~

they know that they can get the higher price for the gold.

The Ambassador: (Mr. Henry interpreting) The Am-asked you whether you are speaking of gold and he does not see in the despatch the exact price of the stabilization. Have you any idea?

HM, Jr: No. They haven't changed the price at all. That is what has disturbed me so. I am an Frenchman. I have 1,000,000 francs in London. I see the French Cabinet is going to meet. I know that there is a law in France which says that they could seize my gold at the original price before the first of October. Now the French Government says I can turn the gold in at the new price. They are not going to seize my money. But I know, under the law, they can still devalue another 8%, so I say I will wait and see what they do.

The Ambassador: (Mr. Henry interpreting) The law allows the French Government to fix a definite value of the franc by decree -- fixed by decree, the definite value of the franc. But I think that since the Government uses today that right to fix the value of the franc, they will not be able to do it again without asking new power from the Parliament.

HM, Jr: Archie, they could go from 24% to 34%?

Mr. Lochhead: Roughly they are in the middle rate, about 30.

HM, Jr: What was it in their terms?

Mr. Lochhead: 47 to 43 -- an even 45.

HM, Jr: They could reduce that without going to Parliament?

Mr. Lochhead: Without going to Parliament.

The Ambassador: (Mr. Henry interpreting) The Ambassador has just told you that his opinion, the fact that this morning the franc has been devalued, the value of the franc has been definitely set at

Mr. Lochhead: Our despatches don't indicate that any

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price has been set. They simply say that they will buy and sell gold, but they haven't fixed a price.

HM, Jr: You see, Mr. Ambassador, the thing that worries me is that if the newspapers (I have no diplomatic despatch) but if the newspaper despatches are correct, plus my telephone call this morning which was the same as the newspaper despatches, they have made this move and have done nothing about changing the price of the franc. That's what I can't understand.

Now, I am just putting myself in the place of a French investor who has his money in London. I agree with you why I put my money in London -- because I felt that the pound would be more stable. Your Government announces today that they will not punish me and that they will give me the new price of gold, but I know that you can still, without going to Parliament, devalue further. Now, being an investor, I am interested in my own pocketbook first and, therefore, there is every reason for me to keep my money in London until I find out whether the French Government won't devalue to the limit within the decree of October 1. And that is why I was so disappointed this morning. (Mr. Henry at this point left the room to answer the telephone.)
The Ambassador: I understand.

HM, Jr: In their announcement this morning if they had said positively no more devaluation, that would have been one thing. Positively no more devaluation; the price of the franc is fixed. And I believe them. Then maybe I would bring my money back. But they say nothing!

The Ambassador: I agree with you, Mr. Secretary, that

HM, Jr: Look, Mr. Ambassador. An investor in money is the same under any flag. He thinks of himself first. That is human nature. Isn't that right?

The Ambassador: Oh, yes. That's right.

HM, Jr: The thing I just want to say once more.....

(Mr. Henry returned at this point.)

Mr. Henry: It was the Embassy. Precisely they had the text from the other agency -- the whole text of the Government decision, and I asked whether the price of gold

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was fixed in it and they said no.

HM,Jr: You feel now the way I did at 7:30 this morning. I could not understand it.

Mr. Henry: This press information does not fully satisfy the Ambassador and he wishes to telephone to Paris to have a little more information.

Dr. Feis: May I just find out if we have any further cables in? (Dr. Feis left the room.)

HM,Jr: Yes. We will wait until you come back.

(To the Ambassador) You, now, are just as bewildered as I am.

While we are waiting -- this young man from the Petit Parisien, who was in yesterday, he is not to blame. He showed us his despatch. The only criticism that I might have is that he wrote it without speaking to you or to me. But he conducted himself very well and as a gentleman.

The Ambassador: (Speaking in English) I was unhappy because it was our first conversation with you, Mr. Secretary and I feared you would think that I was indiscreet.

Mr. Henry: The Ambassador was disturbed because it was my first conversation with the Secretary and I would not want him to believe I was indiscreet.

The Ambassador: (Speaking in English) I talked to him yesterday and next time he must speak with me or with you.

HM,Jr: He wrote this despatch without having talked to you or to me and he sits down and writes what he thinks happened. He does not realize how delicate the situation is, but if you will read in today's papers -- I did not, I very carefully worded my statement to show there was no difference between us. Mr. Henry, did he tell you what happened at my press conference?

Mr. Henry: Yes, he told everything to the Ambassador.

HM,Jr: And the Ambassador is satisfied?

~~21~~

Mr. Henry: Perfectly satisfied and he wants to thank you.

HM, Jr: Because I let the young man have a press conference here with the American newspaper men.

The statement was what I had said to you, but somebody twisted it. I felt the same way as you did -- we don't want it misunderstood because what we are trying to do is too important.

(Dr. Feis returned.)

Dr. Feis: We have a long cable coming in. That probably will be the terms of the Government decree.

Mr. Henry: It may be the same despatch as Havas. They are sending a copy to the Ambassador.

HM, Jr: I take it the Ambassador would like to come back.

The Ambassador: (Mr. Henry interpreting) Yes, he wants to telephone to Paris. The Ambassador would like to telephone to Paris and if you wish to talk with him afterwards, he would be very glad to talk with you this afternoon if you have a moment. Perhaps you can make appointment?

HM, Jr: After Cabinet. At 4:30.

The Ambassador: Thank you very much.

After the Ambassador left, the group had a general discussion, as follows:

HM, Jr: Well now.

Dr. Feis: There is just the uncertain question of fact. Whether they have gone down to the limit.

HM, Jr: He was just as bewildered as I was.

Dr. Feis: It is always difficult to know whether they

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are bewildered or trying to make out the best case possible for a Government which does not consider itself in control.

HM, Jr: But, as the State Department -- did I say anything that the white spats and best cane could take offense at?

Dr. Feis: How could they possibly?

HM, Jr: I was ultra courteous.

Dr. Feis: The part of his presentation, even on his own suppositions, that I could not seem to follow through is his argument that they would not need to borrow.

HM, Jr: This fellow makes an awfully poor impression on me. He got it perfectly. This fellow is just too smart.

Dr. Feis: I think -- I am not sure -- but I think that is right.

HM, Jr: He got this thing all right. He gave me this talk about how the Frenchman now would return his capital and I politely listened to him and then wove the thing out about how investors are the same-- how the man sits in England knowing they can devalue another 8% is not going back. This fellow is just too smart for the job.

Dr. Feis: That is what has been so steadily discouraging about the French situation.

HM, Jr: My God! What's the use of telling this bird anything? He knows it all.

Mr. Taylor: Don't you think they knew that they had not fixed it?

HM, Jr: Yes, he did. He read this thing.

Dr. Feis: I agree with Wayne. How could he make his argument stand up!

The Secretary next spoke to Knoke in New York and the following is a record of their conversation:

20
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March 5, 1937.
11:13 a. m.

H.M.Jr: Hello.

Knoke: Good morning Mr. Secretary.

H.M.Jr: Well Professor Knoke how do you feel about the last move at the bank.

K: Very little satisfied - very disappointed.

H.M.Jr: Me too.

K: Yes.

H.M.Jr: I just had the French Ambassador here for one hour.

K: Yes.

H.M.Jr: And he's gone back to call up the French because he - he doesn't seem to understand it. This is my own guess. I can't see on this move that the French investors are going to rush back to France on Monday and borrow - and buy French government bonds, do you?

E: No reason to assume that whatever.

H.M.Jr: Yes. Now until - until the French - now the way this decree reads they now - the French private individual gets the profit under the gold holdings.

K: That's right.

H.M.Jr: And knowing that they can go another 8% he's going to sit tight in London until he gets his profit, isn't he?

K: Yes that's (laughs) that's probably the prime reason for him not to move. Another reason is that I think the - ah - he will turn in his gold only if, as and when confidence is reestablished - it isn't reestablished yet.

H.M.Jr: Yes. But the French have got - the way I sum up the thing the French have got to do one or two things. They've either got to say we're not going to devalue further or we are going to devalue further.

K: Yes.

H.M.Jr: But they've said nothing about that this morning.

K: Right.

H.M.Jr; Am I right?

K: That's correct.

H.M.Jr: And until that thing is settled nobody is going to rush back with their gold.

K: Yes sir.

H.M.Jr: What?

K: That's right and may I just add one thing. I venture even to say that they won't devalue I think won't do any more. I think they'll have to be positive and say that they will either - that they will go down to the 43 milligram. I don't think that stabilization at the present price - say 4.65 in terms of the dollar will do the trick any more.

H.M.Jr: No, they've got to go down to 43.

K: Right.

H.M.Jr: Well you and I check.

K: Yes.

H.M.Jr: That's what I was saying around here for ten days but they - everybody's got me scared from saying it.

K: Well you know last Friday when I was down there I pointed out.....

H.M.Jr: What's that?

K: When I was down there last Friday I pointed out that Boudan originally thought he was willing to do it - to definitely stabilize at present levels.

H.M.Jr: Who's Boudan. *Baudoin*

K: *Baudoin*
~~Boudwang~~, you know the fellow who was suggested.

H.M.Jr: Yes, but that was his position.

K: Pardon me?

H.M.Jr: That his position that he took.

K: Yes, now since then more water has gone over the dam.....

H.M.Jr: Yes.

K:and I very much doubt whether he would be willing to try it to-day at the present level anymore.

H.M.Jr: Yes. Well you and I check - ah - you might tell Governor Harrison of our conversation, will you please?

K: All right, sir. I checked with him this morning and....

H.M.Jr: Well you tell him the French Ambassador is coming back here at 4:30 and if I have anything I'll let you know.

K: Thank you very much sir.

H.M.Jr: Have you talked to Cariguel to-day?

K: Well - ah - I hadn't planned to.

H.M.Jr: Well you might. You might call him up I think.

K: All right.

H.M.Jr: Please.

K: Yes, all right.

H.M.Jr: Have I got any excuse to call up the Bank of England?

K: Well I spoke to him at 12 o'clock yesterday.

H.M.Jr: Well talk to him again to-day.

K: All right. All right, I will.

H.M.Jr: Please. Thank you.

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GRAY

Paris

Dated March 5, 1937

Rec'd 9:40 a.m.

Secretary of State

Washington

307, March 5, 11 a.m.

FROM COCHRAN.

The following is translation of story carried this morning in PETIT PARISIEN from its Washington correspondent.

"Mr. Henry Morgenthau, Secretary of the Treasury of the United States, today officially repeated the indications which I sent to you yesterday regarding the sympathetic interest with which the American Government followed the developments of the French situation. Commenting upon his conversation of Monday with Monsieur Bonnet, our new Ambassador, Mr. Morgenthau declared: 'I assured him that the interest of the American Government for the prosperity of France had been manifest for the last two years and that we would continue to do all that we could within the spirit of existing laws'. A mistaken interpretation of the despatch of the PETIT PARISIEN which was retransmitted from Paris caused a short-lived disturbance in official (END SECTION ONE)

WVC:RR

WILSON

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GRAY

Paris

Dated March 5, 1937

Rec'd 10:10 a.m.

Secretary of State
Washington

307, March 5, 11 a.m. (SECTION TWO)

quarters here in Washington. The declaration of Mr. Morgenthau confirmed in all points the message which was published this morning in the PETIT PARISIEN."

After referring to calls made by Auriol yesterday at the Flysee Palace and on Caillaux, and to rumors circulating, PETIT PARISIEN publishes the following statement which is seemingly inspired: "stirred by these rumors authorized quarters categorically denied last evening that the Government intended to modify its present composition either by adding new ministers or by various changes in the distribution of offices. The same denial was made concerning the indication that Labeyrie would leave the Bank of France and it is added that such a step had never been envisaged. With respect to suggestions made concerning a new monetary policy these were also vigorously refuted, not only as concerns stabilization, but also as concerns the claim that Auriol intended to reduce the franc to the lowest limit provided

by

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U -2- #307, Mar. 5, 11 a.m. Sec. 2 from Paris

by the monetary law, that is to say to 43 millegrams.
Under these circumstances any thought of a meeting of
parliament on Saturday may be set aside".

WILSON

HPD

Friday
 March 5, 1937
 11:40 a. m.

HMJr: Hello

H. M.

Cochran: Hello - do you want to take this down or not?

HMJr: No, we - we're - you - you read it just your regular way.

C: The following is communicated by - that's the official news which we got today.

HMJr: Yes

C: The Ministers met in council at ten o'clock at the Elysee Palace under chairmanship of LeBrun. At noon Premier Blum met with the Ministry of Interior where he dictated to the press the following communication:

"The Council of Ministers has examined the financial situation in its essential and basic elements, that is, currency and its station. Upon the motion of Vincent Auriol, Minister of Finance, it has taken unanimously the following decision: First, apparently the tri-partite agreement concluded September twenty-five with the United States and Great Britain remains the basis of the monetary policy of France, because to expose control has been excluded. The Government is asking the Bank of France to give a general authorization for the free importation and free negotiation of gold domestically, or internally. To begin from Monday, March eighth, the Bank of France will buy gold at the day's rate without requiring revelation of ownership. A committee composed of Labeyrie, Governor of the Bank of France; Rist, Honorary Governor; Baudouin, General Manager of the Bank of Indo-China; and Rueff, Director of the General Movement of Funds will manage the exchange equilization fund, which is under the monetary - which has under the monetary law all the appropriate for assuring the defense of the franc. To give attention to insuring security of commerce and the stability of price, the authority of this committee will be extended to check up supervising the Rente market- that's the Government security market - in agreement with the General Manager of the Do you follow?

HMJr: What?

C: Could you follow all right?

EMJr: Yes

C: The next paragraph is budget:

"The tax receipts for the month of January and the corresponding state of the economic recovery give room for hope that the small deficit inscribed in the finance law will not be exceeded and will even be very substantially reduced during the fiscal year. The Government is resolved not to impair - by unforeseen expenditures - the return to real equilibrium. The most severe instructions have been given to our services to forbid additional credit under the reservation for the necessary improvement of small salaries -"

EMJr: Yes

C: "- the Government will restrain from introducing before Parliament any requests for new credit. The effort to stabilize public expenditures will be exercised simultaneously upon those prices which appear already to have attained their admissible acumen an unjustified influence will be forestalled or suppressed.

Now, a paragraph on the Treasury:

"The improvement of the economic situation and the progressive absorption of unemployment in certain industries emits a modification of the rhythm of a certain number of expenditures for investment or for initial undertakings at the start of a state or public body. Under these conditions and taking into account the real situation the Government has verified that payments to the charge of the Treasury during the year 1937 can be reduced by six billion francs. Taking into account this reduction and that which the Government has decided to carry out in the course of a year, upon the operating deficit of the railway, and the eight billion already paid out since the first of January,

the Treasury are brought down to a figure which does not exceed the normal capacity of investment for - of borrowing by the Treasury.

- C: "Industries have passed on to about fifty percent of the credit for armaments which the Government has decided to sever through a big loan for national defense. This guarantee and option of exchange; that is the thing, on condition that no Frenchman can plead his personal interest in order to escape his obligation, his civic duty. For the launching of this the French Government makes and will make an appeal to the nation The national defense loan is the only one which the Treasury is to issue in the course of a year. The remainder of the needs of the Treasury will be easily covered by normal operation. These measures represent the coherent foe. The solution brought the problem concerning currency, Treasury, balance of the budget and prices acting and reacting upon one another are such as to guarantee for the nation that the national security which is made possible by the economic progress and lacking which this progress would be threatened."
- HMJr: How much more is there, Cochran?
- C: One line -
- HMJr: All right.
- C: "The Government -
- HMJr: Thank God!
- C: - " - has done its duty."
- HMJr: What did you say?
- C: " - Frenchman would do his."
- HMJr: What's that?
- C: "The Government believes it has done its duty."
- HMJr: Yes
- C: "It trusts that every Frenchman will do his."
- HMJr: This is where I say
- C: Yes, yes - So Blum is going to appeal on the radio tomorrow night for this. And on Sunday night the President of the Republic,

C: the President of the Chamber, Caillaux ; and also the President of the Senate will speak for it.

HMJr: I see.

C: And now, you will recognize in there certain ideas with respect to liberalizing trade and keeping down prices. -

HMJr: Yes

C: And cutting expenditures -

HMJr: Yes

C: - which correspond very closely to those which Professor Reve expressed to me two days ago.

HMJr: Yes

C: Their - the big hope is that he will dominate the committee.

HMJr: Yes

C: And if he does something good might come. There is general regret, however, that they didn't get rid of two officials.

HMJr: Yes

C: They thought this - that that was really necessary.

HMJr: Yes - Now, let me ask you a question.

C: Yes

HMJr: In this long statement^{that}/you read -

C: Yes

HMJr: - it doesn't say anything about what they are going to do about their right to devalue the further eight percent.

C: It doesn't say anything at all.

HMJr: No

- C: The understanding seems to be that this new committee will not hold the rate as firmly at 105.15 -
- HMJr: Yes
- C: - sterling, as has been done in the past.
- HMJr: Yes
- C: That's not sure, but I mean, that is what the market people think.
- HMJr: Yes
- C: But as to how far they will let it go toward the lower limit -
- HMJr: Yes
- C: No one knows. But there is nothing said about definite devaluation -
- HMJr: Yes
- C: - or as to where the rate will be maintained.
- HMJr: Well, what rate will the Bank of France pay for gold on Monday?
- C: They'll pay the low market rate without asking you where you got it, or whether you've paid your taxes, or whatnot.
- HMJr: Well, what is the rate, the same as today?
- C: Yes
- HMJr: Yes, yes -
- C: That's my understanding.
- HMJr: Well, now just a minute, Herbert Feis is sitting here with me; he may want to ask something.
- C: All right.
- HMJr: No - no, I - I suppose the Havas Agency will release that to everybody?
- C: I took it off the ticker, I -

HMJr: Oh -

C: I got the same - almost the same through one of the American Press correspondents.

HMJr: Yes, I see.

C: See, they don't hand out a written communique; they read a communique to the press men -

HMJr: Yes

C: - who take it down.

HMJr: Yes

C: Then the only official communique is given out through Havas.

HMJr: I see. Well, I guess we'll get that.

C: See, and it's on the wire to you now, part of it.

HMJr: Oh, you're sending it in the open?

C: No, no, in code.

HMJr: Why didn't you send it in the open?

C: We - they don't let us send anything in open, I mean, they -

HMJr: Well -

C: The rule of the department is that we should code everything.

HMJr: Yes

C: I mean, it saves expense.

HMJr: Yes - all right, now just a minute. - Ambassador Bonnet was in here this morning at my request at ten o'clock - hello?

C: Yes

HMJr: And he's coming back again this afternoon at four-thirty.

- C: I see.
- HMJr: And - but there is nothing particular to tell you and if there is why we'll advise you - Herbert Feis will send you a cable.
- C: I see.
- HMJr: Just a minute. Yes, one of my guests here wants to know what is your explanation why they did not take the other eight percent.
- C: It is my belief that they are afraid to stabilize until they see whether or not - hold it and whether they get funds in, that is, the repatriation of capital which would permit them to hold that rate.
- HMJr: Yes
- C: I mean, right now, as we know, they're out of foreign exchange in gold.
- HMJr: Yes
- C: And by getting this free gold arrangement/^{they} have a chance to get some back the first of the week.
- HMJr: Yes
- C: I imagine they have had to draw on their banks today, -
- HMJr: Yes
- C: - to replenish the fund.
- HMJr: All right, Cochran - well now -
- C: - when he was here the other day. But when it wasn't yet established -
- HMJr: Yes
- C: - he would be on this committee -
- HMJr: Yes
- C: It was his idea then that they should not attempt definite stabilization during a period when there was so much pressure on the Treasury and when a number of these things had not yet been resolved.

HMJr: Yes - What is your best guess as to the possible success of the new French loan?

C: Reynaud and Renier have both come out, the two former Finance ministers, pleading in behalf of the loan and approving the measures taken to date.

HMJr: Yes - What are the terms of the loan?

C: They're not announced yet.

HMJr: Yes

C: The main thing about it is - an unlimited amount and a guarantee - an option of exchange.

HMJr: Yes

C: Which of course gives the impression that they will undertake to hold the franc where it is.

HMJr: I see.

C: I mean, otherwise, it makes a pretty big loss if they

HMJr: Yes

C: So I mean, that's the best assurance totthe market, that they're going to try to hold the franc where it is.

HMJr: All right. -

C: I'm getting this in a telegram; part of it is already gone.

HMJr: Thank you.

C: And oh, one thing, may I ask you?

HMJr: Yes

C: This Mrs. Shafroth, you know?

HMJr: Yes

C: I telephoned the Counsel at Havre -

HMJr: Yes

-9-

C: - to meet her. And Wait and I, one or both of us will be down.

HMJr: Fine

C: If the train is too late I'll be on my way to Basel, you see.

HMJr: Oh, I see. But will Wait be there? Will Wait be there tomorrow?

C: Yes, sir

HMJr: What?

C: Yes, he will be here.

HMJR: All right.

C: And either he or I, or both of us will go.

HMJr: Thank you.

C: Can you tell me what she looks like, I don't know her and neither does he?

HMJr: No, I think you'll just have to call out her name, that's all.

C: Fine - all right.

HMJr: I think you'll have to have somebody call out her name.

C: Well, I've told the Counsel to tell her that we're looking for her there.

HMJr: All right.

C: So we'll do the next best.

HMJr: Thank you.

C: Goodbye.

HMJr: Goodbye.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

35

MA
DATE MAR 5 1937

TO Secretary Morgenthau

FROM Herman Oliphant

We have canvassed the possible results of a break in the French situation and have concluded that there is no foreseeable development where we would have to prepare legal documents to be in a position to safeguard the Government's interests by immediate action. In reaching this conclusion we have assumed any one of the following possibilities or a combination of them:

- (1) Further devaluation of the franc to the legal limit.
- (2) Devaluation below the present limit within a new range.
- (3) Uncontrolled devaluation or internal inflation.
- (4) Imposition of a gold embargo.
- (5) Imposition of exchange control.
- (6) Legalization of a free gold market in France.

Of the foregoing, only (1) and (6) would probably be accomplished without a preliminary gold embargo; (1) because it requires no change in existing legislation, and (6) because it would not necessarily be accompanied by prospective gold exports.

Possibility No. (1) would be entirely consistent with the present French policy, would presumably not violate the tripartite arrangement, and would probably require no action on our part. Possibility No. (6) would be a departure from present French policy, but apparently would not otherwise require a different conclusion from Possibility No. (1).

The existence of a gold embargo or the resort, even without a gold embargo, to any of the remaining possibilities would necessitate a re-examination of the present agreement with France for giving up gold. Whether or not such re-examination would result in the conclusion that the agreement should be abrogated would presumably depend upon the precise terms of the action taken. But at worst the French agreement could be terminated on 24 hours' notice, and under recent clarifications of the agreement no new exchange transactions could be undertaken by either party after such notice which would entitle it to receive gold. For these reasons it seems that we are equipped to take instant action of the only sort necessary to safeguard the Treasury's position.

It is remotely possible that the French action would precipitate a general retreat from the tripartite arrangements. Even if that occurred, and the entire arrangement became inoperative, the existence of the Stabilization Fund, the power to devalue, and the power to re-exert exchange regulations should be sufficient to control the situation.

I am advised that no gold is under earmark in France, in a substantial amount.

AO

OFFICE CORRESPONDENCE

DATE March 5, 1937.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

L. W. Knobe

BANK OF ENGLAND.

I called Mr. Bolton at 11:50 a. m. He said they had had a terrific day in Paris and business done ran into an enormous figure. The demand had been primarily for sterling and some for dollars. He did ^{not} know the total as he had found it impossible to get hold of Cariguel who, it seems, was completely swamped. All he could find out in London about the situation in Paris was that the new policy announced this morning had not gone down any too well. Evidently the French were not willing to do anything wholeheartedly. They were blowing their ammunition into the air through giving the market, in effect, three days notice of their intentions. In London, business had been heavy also; he had sold about \$15,000,000. When they were out of the market he hoped we would carry on and do a little bit. Paris, he would figure, had done about £15,000,000 so far today. I asked where the Fund would get the gold from and Bolton replied, "The Lord only knows."

AK
LWK:KMC

OFFICE CORRESPONDENCE

DATE March 5, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knoke

WITH BANK OF FRANCE.

I called Mr. Cariguel at noon. They had had a very, very hard day, he said, and, quite confidentially, had decided to let the market go for the time being, but naturally, within certain limits. The present plan was to come back into the market from time to time and hold it at certain levels. The total done by them so far today was £13,000,000. It was awful he said. I inquired whether there was anything new he could tell me. He referred to the new Exchange Commission and to the decision to pay the current price for gold. I suggested that, in my humble opinion, the steps taken so far, without definitive stabilization, would not bring about the desired result. Cariguel seemed to agree.

LWK:KMC

Treasury Department
Office of the Under Secretary

3/2/37

To: Miss Chauncey

From: Miss Humphries

*Reep
Deary*

Prepare answer
for Mr. Magill's signature

Prepare memorandum for

Reply direct

For your information

Memo: This is an original "copy" of the same memo used by the Secretary on 3/5 and "given away" by him. This morning he asked Mr. Magill for more copies.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 5, 1937

TO Secretary Morgenthau
FROM Mr. Magill *RM*

Subject: Railroad Retirement Act:

1. On February 27, 1937 the President approved H. J. Res. 212, extending until June 30, 1938 the period during which taxes will be payable under the Carriers Taxing Act. The extension legislation was agreed upon in Cabinet on February 5, 1937. The Carriers Taxing Act provides for taxes totaling 7 percent of the Railroads' payroll (with certain qualifications) payable one-half each by the employees and by the railroads. The original Act was approved August 29, 1935, effective March 1, 1936. The Budget for 1937 contains an estimate of \$134,600,000 receipts from these taxes. Actually only a small sum has been collected since collection was enjoined by a Federal District Court and the appeal is still pending.

2. The Railroad Retirement Act, providing for retirement allowances to railroad employees in lieu of allowances under the Social Security Act, was approved August 29, 1935, effective March 1, 1936. The operation of this law was not affected by the injunction suit and benefits are now being paid. The Budget for 1937 shows an appropriation of \$46,620,000 for this purpose for 1937 which will be continued as available for 1938. Although the two laws are separate and independent the intention was that the collections under the Carriers Taxing Act should be sufficient to care for the allowances to be paid under the Retirement Act.

3. Under the supervision of the Railroad Retirement Board, representatives of the railroads and of the railroad employees engaged in negotiations during February looking toward an agreement upon a plan of taxes and retiring allowances. The Chairman of the Railroad Retirement Board advised the Treasury at the time that the extension of the Carriers Taxing Act was introduced in the House, that the agreement would include provisions for payment to the Treasury of taxes already accrued under the Carriers Taxing Act. The Treasury was not advised of the subsequent progress of the negotiations, but upon making inquiry on February 25th learned that a tentative agreement had been concluded between the representatives of the railroads and of the railroad employees that a new Taxing Act carrying initial taxes of 5 percent of the payrolls and effective January 1, 1937 should be substituted

for the existing law which carries a 7 percent rate and was effective March 1, 1936. Consequently, the agreement involves a loss to the Treasury of about \$100 millions included in the 1937 Budget. Moreover, the tentative agreement also contemplates that amounts having a present worth of approximately \$700 millions shall be diverted from other sources, presumably from the payments of Social Security taxes, for the use of railroad retiring allowances.

4. The Treasury and the Acting Director of the Budget immediately informed Mr. Latimer that it had had no opportunity to consider the tentative agreement nor the various questions of policy and of actuarial computations which it involves. The Treasury for the first time was informed of the details of the proposed agreement by a memorandum from Mr. Latimer received about 5:00 P.M. on March 3rd. Consequently, in a conference attended by Mr. Bell, Mr. Altzeyer, Mr. Latimer and myself, it was agreed that the representatives of the railroads and of the employees should be informed by telegram that there had been no commitment by the Administration of approval of this specific proposal. We understand that representatives of the various railroads are meeting in Chicago on March 9th to consider the proposed plan. The Treasury and the Acting Director of the Budget are anxious that the parties to these negotiations should not be under the impression that their decisions on the major questions of policy involved in the agreement have Administration approval, when the Treasury and the Bureau of the Budget were not given the opportunity to consider it until after the agreement was concluded, and its terms published.

C
O
F
Y

March 1, 1937.

MEMORANDUM TO THE PRESIDENT:Re: Railroad Retirement Act.

1. On Saturday, February 27, 1937, you approved H. J. Res. 212, extending until June 30, 1938, the period during which taxes will be payable under the Carriers Taxing Act. The extension legislation was agreed upon in Cabinet on February 5, 1937. The Carriers Taxing Act provides for taxes of: (1) $3\frac{1}{2}$ percent upon the income of railroad employees (not in excess of \$300 per month), to be collected by deducting and withholding from the employees' compensation; and (2), a like amount, to be paid by the carrier. The original act was approved August 29, 1935, effective March 1, 1936. The Budget for 1937 contains an estimate of \$134,600,000 receipts from these taxes. Actually, only a small sum has been collected, since collection was enjoined by a federal district court, and the appeal is still pending.
2. The Railroad Retirement Act, providing for retirement allowances to railroad employees in lieu of (and in excess of), the allowances under the Social Security Act, was approved August 29, 1935, effective March 1, 1936. The operation of this law was not affected by the injunction suit, and benefits are now being paid. The Budget for 1937 shows an appropriation of \$46,620,000 for this purpose for 1937, which will be continued as available for 1938. Although the two acts are separate and independent, the intention was that the collections under the Carriers Taxing Act should

be sufficient to care for the allowances to be paid under the Retirement Act. For this reason, a date of expiration was inserted in the Taxing Act with a view to compelling an investigation and determination of the amount of tax necessary to provide the desired benefits. There was testimony by Mr. Eastman and Mr. Latimer to the effect that the benefits would require taxes totalling 7 percent to 10.3 percent of the railroad payrolls.

3. Under the supervision of the Railroad Retirement Board, representatives of the railroads and of the railroad employees have been engaged in negotiations looking toward provisions for retiring allowances which would meet the approval of both parties. Mr. Latimer advised Mr. Magill at the time that the extension legislation (H. J. Res. 212) was introduced in the House, that the agreement would include provisions for the dismissal of the injunction suits and for the payment to the Treasury of the taxes which are due under the Carriers Taxing Act. It is my understanding that the railroads have deducted the tax due from the employees and have set up reserves for their own tax liability under the Act although no payments in substantial amounts have been made to the Treasury. Mr. Latimer advised Mr. Bell and Mr. Magill on Thursday, February 25th, that the tentative agreement contemplated that the Treasury should refund collections hitherto made under the present Act; and a new act substituted, effective January 1, 1937. Moreover, the proposed rates of tax for the first three years total 5 percent of the railroad payrolls ($2\frac{1}{2}$ percent to be paid by the employees, and $2\frac{1}{2}$ percent to be paid by the carriers) instead of a total of 7 percent, as provided by the existing law. The total of the rates would rise to $5\frac{1}{2}$ per-

cent on January 1, 1940, 6 percent January 1, 1943, 6 $\frac{1}{2}$ percent on January 1, 1946 and to 7 percent, the present rate, on January 1, 1949. Neither the Railroad Retirement Board nor the negotiating parties has ever submitted to the Treasury the actuarial computations of the amounts which will be required to pay the proposed retirement allowances. Consequently, we can not determine at this time whether the tax is adequate or not. Mr. Latimer, however, concedes that the tax will not be adequate for the reasons now to be stated.

4. It appears that the railroad employees, as a group, have a higher age level than employees in general. Mr. Latimer states that if the railroad employees had received allowances under the Social Security Act the taxes they would have paid would have a present worth of \$800,000,000 whereas the retiring allowances to be paid would have a present worth of \$1,500,000,000. The difference of \$700,000,000 would have had to be made up from other sources; presumably out of the Social Security taxes paid by employed persons other than railroad employees. Mr. Latimer states that according to his actuarial computations the taxes to be paid under the proposed new Carriers Taxing Act have a present worth at least \$700,000,000 less than the benefits to be paid under the new Retirement Act. He, therefore, wants the Treasury to approve the use of its general funds to make up this estimated deficit and of course any additional deficit which may appear in practice; on the theory that, even if the railroad employees had stayed under the Social Security Act, their payments would have been \$700,000,000 less than enough to pay their benefits.

5. Stated in its simplest terms, therefore, the railroads and their employees have negotiated a tentative agreement under which the Treasury will lose over \$100,000,000 to which it is entitled during the fiscal year 1937 if the existing Carriers Taxing Act is valid. The Treasury will also be called upon to pay over a period of years approximately \$700,000,000 additional (on a present worth basis) in railroad retirement allowances for which no funds are provided by the Carriers Taxing Act.

6. The major questions of policy which should be determined before any new Report or Bill is sent to Congress are the following:

(a) Whether the Carriers Taxing Act, which has just been extended to June 30, 1938, should now be repealed and a new taxing act substituted therefor, effective January 1, 1937, providing for taxes at lower rates during the next twelve years.

(b) Whether \$700,000,000 should be diverted from the general funds of the Treasury, or the Old Age Reserve Account under the Social Security Act, to make up the deficit existing between the revenues to be produced by the new Carriers Taxing Act and the proposed railroad employees' retiring benefits.

(c) Whether there shall be set up in the Treasury a retirement fund similar to the Old Age Reserve Account under the Social Security Act, or whether the benefits shall be paid directly from appropriations to be made annually by Congress.

(d) Whether to the revenues collected under the taxing provisions and not used in the current year for benefits there shall be added interest at the rate of three percent.

RM/egh
3/1/37

The Pres is heartily
 in sympathy with what
 Guardia said about Hitler
 Only he the Pres. would
 have made it stronger

THE WHITE HOUSE
 WASHINGTON

Cabinet March 5, 1937

Washington, D. C., March 5, 1937.

WAIT,

Paris.

Unwilling authorize advance payment on facts reported your telegram. Will withhold final decision pending receipt of mail reports referred to.

H. MORGENTHAU, JR.,

Secretary.

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO No.

HEADQUARTERS

SECRET**TREASURY DEPARTMENT**

UNITED STATES COAST GUARD

WASHINGTON

5 March, 1937

From: Treasury Attache, Paris
To : Secretary of the Treasury.

London office recently contacted by Captain Morton Travers who said had been requested to visit America in private yacht for purposes of bringing to Europe several million dollars gold, gold notes, and bonds now in safe deposit vault belonging to Al Capone. Kennedy contacted P. agent (Pagent ?) who confirmed story and said he will make trip and cooperate with us to have seizure made if given 10% of value seized.

He desires protection for self and guests on yacht and willing to be witness if arrests made. States all details and parties still unknown to him but yacht already chartered and immediate action necessary. He wants \$5,000 now to make investigation in France and Belgium which he says may give him enough information to locate funds and identify parties concerned sufficiently for you to make seizure without his going to America.

(to be continued)

WAIT

SECRET

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

5 March, 1937

SECRET

From: Treasury Attache, Paris.
To : Secretary of the Treasury.

(Message continued).

Story sounds fantastic, but Kennedy convinced Paget in contact with international gang and that it is worth while risking five thousand.

Preliminary report Mrs. Klotz March third for you and am mailing today on Roosevelt second report with copies letters to Paget which indicate some project under consideration.

Cable at once whether you are interested and want negotiations continued and five thousand dollars paid for information. If so, ten per cent demanded might be limited to some maximum amount to be decided later.

Wait

SECRET

11

March 5, 1937

HM, Jr. called the President at 12:15. He said, "Mr. President, the Bank of France, so far, has done 13 million pounds. They operated to that extent to try to hold their market. The last five minutes the franc went from 4.84 to 4.60. Each day they give us a rate at which they will support it and they will give us gold. In other words, for any francs which we purchase on their instructions to support the franc, they will in return give us gold, and up to the present minute we have been unable to get a rate and the Bank of England have been unable to get the French to talk to them. Bonnet was here and put up a big stiff front. What I am going to pursue is sit tight and do nothing. Otherwise, I will be buying paper francs and not be able to turn it into gold."

The President said, "They must be closed over there."

HM, Jr. then said to the President, "I just got through talking to Cochran and Blum got through with his marvelous statement and said nothing about devaluation. At noon they always rely on us to support the franc and the pound and, so far, we have heard nothing and we think the French stabilization fund is exhausted and I just wanted to tell you about it."

The President said, "You are dead right. You are absolutely right."

After the conversation, HM, Jr. turned to Mrs. Klotz and said, "Just you wait and see. Hitler will strike either Saturday or Sunday, and when I say 'strike' I mean military."

March 5, 1937.
12:17 P.M.

49

George
Harrison: Good morning Henry.

H.M.Jr: Hello George.

H: This has been a critical day.

H.M.Jr: Well it seems to be "the" day.

H: Yes, I think it is and I don't think that those fellows have any conception; you're doing all it's necessary to do even now.

H.M.Jr: Now you know the last two minutes ago the franc was down to 4.60.

H: Yes, 4.59.

H.M.Jr: Well you - and we have no rate - no orders.

H: No orders so there's no telling where it will go to although I just think it will be a nominal market.

H.M.Jr: Well I'm not going to buy paper francs, George.

H: I wouldn't think of it.

H.M.Jr: No.

H: I wouldn't think of it. If they've dropped it - I think what it probably means, Henry, is that they're having left orders open - they've withdrawn their orders to support that they're going to let it go and then they'll probably - the commission will probably devalue the extra eight per cent.

H.M.Jr: Well I suppose that's the French way of doing it.

H: That's their way of doing it. That's probably what will happen.

H.M.Jr: Yes.

H: But even so I doubt if that's going to be adequate - I - I

H.M.Jr: ^es but my - this morning at 10 o'clock they'd announced they were going to do it instead of having it forced down their throat.

H: They'd been in a much stronger position.

H.M.Jr: Oh it's terrible. I had Bonnet in here for an hour.

H: Well I guess he doesn't know much.

H.M.Jr: No, but he's 'phoned France; he's coming back again.

H: He is coming back.

H.M.Jr: Yes.

H: Well now is there anything at all you want me to do?

H.M.Jr: Yes I want you to please be as close to the 'phone - so I can get you in a minute or two.

H: All right, I'll be there.

H.M.Jr: I just talked to the President and told him what I was doing and he entirely approves.

H: Yes.

H.M.Jr: And - but I'd very much like to have you there so that - because you know how these things are when they get down to the matter of split-seconds.

H: Yes.

H.M.Jr: I don't know where I got the figures but you know how much the French did to-day, don't you?

H: Yes.

H.M.Jr: Thirteen million pounds.

H: Yes and the British did 15 million dollars.

H.M.Jr: And the British did 15. Now I'm not going to do anything and just let it go.

- 3 -

H: Well we'll - we'll want to go on with the pound all right?

H.M.Jr: Oh yes.

H: Yes.

H.M.Jr: Oh yes.

H: No, I think you can't do anything because if you did you might be going counter to what they're trying to do. We don't know what they're trying to do.

H.M.Jr: No - no. Is Knoke with you?

H: No he's not right now. Do you want him?

H.M.Jr: No, no because the pound the last I heard a minute or two ago it strengthened a little bit.

H: Yes.

H.M.Jr: But you know the order I gave to-day - we take a hundred thousand pounds down every six feet.

H: Yes.

H.M.Jr: But Mallet's got a message and he'll be in here in ten minutes.

H: Ah-ha.

H.M.Jr: And I'll see what he says.

H: All right.

H.M.Jr: No, no but I mean I'm just sitting here doing nothing else and I just want to feel if something comes you know....

H: Yes.

H.M.Jr:I'd like to be able to call you.

H: Well I'll be here and I'll keep in touch and I'll come down on the midnight tonight if you want me or do anything you want.

- 4 -

H.M.Jr: Well I'd have a bag packed and let's see - I'd have your satchel packed.

H: All right.

H.M.Jr: O.K.

H: All right, I'll do that.

H.M.Jr: Thanks George.

H: All right.

H.M.Jr: Thank you.

March 5, 1937

12:30 p.m.

Present:

Mr. Mallet
Dr. Feis
Mr. Taylor
Mr. Lochhead

Mr. Mallet: Well, sir, I got a message from the Chancellor, which is in answer to the telegram you sent two days ago. As a matter of fact, it does not refer to the one we sent last night. (Message is attached.)

HM,Jr: (Reading)

"Please communicate following to Mr. Morgenthau from Chancellor of the Exchequer.

(1) As regards gold movements position of France today and of United States in 1933 seem to differ greatly."

Let me read it again. I don't understand.

Mr. Lochhead: You mean the thing that Blum keeps saying that the situation is the same.

Mr. Mallet: I think the point is that you were thinking along the same lines. We telegraphed your line of thought that they should seize all gold and, in fact, act as you did. I think that's what he is referring to.

HM,Jr: (resuming reading)

"French difficulty is largely that she has lost a great quantity of gold."

Of course, like all of these things, it never rains, but it pours. Mr. Blum got out a beautiful statement at 10 o'clock French Time. Since that, the French franc

-2-

dropped from 4.64 $\frac{1}{2}$ - 4.59 and for the first time we have no orders from the French Government to buy francs at any price. The French, confidentially, very confidentially, did 13,000,000 pounds today and you people did 15,000,000.

Mr. Mallet: We sold?

HM,Jr: No. No. You bought sterling.

Mr. Mallet: Oh! We bought sterling.

HM,Jr: And the French are selling sterling and buying francs to hold up their own.

Mr. Lochhead: The Franc rate is now down to 4.58 $\frac{1}{2}$.

HM,Jr: The whole thing is plain.

Mr. Lochhead: The cross rate with the pound is 106.625. The dollar rate is 4.58 $\frac{1}{2}$.

HM,Jr: Now, Mr. Mallet. Get this. Because what I am going to say, if you don't mind my saying, is I have I have begged the Chancellor for a week to say something and he has not seen fit to say it, but notwithstanding that I have nothing from him on my question I asked (What would happen when we did this?), I am going to carry on for the rest of the day and I am not going to let sterling-dollar rate go to hell. I want you to get that. We have nothing.

Mr. Mallet: You have got nothing.

HM,Jr: We haven't got a thing other than I feel that's the thing to do and I am going to do it. But it seems to me that that is the sensible, courageous thing to do, and I am going to do it on the assumption that tomorrow, when it is your turn, you people will carry on.

Mr. Mallet: Yes. Yes.

HM,Jr: But I can't -- I mean incidentally -- well, I'll come to that -- but please get this word immediately to the Chancellor that I am going to do this and I am going

-3-

to keep the pound stable.

Mr. Mallet: Going to keep the pound stable.

HM, Jr.: But I have had no word from the Chancellor, but we are going to carry on.

Mr. Mallet: Of course it is now -- the market is closed in London.

HM, Jr.: But we are going on. We have a price today, but this is the time when we can show our colors.

Mr. Mallet: Yes.

HM, Jr.: And we are not going to run ours down and I want you to come back later on today.

Mr. Mallet: Yes. Yes.

HM, Jr.: Because, I am telling you, that Mr. Bonnet is coming back at 4:30 and if I have anything that I can tell you, I will tell you.

Mr. Mallet: Thanks very much.

HM, Jr.: But he was here for an hour this morning and he knew nothing, but tell the Chancellor I think it is of tremendous importance today that we keep the sterling-dollar as near stable as we can and we are not going to leave a stone unturned to do it. We are going to do it. And I am going on the assumption that if I could have talked to him or could have had an understanding, that would have been the understanding we would have arrived at because, right now, it's just the United States and Great Britain and nobody else.

Mr. Mallet: Yes.

HM, Jr.: And that's all that's left.

Mr. Mallet: The rate is breaking so fast that something has got to be done; you must get an answer from London.

-4-

HM, Jr: No! No!

Mr. Lochhead: The sterling-dollar rate

HM, Jr: The sterling-dollar rate is all right!

Mr. Lochhead: It's the franc.

HM, Jr: The thing that is breaking so fast is the French rate. You know how this works. Each day the Bank of England and the Bank of France give us a price at which they sell us gold. We have the price from you people, so we are all right, but we haven't any price from the Bank of France, so if we bought francs we would be buying paper francs with no right to convert and I can't afford to take that chance. But the point I am making is that we will do everything we can to keep the pound-dollar rate stable for the rest of the day and I assume that he will do the same thing tomorrow in London.

Mr. Mallet: Yes. I had better say that.

HM, Jr: Yes. I assume he will do the same thing tomorrow.

Mr. Mallet: Yes.

HM, Jr: (To Dr. Feis) Anything to add, Herbert?

Dr. Feis: No, sir.

HM, Jr: Is that all right?

Dr. Feis: Perfect.

HM, Jr: (To Mr. Taylor) Wayne?

Mr. Taylor: O.K.

Mr. Lochhead: Just add that the British have worked very hard this morning. No criticism of what they are doing.

HM, Jr: You did \$15,000,000 this morning in exchange. No; I am not criticising. The only thing that I am a

-5-

little bit upset about is that this thing is coming so fast and I just have to follow my good judgment and hope it is good.

Mr. Mallet: Well, they have anticipated it in London - that it was coming, so I imagine they must have made their preparations.

HM, Jr.: But what they are, I don't know.

Mr. Mallet: And you would like to know more about it.

HM, Jr.: Yes, because ...

Dr. Feis: There is every reason to believe that the British Government would want the pound-dollar rate to remain stable.

Mr. Mallet: That's implied in that message. That's implied.

HM, Jr.: What I am saying, in plain language, is this: that we are going to carry on this afternoon and I will make the statement we will keep the pound-dollar rate stable this afternoon. We assume that Saturday being a half-holiday tomorrow, the British Treasury will do the same thing. In view of the fact -- here it is 12:45 and it looks as though the bottom had dropped out of the French franc -- has Mr. Chamberlain got any suggestions on what we will do Monday. Now, I am ready to go on because

Mr. Mallet: Yes.

HM, Jr.: Because I think the whole responsibility rests on him and myself.

Mr. Mallet: Yes.

HM, Jr.: If you should have an answer before 4:30, come in a little early and go back to Wayne Taylor's room and wait and then Bonnet gets here at 4:30 and if we have anything we will let you know. I don't think he will, though. Your people, even across the Chancell, can't get the French to answer the telephone.

-8-

Mr. Lochhead: The cross rate is 107, making the rate here 4.56. It has not actually gotten down to 4.56 in this market yet.

HM, Jr.: What would the cross rate be if they went to 43 miligrams. What would it be?

Mr. Lochhead: I think about 115.

HM, Jr.: Where did it start this morning? Where was it last night?

Mr. Lochhead: It was 105.14 and it's gone to 107.

HM, Jr.: And what is it in cents?

Mr. Lochhead: 4.57 now.

HM, Jr.: Give it to me -- what it would be if it went the full 8%.

Mr. Lochhead: In dollars it would be 4.35.

HM, Jr.: Again, Herbert, checkme. All right?

Dr. Feis: Absolutely!

Mr. Mallet: I suppose the French are now, in fact letting it lose that 8%?

HM, Jr.: But we have to have a statement from Mr. Blum and in the thing he says about 6 or 8 points and not a word about further devaluation.

Dr. Feis: That's the puzzle.

HM, Jr.: We have had it over the telephone, and the official statement, and not a single word

Mr. Mallet: Not a single word about the exchange.

Dr. Feis: Not a single word about devaluing the franc another 8%.

-7-

Mr. Mallet: But hasn't he said at the end of his message "Technique of French exchange fund would be made more elastic with a view to franc finding its own level within upper and lower limits fixed by present law"? Isn't that what it means?

HM, Jr: That may be it, but we haven't had that from France. Mr. Blum did not say so this morning.

Mr. Taylor: Cochran indicated it might mean more flexibility than that range.

Mr. Mallet: Well, anyhow, I will go and get that message off.

HM, Jr: I want you to go away with this spirit: I feel that the only thing that will prevent complete chaos in the exchanges of the world is that your Government and ours work even closer, if possible, than we have and I am ready to do that. I am ready to do that.

Mr. Mallet: The only thing is to carry on from day to day until you receive word.

HM, Jr: I think it will have to be from day to day. I am perfectly satisfied with what you people did this morning. You could not have done any more. And we will try to do as well this afternoon. You drop in this afternoon.

Mr. Mallet: What time?

HM, Jr: I think at 4:20 and go to Mr. Taylor's room and wait.

Mr. Mallet: I will come at 4:20 unless I get word before that.

Scrub off from London
March 5th

Please communicate following to Mr.
Morgenthau from Chancellor of the Exchequer.

Begins.

1. As regards gold movements position of France today and of United States in 1933 seem to differ greatly. French difficulty is largely that she has lost a great quantity of capital (A) by physical transfer abroad of privately held gold and (B) by purchase of foreign currency and foreign securities of all kinds by her nationals. It is second of these processes which is now important. It is continuing on a great scale and would be accelerated rather than checked by ~~the~~ seizure if that were possible of any privately held gold there may still be in France. Exchange control would tend to check further losses of capital but even if it could become effective this is a solution which everyone would deplore. It would do nothing to secure return of capital already lost but would on the contrary postpone indefinitely its return to France. Thus the only hope seems to be a return of confidence

in/

in franc such as would lead them to repatriate their capital. I believe that a free market in gold is an essential factor in restoring this confidence now, whatever position may have been last year.

2. If French were to devalue to a lower level and succeed in avoiding both exchange control and disorderly fluctuations in franc there would be a great deal to be said in favour of regarding France within certain limits as still member of currency club. I anticipate that this would be French (? Minister's) strong desire although it has not of course (been) discussed with him. Later we shall be glad to consider how currency club can be continued but this cannot be taken up until it is known precisely how the French situation will develop.

3. I gather from oral messages received (? March 4th) that the French Government are now formulating proposals for action next week. Apparently the Bank of France would buy gold at world prices based on current rates of exchange. Needs of the French Treasury would be reduced by economies and increased revenue. Technique of French exchange fund would be made more elastic with a view to franc finding

its/

its own level within upper and lower limits fixed by present law.

Some of these proposals seem on right lines although I fear that they may in practice be hedged round with unnecessary qualifications. I hope to communicate with Mr. M. again shortly.

March 5, 1937.
1:33 p.m.

63

H.M.Jr: I called for you at one o'clock. We had not received any rates for the French, you see? Hello - hello

Cochran: I - I didn't understand you.

H.M.Jr: Well we have not yet received any rates at which to buy francs to-day.

C: I see.

H.M.Jr: But since then we have.

C: I see.

H.M.Jr: At a price that works out at 4.41.

C: 4.41.

H.M.Jr: Yes about 6%.

C: Yes.

H.M.Jr: See?

C: Yes.

H.M.Jr: I - I wanted you to know it.

C: Well just after I - I talked with you....

H.M.Jr: Yes.

C:my market contact called me up and told me that the had been removed here from the market.....

H.M.Jr: Yes.

C:and that the rates had shot way up to one - almost 107.....

H.M.Jr: Yes it went up....

C: ...pounds, you see?

H.M.Jr: Well - yes but they had given us a price at 4.41.
C: 4.41.
H.M.Jr: But of course the franc here is about 4.56.
C: Still that high, yes.
H.M.Jr: Yes.
C: I see.
H.M.Jr: So we won't do anything until it reaches 4.41.
C: Yes.
H.M.Jr: But it sort of steadied off at 4.56.
C: Beg pardon?
H.M.Jr: It sort of levelled off now.
C: Yes at 4.56.
H.M.Jr: Yes.
C: I see.
H.M.Jr: 4.56 - 4.57.
C: The jobbers from London are calling to my banking friend here that the bills - that they're probably trying to hold the rate on a basis of 45 milligrams gold - that would make the British rate at 107.50.
H.M.Jr: Yes.
C: And would make our rate around
H.M.Jr: Yes. Well of course they've done it in their usual manner; they've been forced into it. They wouldn't do it in an orderly way.....
C: Yes.
H.M.Jr:and we've had complete chaos over here.
C: Yes.

H.M.Jr: And they - they never will do the thing in an orderly manner and foreseeing it and they're just being forced into it.

C: That's it and....

H.M.Jr: And they can talk about Rist till doomsday but they - the world is making the rate for them instead of they making the rate.

C: That's right exactly and - that telegram which I sent to you this afternoon I put in some reservations.....

H.M.Jr: Well.....

C:I mean simply because they waited so long....

H.M.Jr: Yes.

C:and they're not sure that the people are going to take these statements seriously coming now.

H.M.Jr: Yes. Well when I put in a call a half an hour ago we had no order to buy at all. Now we have one but we're not doing anything.

C: I see.

H.M.Jr: But I want to let you know that - hello - hello - hello -

O.O.: Just a moment (long pause)

O.O.: Hello, Secretary Morgenthau.

H.M.Jr: Yes.

O.O.: I'm sorry your radio circuit has a static interference on it. The conversation can't go on.

H.M.Jr: Well I was nearly finished.

O.O.: You were.

H.M.Jr: Yes.

- 4 -

O.O.: I see you don't wish to be re-connected.
H.M.Jr: No but be sure and don't charge me too much now.
O.O.: Oh no I won't.
H.M.Jr: All right.
O.O.: Goodbye.
H.M.Jr: Goodbye.

March 5, 1937

4:30 p.m.

Present:

Ambassador Bonnet
Mr. Jules Henry
Dr. Feis
Mr. Taylor
Mr. Lochhead

(Note: Unless otherwise specifically stated, the Ambassador spoke in French and his remarks were interpreted by Mr. Henry.)

HM, Jr: Well, we have had a very exciting day.

Ambassador: (In English) Yes.

HM, Jr: And things have been happening about every minute. I am like this (gesture of exhaustion). Tre fatigue.

Ambassador: (In English) I have telephoned to Paris our Finance Minister and the official communication it is no question for the French Government of a definite stabilization of the franc. It is no question.

HM, Jr: Pardon. Do you mind saying that in French.

Dr. Feis: That means they are not intending that at the present time.

Mr. Henry: (Interpreting) At the present moment.

Ambassador: (In English) The situation of the monetary situation is the same at the present moment than before -- as before -- is the same as before. It is only a new order concerning the situation, the financial situation. The Bank of France can purchase gold at daily price and until now the Bank of France could not purchase gold at a daily price. It is only a new order concerning the financial situation.

-2-

Mr. Henry: It is the only change.

Ambassador: Brought by the French Government.

Mr. Henry: Therefore, what the Secretary of the Treasury said this morning was true.

HM, Jr.: What does the Ambassador mean?

Mr. Henry: What you said this morning -- that they were not fixing the price of the franc.

Ambassador: (Mr. Henry interpreting) Upon telephone to Paris, got confirmation that there was no definite stabilization of the franc; that the price of the franc has not been fixed; not at a fixed value.

It is only possibility for the Bank of France to purchase gold at the market price every day.

Ambassador wishes to give you the background.

At the time when devaluation was made, last September, it was provided that the holders of gold could not sell the gold at the new price of gold; that, in other words, at the time the holders of gold would not get the whole benefit of the devaluation. And what happened is that very few people brought their gold to the Bank of France.

HM, Jr.: Excuse me. Do I understand that he means after they devalued they could only get the old price for gold?

Dr. Feis: They could not get the profit. "Benefita" is profit.

HM, Jr.: Yes, I understand.

Ambassador: (Mr. Henry interpreting) Then, in January, in order to encourage holders of gold to bring their gold to the Treasury, the French Government told the holders 'If you bring your gold we shall give you a bond, a long bond, that would be purchased at the real value of the gold and that will give you the profit that you were discounting'. That proposal met with little

-3-

more success since the loan issued by the Government at the time brought about 2,000,000,000 francs, but there is much more hoarded which the Government would like very much to get out, which explains this decision of the Government today. Today the Government tells the holders of gold 'We shall give you in bank notes the real price of your gold if you bring it back to the Treasury'. As to the rest, there is nothing new; nothing changed in the situation.

Mr. Lochhead: Of course, there is a change; very much.

Mr. Henry: What the Ambassador wishes to sum up is that in his opinion the new decision of the French Government means a sort of new effort on the part of the Government to try to encourage the holders of gold to bring it to the Treasury.

H.M. Jr.: You might be interested in knowing what we did here today. Normally, we get a cable from the Bank of France about 12 o'clock, giving us the price at which they will sell us gold for the day. You see, that program has been in existence since September 26th. Today we didn't get that price until after 1 o'clock. So for about one hour, for the first time, we had no order to protect the franc, and when the order did come it was to protect the franc at 4.41. Last night the franc closed at 4.65-8/8, so the lowest the franc went was 4.53, but our orders from the Bank of France were netto buy francs unless they went to 4.41. Now, if they had devalued the full 8%, it would be 4.35. At 4.41, the price they gave us, it meant that they had devalued a further 8%. Now what that means, I don't know.

Now, Mr. Ambassador, I think you know by now that my reputation is such that I only speak the facts. The orders that we receive are entirely at odds from the statement which Mr. Blum made this morning. As I told you this morning, in this room, I talk man to man. Outside the room is another story. But if we are going to be helpful to each other, you want to know; you want facts; you want knowledge.

Now, you know, the Bank of France has \$44,000,000

-4-

on deposit with us. They didn't use any of it today.

Mr. Lochhead: Since about 12 o'clock this morning we understood that the Bank of France lost, roughly speaking, \$85,000,000 of gold in protecting the franc. The Bank of France, in protecting the franc in the London market, lost the equivalent of \$85,000,000 in gold. That was at the original rate and it was after that that they started in to drop the rate.

HM, Jr: Give it to me at the cross rate.

Mr. Lochhead: They started at 105.20. Then they worked the rate down in the middle afternoon to 105.15, which is what they have been generally holding it at. Then they dropped the rate to 107. But at 107 they only lost about 75,000 pounds. In other words, they lost their \$85,000,000 in gold at the original cross rate in protecting at the rate they started at this morning.

HM, Jr: As near as I can make out, what happened -- and this is just sitting here with some information -- this flight took place -- I think I am right -- after Mr. Blum's statement.

Mr. Lochhead: Right.

HM, Jr: And, you see, they spent \$85,000,000 and the British spent \$25,000,000 trying to protect the franc at yesterday's rate. They found they could not and what they did was they really devalued another 6% or about 44 grams. It went to 44 grams, you see?

Mr. Henry: That would mean what rate for the pound?

Mr. Lochhead: Well, the rate for the pound -- of course it didn't get down to the limit in this market.

HM, Jr: Let me explain. They, in a sense, devalued to 44 grams. But the franc didn't go there. It didn't fall and it practically held there of its own accord with no support. With no support. That is important. At yesterday's rate, \$90,000,000 could not

-5-

hold it. And today when they decided they (what looks like to us) devalue another 8%, the franc took care of itself.

What I was saying to you this morning, maybe going half way wasn't enough. Now I don't know how far, but certainly this afternoon, for the first time in I don't know how long, the franc needed no support.

Mr. Henry: May I ask you one question. This morning you said that the devaluation -- you considered what has been accomplished as possible devaluation of 8%.

HM, Jr: I don't know. But our orders from the Bank of France were at 8% less than they were yesterday.

Dr. Feis: But they might change it again on Monday.

HM, Jr: They were willing to let it go to the 4.41 and stop at 4.53. The way this works out, at 12 o'clock the Bank of France notifies the Federal Reserve Bank of New York, who are our agents, and from then on we take care of the sterling and the franc from 12 o'clock on. But we did nothing for the franc, because it got steadily better.

Ambassador: (Mr. Henry interpreting) The Ambassador said that this morning you were giving him, when you had the news or the press, that you gave him an opinion that you considered what it was contemplated (if the press news were correct) would not be sufficient and the Ambassador wishes to know whether after what has happened this afternoon your opinion is still the same?

HM, Jr: My opinion -- I didn't realize how smart I was, because within two hours the British Government and the French Government spent \$90,000,000 to prove that I was right! As we say -- I don't know what they say in French, but here we say "Money talks!"

Ambassador: (Mr. Henry interpreting) We are the same.

HM, Jr: And they tried to hold it, so the answer is what I tried to hint -- not suggest -- was that the franc at yesterday's rate, you just could not hold it.

-8-

Ambassador: (Mr. Henry interpreting) And it was also my opinion, says the Ambassador.

HM, Jr: And since then, as I say, the British and French Government have spent \$90,000,000 for nothing.

Ambassador: (Mr. Henry interpreting) Surely.

The Ambassador thinks it very nice to work with cooperation with you in confidence and he thanks you very much for your opinion.

HM, Jr: Well, of course, what I have said here is of the utmost confidence.

Ambassador: (Mr. Henry interpreting) The Ambassador asks you whether you might have other things which you would wish to transmit in greatest confidence to our Government.

HM, Jr: May I just think a minute.

All I might add is this: Mr. Ambassador, I think that this morning -- what happened this morning, after Mr. Blum's very excellent statement, that if a currency is what we call "out of line" with the rest of the world that whether its \$90,000,000 or \$900,000,000, you can't hold the thing. And the only thing -- the only question I raise is whether it may not be better to put your currency in line with the rest of the world voluntarily rather than to be forced to. Because, what happened this afternoon, it looks (too early to tell) as though the franc might take care of itself, if the French Government went even to 8% or 8%, that they might be able to hold it there if at the same time they did certain things inside of France which would give the French people the necessary confidence.

I would like to ask you a question, if I might. What is the significance -- the newspapers today said that Mr. Caillaux and Mr. Le Brun might speak Sunday night in support of Mr. Blum's program. That's what the newspapers say.

Ambassador: (Mr. Henry interpreting) It is very possible that because of serious circumstances that France

-7-

is going through now, it is possible that Mr. Callaux and Mr. Le Brun would speak in order to ask the French people to bring their gold and to subscribe to the loan which is going to be issued, which, according to the statement of Mr. Blum, this morning, will be issued with gold guarantee.

HM, Jr: If the Ambassador could talk again to Minister Auriol and possibly get for me an interpretation of what happened today so that I could have it the first thing tomorrow morning, because we will be sitting here tomorrow morning and if we could know directly just which direction Mr. Auriol is going it might -- will it be asking too much, do you suppose you could come by 9:30. You see, there is five hours difference. Would it be possible?

Ambassador: (Mr. Henry interpreting) The Ambassador will try his best, he says, to get Mr. Auriol on the phone.

HM, Jr: If maybe he could give an interpretation to the Ambassador, then he give it to me, it would help me tomorrow.

Ambassador: (Mr. Henry interpreting) May I ask, Mr. Secretary, you would like an interpretation of why the franc was bought at 4.53. The Bank of France was ready to keep it at 4.53, whatever happened?

HM, Jr: I told the Ambassador everything that has happened here. He has the whole story. Now if I know what Mr. Auriol did, then we can put the two together and, as I say, the reason -- I know 9:30 is early, but our markets are open. But we work right through and then when something happens to be going in China which is wrong, we don't get to sleep at all.

Ambassador: (In English) We will meet tomorrow at 9:30.

March 5, 1937

Upon the departure of the French Ambassador and Mr. Jules Henry, Mr. Mallet came to the Secretary's office. He had been waiting in the Secretary's private room on the floor below. Mr. Taylor, Dr. Feis and Mr. Lochhead remained for the conference with Mr. Mallet.

HM, Jr.: Well, we didn't get much of anything out of the French, but we gave them something and told them that up to about noon today they had spent about \$85,000,000 gold holding the French franc at yesterday's price.

Mr. Mallet: They have spent \$85,000,000?

HM, Jr.: Normally we get our cable by noon for the buying price and our price did not come in until about one o'clock and then Archie almost fell out of his chair because the price was 4.41 as against yesterday's price of 4.85. Well, at 4.41 we didn't do any business and the lowest it reached here was 4.53 and then it went up to 4.57 without anybody doing anything.

So what I told our French friends -- that this demonstrated what I pointed out to them this morning: that yesterday's price of the franc all the money in the world would not hold it; that they tried to spend \$85,000,000 and it wouldn't work. Now they go to 4.41 and the franc takes care of itself at 4.53 - 4.56.

He asked for any suggestions. I said, if possible they would lower the number of grams of gold in the French franc plus internal steps for economy and possibly at the new level the franc might take care of itself.

Mr. Mallet: There are below the 8%?

HM, Jr.: No. The number of grams (I am talking grams) 43 grams is the lower level. The price they gave us was 44 grams. No. They are within the sacred circle of the Tripartite Agreement. Forty-three grams is the lower limit of the Tripartite Agreement. They went to 44 grams -- were willing to go to 44, but it

-2-

touch there. No. No. I am simply saying I just hinted that if they went to the lower legal limit that possibly the French franc might take care of itself if they made certain reforms, and what those reforms were they knew best. They would know best what those reforms are, but I also pointed out that this great drive on the franc took place after Mr. Blum's statement this morning.

Mr. Mallet: Yes.

HM, Jr: That's when the \$65,000,000 was spent -- after his statement.

Mr. Mallet: Yes.

HM, Jr: As I say, I went all around the lot, but I tried to point out to them that by leaving out any mention of further devaluation, his program was not complete. I told them that this morning, and from ten o'clock on, they spent \$65,000,000 -- as I told them, proving that I was right.

Now, I have been very careful not to suggest what they should do internally, but I have not hesitated to say that it is my belief that they have to do something about further devaluation within their legal limits. Isn't that about the whole story?

Dr. Feis: I think so.

Mr. Mallet: But they have not yet taken any of those measures that were foreshadowed in Mr. Chamberlain's telegram this morning?

HM, Jr: No. No.

Dr. Feis: Yes, they have.

Mr. Lochhead: They have a more flexible exchange.

HM, Jr: Herbert, you answered that question. Did they follow Mr. Chamberlain's advice?

Dr. Feis: Certainly in regard to freeing gold movements they followed Mr. Chamberlain's advice.

Friday
March 5, 1937
5:15 p. m.

76

HMJr: Hello
Treas.
Operator: Mr. Knoke -
HMJr: Knoke -
T.O.: Go ahead.
HMJr: Hello, Knoke -
K: Yes, Mr. Secretary -
HMJr: I hear you can't buy any sterling; they won't let
you have it.
K: Well, we can't - but we bought fifty thousand at
thirteen sixteenths and at the moment we are fishing
for a hundred at three quarters.
HMJr: How high can you go and not lose money?
K: Seven eighths -
HMJr: Seven eighths?
K: Yes
HMJr: You can?
K: Oh yes
HMJr: Well, if you can, I'd like to push it the limit.
K: Fine, I think that's a very good -
HMJr: I'd like to go up to seven eighths.
K: All right, sir.
HMJr: And I wouldn't be - I mean I'd be fairly
if you haven't got -
K: Yes
HMJr: Seven eighths is our limit.
K: Yes - four eighty-seven eighty-five to be exact,
but I think - yes, that's eighty-seven and a
half, though.

HMJr: Seven eighths -
K: It's proper to say that is our limit.
HMJr: Well, I think I'd run it up and -
K: Fine
HMJr: Will you?
K: All right, sir.
HMJr: I mean, I - they -
K: - Mr. Secretary?
HMJr: Yes, what did you close the pound at?
K: Four eighty-seven and fifteen sixteenths.
HMJr: Four eighty-seven and fifteen sixteenths?
K: Yes - that's on the bid side there -
HMJr: Yes
K: And I exceeded your instructions to the extent of thirty pounds - thirty thousand pounds paying fifteen sixteenths.
HMJr: You did?
K: Which I think was wise. The Chase had thirty offering and that enabled us to quote the market on the bid side.
HMJr: Good
K: And on the - considering that we bought this morning at five eighths we are still making money on the whole thing.
HMJr: Well, that's too bad.
K: (Laughs)
HMJr: Well, all right. Well, I think that - I think that we have every reason to be very much pleased, and I'm particularly pleased with the way you've handled it today.

-3-

- K: Thank you very much, sir. We didn't get much. (Laughs)
- HMJr: No, but that's - well, it's been one of our most difficult days.
- K: Well, it's - I think tonight things look a little brighter. I think sterling is - at least for the time being - looks more settled.
- HMJr: Yes
- K: And, as far as francs are concerned, I think they are definitely headed for a lower level.
- HMJr: You do?
- K: Oh yes, I think - what you said this morning - that it was foolish for them to try not to stabilize or at least to devalue temporarily to a lower level. It seems to me they have - they have adopted that philosophy. At least it seems to me that the commission set up is working for that goal now.
- HMJr: You think so?
- K: I'd be very much surprised if francs were higher again tomorrow and not lower.
- HMJr: Yes, well I've asked the French Ambassador to telephone Mr. Auriol tonight and let me have something by nine-thirty tomorrow morning.
- K: He didn't tell you anything tonight, did he?
- HMJr: Not a thing.
- K: Yes
- HMJr: Not a thing. I mean, everything that he told me was as it was before ten this morning.
- K: I see.
- HMJr: You wouldn't have known anything had happened today.
- K: Yes
- HMJr: So - Well, I'm going out and have frogs' legs for supper.

K: I beg your pardon?

HMJr: I'm going to have frogs' legs for supper.

K: (Laughs) Are you trying to improve the franc rate?

HMJr: (Laughs) Goodnight.

K: Goodnight, sir.

-3-

Mr. Mallet: They have free gold.

Dr. Feis: Yes. You can now sell your gold to the Bank of France at their daily price. Then, in the realm of exchange movements, I would rather say this: that their action was in conformity with Mr. Chamberlain's advice of more flexible exchange policy. I think while being in conformity with Mr. Chamberlain, the market forces drove them to a movement which was probably a larger downward movement than Mr. Chamberlain had in mind when he was talking about flexibility of exchange. That I can't tell.

One thing seemed to be directly following the advice and the other seemed to be in conformity.

HM, Jr: The way I felt, they were saying one thing and then I think that circumstances forced their hand and for one hour they help up and would not announce what they would do, and I know your people had trouble getting them. Now it seems to me their hands were forced and they went much further than seemingly was necessary. But now I have asked them if they would give me their interpretation of what this all means. But certainly we had a very bad day. But the pound-sterling went very nicely. It went down -- the low is 4.87-5/8.

Mr. Mallet: The Ambassador telegraphed to London as soon as I got back and we asked for an answer today saying that you assumed we would take care of it tomorrow but you would like to know.

HM, Jr: Tonight?

Mr. Mallet: Well, Wayne is dining with me and I will tell him.

At this point, the Secretary talked to Mr. Knoke on the telephone and the following is a record of their conversation:

-4-

HM, Jr: I am glad I was on record this morning that this was the thing to do. But if anything turns up I will get in touch with you tomorrow. I will be here and we will see what's what.

Mr. Mallet: If we get anything tonight I will get it at once.

HM, Jr: But certainly it is remarkable how little the sterling-dollar is fluctuating.

Mr. Mallet: Did you have to do much?

HM, Jr: No.

Mr. Lockhead: Of course he did not give final figures, but I think the whole thing is under 200,000 pounds. Surprising turn-over in London and when it got here it just dropped dead.

Mr. Mallet: It very nearly took care of itself.

HM, Jr: You got the shock. You got it before the French, as I call it, "devalued" further.

Mr. Mallet: Before they acted.

HM, Jr: You see, all this thing happened before one o'clock and everything they did up to that time had no effect. Then they dropped the thing to 4.41, and it takes care of itself, which makes me think I may be on the right track with the French.

Mr. Taylor: They indicated a willingness to support it at that figure.

Mr. Mallet: Any message you want sent tonight, or will they get it through Cochran?

HM, Jr: I will leave it to you. If you think there is any news value, you send it, but I think the only important thing is that the market is in a much more healthier and better tone tonight. Today ended on a much happier tone.

March 5, 1937

After Mallet's departure, Mr. Taylor handed the Secretary the attached as his "guess" and the Secretary suggested that we put his "contribution" in the diary.

Mr. Taylor's Contribution. 5/5/37

My guess is that the new loan will be expressed in francs, dollars and pounds with the ratio between the three currencies based on the lower limit of the dollar-franc relationship with the pound at an arbitrary figure based on a hypothetical cross rate.

The French equalization fund will not necessarily start operating on Monday at the rate expressed in the bonds as it would be theoretically advantageous to the sale of the bonds if the market rate were above the rate indicated in the bond offering.

If this supposition is correct and the franc is allowed to fluctuate somewhere between its recent pegged level and its lower limit, it is more than possible that it will be possible for the Blum government to achieve the benefits of devaluation to the lower limit, to adhere to the Tri-partite Agreement, and still face the French public with the statement that there has been no further devaluation. It is at least an interesting gamble. There would have been no chance for the French if they had merely dropped the franc to the lower level and had attempted to peg the franc there. It was necessary for them to combine lifting the gold penalties with a fluctuating rate plus some additional incentive to capital to subscribe to the loan.

While it may be impossible for the Blum Government to gain the confidence of French capital on any basis, I believe that the methods which they have apparently chosen give them a chance.

FEDERAL RESERVE BANK
OF NEW YORK

84

OFFICE CORRESPONDENCE

DATE March 5, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

E. W. Knoka

BANK OF FRANCE.

Mr. Cariguel called at 1:08 to confirm his cable now on the way, giving us instructions to buy for his account francs on the basis of 110.50 to the pound. He did not expect, he said, that we would do anything but, under no circumstances, did they want the market to go beyond that figure. Until it reached 110.50 they would let it do what it liked. Sterling in Paris had closed at 107 and he had been prepared to sell half a million pounds at that rate but had succeeded in doing £75,000 only. I assured him that his order would have our careful attention and asked whether anything new had developed since I spoke to him earlier. Cariguel replied he knew nothing more and repeated that the above limit of 110.50 must be treated in strictest confidence.

LWK:KMC

RB

GRAY

Paris

Dated March 5, 1937

Re: 'd 3:15 p. m.

Secretary of State

Washington.

312, March 5, 4 p. m.

FROM GOCHRAN.

The following is communicated by Havas.

"The Ministers met in Council at 10 a. m. at Elysee under chairmanship of Lebrun. At noon Blum went to the Ministry of Interior where he dictated to the press the following communique

'The Council of Ministers has examined the financial situation in its essential and basic elements: currency budget treasury. Upon motion of Vincent Auriol, Minister of Finance, it has taken unanimously the following decisions:

Currency. The tripartite agreement concluded September 25th with the United States and Great Britain remains the basis of the monetary policy of France. Recourse to exchange control is thus excluded. The Government is asking the Bank of France to give a
general

RB

-2-#312, March 5, 4 p. m. from
Paris (SECTION ONE)

general authorization for the free importation and free negotiation of gold domestically. To begin from Monday March 8th the Bank of France will buy gold at the day's rate without requiring ^{revelation} of ownership. A committee composed of Labeyrie, Governor of the Bank of France, Rist, honorary governor, Baudoin, general manager of the Bank of Indo China, and Rueff, director of the General Movement of Funds will manage the exchange equalization fund which is under the monetary (*) all the appropriate means for assuring the defence of the franc with attention to insuring the security of trade and the stability of prices. The authority of (END SECTION ONE)

WILSON

CSB

(*) omission

RB

GRAY

87

Paris

Dated March 5, 1937

Rec'd 3:40 p. m.

Secretary of State
Washington.

312, March 5, 4 p. m. (SECTION TWO)

this committee will be extended to supervising the rente market in agreement with the general manager of the Caisse des Depots.

Budget. The tax receipts for the month of January and the corresponding indices of the economic recovery give room for hope that the small deficit inscribed in the finance law will not be exceeded and will even be very substantially reduced during the budgetary year. The Government is resolved not to impede by unforeseen expenditures the return to real equilibrium. The most severe instructions have been given to all services to forbid additional credits. Under the reservation for the necessary improvement of small salaries the Government will refrain from introducing before Parliament any request for new credits. The effort to stabilize public expenditures will be exercised simultaneously upon those prices which appear already to have attained their admissible maximum and unjustified increases will be

forestalled

RB

-2-#312, March 5, 4 p. m. from
Paris (SECTION TWO)

forestalled or suppressed.

Treasury. The improvement of the economic situation and the progressive absorption of unemployment in certain industries permits a modification of the rhythm of a certain number of investment expenditures or for initial undertakings at the charge of the state or public bodies. Under these conditions and taking into account the real situation of contracts the Government has verified that payments at the charge of the Treasury during the year 1937 can be reduced by 6 billion francs. Taking into account this reduction and that which the Government has decided to carry out in the course of the
(END SECTION TWO

WILSON

CSB

07410000
1937 MAR 5 4 PM
RECEIVED
U.S. DEPARTMENT OF STATE
WASHINGTON, D. C.

RB

GRAY

Paris

Dated March 5, 1937

Rec'd 4:25 p. m.

Secretary of State

Washington.

312, March 5, 4 p. m. (SECTION THREE)

year upon the operating deficit of the railways, and the 8,000,000,000 already paid out since the first of January, the needs of the Treasury are brought down to a figure which should not exceed the normal borrowing capacity of the Treasury. These requirements correspond to an extent of about 50 per cent of the special armament credits which the Government has decided to cover through a substantial national defense loan with exchange guarantee and option. That is to say under such conditions that no Frenchman could make any pretext from the point of view of his personal interest to avoid his civic obligation.

For the launching of this loan the French Government makes and will make appeal to the whole strength of the nation. The national defense loan is the only one which the Treasury must issue in the course of the year, the remainder of the needs of the Treasury being

easily

RB

-2-#312, March 5, 4 p. m. from
Paris (SECTION THREE)

easily covered by normal short term market operations.

These measures (?) a coherent whole. The solutions brought to problems concerning currency, the Treasury, the balance of the budget and prices, act and react upon one another. They are such as to assure the nation the financial security which is made possible by the economic progress and lacking which this progress would be threatened.

The Government believes it has done its duty. It trusts that every Frenchman will do his."

WILSON

SMS

CSB

RECEIVED

MAR 2 1919

RECORDS DEPARTMENT

U. S. DEPARTMENT OF THE TREASURY

RB

GRAY

Paris

Dated March 5, 1937

Rec'd 5:18 p. m.

Secretary of State
Washington.

312, March 5, 4 p. m. (SECTION FOUR)

Blum will speak over the radio Saturday night in defense of his program and on Sunday night there will be broadcasts by President Lebrun, Defense Minister Chautemps, President of Chamber Herriot, President of Senate Jeanneney, and Caillaux, all in behalf of the loan. Paul Meynaud has given press interview appealing to Frenchmen to subscribe to the loan and congratulating the Government on having rallied to the doctrine of budgetary equilibrium and on having also definitely adhered to the liberal policies of the democracies. He warned, however, that there must be social equilibrium to enable the economic and financial plans to succeed. Another former Minister of Finance Regnier has given press interview approving the new gold policy and the tendency toward budgetary balance. He (*) in behalf of the loan which he said must succeed.

This

RB

-2-#312, March 5, 4 p. m. from
Paris (SECTION FOUR)

This morning's market session was panicky. The demand for sterling was tremendous. After the appearance of the above communique at noon the demand for foreign currencies lightened and the franc rate improved

WILSON

(*) omission

SMS

NPL

PARAPHRASE OF SECTION FIVE OF TELEGRAM NO. 312
of March 5, 1937, from the American Embassy, Paris.

As yet it is too early to anticipate the general reaction to the program just inaugurated. The new program certainly involves an important reversal of the punitive measures of the Government toward capital and its spending program. Numerous ideas - particularly those on expenditures and prices - are contained in the communique which correspond to the ideas expressed to me personally by Rist and which I reported in my telegram No. 293 of March 2. There may be some opportunity for success under the new program if Rist is permitted to dominate the Committee, and if the Government will act favorably upon Rist's own suggestions as to liberalizing trade and reducing expenditures.

This afternoon I had conversations with bankers, who exceedingly regret that the Government, when taking action which admits that their previous policies were wrong, did not include the replacement of Auriol and Labcyrie, the two officials looked upon as being most responsible for the errors in policy.

The biggest question is to see whether too much time has elapsed before the Government took the steps announced today, and whether the public will continue to be skeptical and hoard their funds, or whether it will take the communique and statements of politicians seriously. It may be that the most important reason for any lack of success of the

new

- 2 -

new program and the proposed loan will be the failure to date of the Government to give the awaited assurances that they will respect private property and that they will preserve social order.

END MESSAGE.

WILSON.

EA:LWW

Same as
85 P 38

5:15 p. m.
March 5, 1937

Miss Chauncey:

Miss Humphries brought this in - she said the original was given to the Secretary to take to the White House to Cabinet meeting this afternoon.

MAS

Same as
7-57
86

March 5, 1937

Secretary Morgenthau

Mr. McGill

Subject: Railroad Retirement Act

1. On February 27, 1937 the President approved S.J. Res. 312, extending until June 30, 1938 the period during which taxes will be payable under the Carriers Taxing Act. The extension legislation was agreed upon in Cabinet on February 8, 1937. The Carriers Taxing Act provides for taxes totaling 7 percent of the railroads' payroll (with certain qualifications) payable one-half each by the employees and by the railroads. The original Act was approved August 29, 1935, effective March 1, 1936. The Budget for 1937 contains an estimate of \$154,800,000 receipts from these taxes. Actually only a small sum has been collected since collection was enjoined by a Federal District Court and the appeal is still pending.

2. The Railroad Retirement Act, providing for retirement allowances to railroad employees in lieu of allowances under the Social Security Act, was approved August 29, 1935, effective March 1, 1936. The operation of this law was not affected by the injunction suit and benefits are now being paid. The Budget for 1937 shows an appropriation of \$48,820,000 for this purpose for 1937 which will be continued as available for 1938. Although the two laws are separate and independent the intention was that the collections under the Carriers Taxing Act should be sufficient to care for the allowances to be paid under the Retirement Act.

3. Under the supervision of the Railroad Retirement Board, representatives of the railroads and of the railroad employees engaged in negotiations during February looking toward an agreement upon a plan of taxes and retiring allowances. The Chairman of the Railroad Retirement Board advised the Treasury at the time that the extension of the Carriers Taxing Act was introduced in the House, that the agreement would include provision for payment to the Treasury of the taxes already accrued under the Carriers Taxing Act. The Treasury was not advised of the subsequent progress of the negotiations, but upon making inquiry on February 25th learned that a tentative agreement had been concluded between the representatives of the railroads and of the railroad employees that a new Taxing Act carrying initial taxes of 6 percent of the payroll and effective January 1, 1937 should be substituted for

the existing law which carries a 7 percent rate and was effective March 1, 1936. Consequently, this agreement involves a loss to the Treasury of about \$100 millions included in the 1937 Budget. However, this tentative agreement also contemplates that amounts having a present worth of approximately \$700 millions shall be diverted from other sources, presumably from the payments of Social Security taxes, for the use of railroad retiring allowances.

4. The Treasury and the Acting Director of the Budget immediately informed Mr. Lattimer that it had had no opportunity to consider the tentative agreement nor the various questions of policy and of actuarial computations which it involves. The Treasury for the first time was informed of the details of the proposed agreement by a memorandum from Mr. Lattimer received about 5:00 P.M. on March 3d. Consequently, in a conference attended by Mr. Ball, Mr. Almyer, Mr. Lattimer and myself, it was agreed that the representatives of the railroads and of the employees should be informed by telegram that there had been no commitment by the Administration of approval of this specific proposal. We understand that representatives of the various railroads are meeting in Chicago on March 9th to consider the proposed plan. The Treasury and the Acting Director of the Budget are anxious that the parties to these negotiations should not be under the impression that their decisions on the major questions of policy involved in the agreement have Administration approval, when the Treasury and the Bureau of the Budget were not given the opportunity to consider it until after the agreement was concluded, and its terms published.

ZW/egh

March 1, 1937.

MEMORANDUM TO THE PRESIDENT:

Re: Railroad Retirement Act.

1. On Saturday, February 27, 1937, you approved H. J. Res. 212, extending until June 30, 1938, the period during which taxes will be payable under the Carriers Taxing Act. The extension legislation was agreed upon in Cabinet on February 5, 1937. The Carriers Taxing Act provides for taxes of: (1) 3½ percent upon the income of railroad employees (not in excess of \$300 per month), to be collected by deducting and withholding from the employees' compensation; and (2), a like amount, to be paid by the carrier. The original act was approved August 29, 1935, effective March 1, 1936. The Budget for 1937 contains an estimate of \$134,600,000 receipts from these taxes. Actually, only a small sum has been collected, since collection was enjoined by a federal district court, and the appeal is still pending.

2. The Railroad Retirement Act, providing for retirement allowances to railroad employees in lieu of (and in excess of), the allowances under the Social Security Act, was approved August 29, 1935, effective March 1, 1936. The operation of this law was not affected by the injunction suit, and benefits are now being paid. The Budget for 1937 shows an appropriation of \$46,420,000 for this purpose for 1937, which will be continued as available for 1938. Although the two acts are separate and independent, the intention was that the collections under the Carriers Taxing Act should

be sufficient to care for the allowances to be paid under the Retirement Act. For this reason, a date of expiration was inserted in the Taxing Act with a view to compelling an investigation and determination of the amount of tax necessary to provide the desired benefits. There was testimony by Mr. Eastman and Mr. Lettmer to the effect that the benefits would require taxes totaling 7 percent to 10.3 percent of the railroad payrolls.

3. Under the supervision of the Railroad Retirement Board, representatives of the railroads and of the railroad employees have been engaged in negotiations looking toward provisions for retiring allowances which would meet the approval of both parties. Mr. Lettmer advised Mr. McGill at the time that the extension legislation (H. J. Res. 212) was introduced in the House, that the agreement would include provisions for the dismissal of the injunction suits and for the payment to the Treasury of the taxes which are due under the Carriers Taxing Act. It is my understanding that the railroads have deducted the tax due from the employees and have set up reserves for their own tax liability under the Act although no payments in substantial amounts have been made to the Treasury. Mr. Lettmer advised Mr. Bell and Mr. McGill on Thursday, February 25th, that the tentative agreement contemplated that the Treasury should refund collections hitherto made under the present Act, and a new act substituted, effective January 1, 1937. Moreover, the proposed rates of tax for the first three years total 5 percent of the railroad payrolls (2½ percent to be paid by the employees, and 2½ percent to be paid by the carriers) instead of a total of 7 percent, as provided by the existing law. The total of the rates would rise to 2½ per-

cent on January 1, 1940, 8 percent January 1, 1943, $8\frac{1}{2}$ percent on January 1, 1946 and to 7 percent, the present rate, on January 1, 1949. Neither the Railroad Retirement Board nor the negotiating parties have ever submitted to the Treasury the actuarial computations of the amounts which will be required to pay the proposed retirement allowances. Consequently, we can not determine at this time whether the tax is adequate or not. Mr. Latimer, however, concedes that the tax will not be adequate for the reasons now to be stated.

4. It appears that the railroad employees, as a group, have a higher age level than employees in general. Mr. Latimer states that if the railroad employees had received allowances under the Social Security Act the taxes they would have paid would have a present worth of \$800,000,000 whereas the retiring allowances to be paid would have a present worth of \$1,500,000,000. The difference of \$700,000,000 would have had to be made up from other sources; presumably out of the Social Security taxes paid by employed persons other than railroad employees. Mr. Latimer states that according to his actuarial computations the taxes to be paid under the proposed new Carriers Taxing Act have a present worth of at least \$700,000,000 less than the benefits to be paid under the new Retirement Act. He, therefore, wants the Treasury to approve the use of its general funds to make up this estimated deficit and of course any additional deficit which may appear in practice; on the theory that, even if the railroad employees had stayed under the Social Security Act, their payments would have been \$700,000,000 less than enough to pay their benefits.

- 4 -

5. Stated in its simplest terms, therefore, the railroads and their employees have negotiated a tentative agreement under which the Treasury will lose over \$100,000,000 to which it is entitled during the fiscal year 1937 if the existing Carriers Taxing Act is valid. The Treasury will also be called upon to pay over a period of years approximately \$700,000,000 additional (on a present worth basis) in railroad retirement allowances for which no funds are provided by the Carriers Taxing Act.

6. The major questions of policy which should be determined before any new Report or Bill is sent to Congress are the following:

(a) Whether the Carriers Taxing Act, which has just been extended to June 30, 1938, should now be repealed and a new taxing act substituted therefor, effective January 1, 1937, providing for taxes at lower rates during the next twelve years.

(b) Whether \$700,000,000 should be diverted from the general funds of the Treasury, or the Old Age Reserve Account under the Social Security Act, to make up the deficit existing between the revenues to be produced by the new Carriers Taxing Act and the proposed railroad employees' retiring benefits.

(c) Whether there shall be set up in the Treasury a retirement fund similar to the Old Age Reserve Account under the Social Security Act, or whether the benefits shall be paid directly from appropriations to be made annually by Congress.

(d) Whether to the revenues collected under the taxing provisions and not used in the current year for benefits there shall be added interest at the rate of three percent.

EM/agh
5/1/37

Friday
March 5, 1937
4:35 p. m.

102

Treas.
Operator: Mr. Oliphant

HMJr: Hello

Herman

Oliphant: Hello

HMJr: Herman -

O: Yes

HMJr: At Cabinet Henry Wallace brought up that he was worried, that the Russian people had bought a couple of million pounds of alfalfa seed -

O: Yes

HMJr: - out of the country and that we had a real shortage of good seed here.

O: Yes

HMJr: And the Vice-president wanted to know whether there was something under - some trick clause in the Customs laws -

O: Yes

HMJr: - by which we could keep agricultural products from going out.

O: Yes

HMJr: We all doubted it, but the President asked us to make a search.

O: I'll look it up.

HMJr: Then, his next suggestion was the possibility of drafting a law which would make it permissive for the President to keep any agricultural product on the findings of leaving the country, see?

O: It's - yes, I know, when there's a shortage of something.

HMJr: Yes, shortage. Now, Henry, after Cabinet said he nobody in his place that would work on it - would we mind letting his man who used to be with him work on it, -

O: Yes, Wenchel -

-2-

HMJr: And then send it over to him.

O: Yes, - See, Wenchel - that's fine, Wenchel is supervising Johnson's work, you know.

HMJr: Well, if he could -

O: Yes

HMJr: - Wenchel'd do it and then if you'd shoot it over to Henry Wallace, he said he'd appreciate it.

O: Yes, I'll shoot both of them to Henry?

HMJr: Both of them to Henry Wallace.

O: O. K.

HMJr: And that's that.

O: How's everything?

HMJr: Oh - it's been worse and it's been better.

O: Bob Allen is back from Key West and was just in to see me.

HMJr: Yes, how does he find your family?

O: My family's fine.

HMJr: Yes -

O: Yes

HMJr: Have any news?

O: Yes, he's going to bring back his bicycle.

HMJr: Good

O: (Laughs)

HMJr: All right.

O: All right.

HMJr: Thank you.

Friday
March 5, 1937
5:15 p.m.

104

HMJr: Hello
Treas.
Operator: Mr. Knoke -
HMJr: Knoke -
T.O.: Go ahead.
HMJr: Hello, Knoke -
K: Yes, Mr. Secretary -
HMJr: I hear you can't buy any sterling; they won't let you have it.
K: Well, we can't - but we bought fifty thousand at thirteen sixteenths and at the moment we are fishing for a hundred at three quarters.
HMJr: How high can you go and not lose money?
K: Seven eighths -
HMJr: Seven eighths?
K: Yes
HMJr: You can?
K: Oh yes
HMJr: Well, if you can, I'd like to push it the limit.
K: Fine, I think that's a very good -
HMJr: I'd like to go up to seven eighths.
K: All right, sir.
HMJr: And I wouldn't be - I mean I'd be fairly if you haven't got -
K: Yes
HMJr: Seven eighths is our limit.
K: Yes - four eighty-seven eighty-five to be exact, but I think - yes, that's eighty-seven and a half, though.

HMJr: Seven eighths -

K: It's proper to say that is our limit.

HMJr: Well, I think I'd run it up and -

K: Fine

HMJr: Will you?

K: All right, sir.

HMJr: I mean, I - they -

K: - Mr. Secretary?

HMJr: Yes, what did you close the pound at?

K: Four eighty-seven and fifteen sixteenths.

HMJr: Four eighty-seven and fifteen sixteenths?

K: Yes - that's on the bid side there -

HMJr: Yes

K: And I exceeded your instructions to the extent of thirty pounds - thirty thousand pounds paying fifteen sixteenths.

HMJr: You did?

K: Which I think was wise. The Chase had thirty offering and that enabled us to quote the market on the bid side.

HMJr: Good

K: And on the - considering that we bought this morning at five eighths we are still making money on the whole thing.

HMJr: Well, that's too bad.

K: (Laughs)

HMJr: Well, all right. Well, I think that - I think that we have every reason to be very much pleased, and I'm particularly pleased with the way you've handled it today.

K: Thank you very much, sir. We didn't get much. (Laughs)

HMJr: No, but that's - well, it's been one of our most difficult days.

K: Well, it's - I think tonight things look a little brighter. I think sterling is - at least for the time being - looks more settled.

HMJr: Yes

K: And, as far as francs are concerned, I think they are definitely headed for a lower level.

HMJr: You do?

K: Oh yes, I think - what you said this morning - that it was foolish for them to try not to stabilize or at least to devalue temporarily to a lower level. It seems to me they have - they have adopted that philosophy. At least it seems to me that the commission set up is working for that goal now.

HMJr: You think so?

K: I'd be very much surprised if francs were higher again tomorrow and not lower.

HMJr: Yes, well I've asked the French Ambassador to telephone Mr. Auriol tonight and let me have something by nine-thirty tomorrow morning.

K: He didn't tell you anything tonight, did he?

HMJr: Not a thing.

K: Yes

HMJr: Not a thing. I mean, everything that he told me was as it was before ten this morning.

K: I see.

HMJr: You wouldn't have known anything had happened today.

K: Yes

HMJr: So - Well, I'm going out and have frogs' legs for supper.

K: I beg your pardon?
HMJr: I'm going to have frogs' legs for supper.
K: (Laughs) Are you trying to improve the franc rate?
HMJr: (Laughs) Good night.
K: Good night, sir.

Friday
March 5, 1937
5:25 p. m.

108

HMJr: - and he talked just as though nothing had happened today.

George Harrison: But I don't suppose he does know anything.

HMJr: Well, that's the answer, that he doesn't. But I've asked him to call up Auriol tonight and find out what's what.

H: Yes

HMJr: But they may pull another one tomorrow.

H: Yes

HMJr: And it's - I've asked Bonnet to come in at nine-thirty tomorrow to see me.

H: Yes

HMJr: And - I mean -

H: But I - just on the chance, I had my bag all set but I'm just going to stay here.

HMJr: All right.

H: So I'll be here.

HMJr: All right.

H: And down early in the morning. And I'll be at my apartment this evening and leave - well, the bank's got my number if you want to reach me.

HMJr: All right, I'll be home tonight also.

H: All right, Henry.

HMJr: Thank you very much.

H: First rate.

HMJr: May I say that I thought Knoke handled the situation extremely well today.

H: Well, I'm glad you felt that way because I think he did too.

-2-

HMJr: Yes - Now, another thing, after all we've got to set a price on those bonds tomorrow too, you know.

H: (Laughs) I know that.

HMJr: Yes, so I want to talk to you and Burgess -

H: I don't think this is going to bother that very much.

HMJr: Well, I want to talk to you about that tomorrow.

H: All right, first rate.

HMJr: And good night, George.

H: Good night.

TREASURY DEPARTMENT

110

INTER OFFICE COMMUNICATION

DATE March 5, 1937

TO Secretary Morgenthau

FROM M. A. Harris

The 3% Treasury notes due 4/15/37 were quoted at the close last night 101 bid, 101.2 asked, off 1/32nd. This is a premium of about 22/32nds in excess of a zero yield to maturity.

3% TN 4/15/37 IN EXCHANGE FOR 2 1/2s 1949/53 AT A PRICE

<u>Current Bid Price of 2 1/2s 1949/53</u>	<u>Offered Price in exchange for 3% TN 4/15/37</u>	<u>Price Difference</u>	<u>Price difference plus one month's interest</u>
101 10/32	100 24/32	18/32	26/32
101 10/32	101	10/32	18/32

Note: Value of one month interest on 3% TN 4/15/37 is 8/32nds.

PARAPHRASE OF TELEGRAM

RECEIVED

FROM: AMERICAN EMBASSY, PARIS

DATE: March 5, 7 p.m.

NO. 315

RUSH, FROM COCHRAN

According to my understanding, the Bank of France yielded 11,000,000 pounds of sterling this forenoon and perhaps another 3,000,000 this afternoon. I figure this must completely wipe out the gold holdings and the fund sterling. Therefore, there is presumably need for the fund to obtain gold from the Bank of France against francs if an attempt is to be made to hold the franc rate until gold comes into the fund from holders who may take advantage of the rules taking effect next Monday. The bank would presumably have to yield all the gold the fund may require, if an immediate response to the gold offer is made in London. After a telephonic conversation with the Secretary of the Treasury this evening, I learned that the French stabilization fund had just stepped out of the market and the sterling and dollar rates had shot up. Whether it is an attempt to find its level or whether it is a control maneuver is still to be seen. According to market contacts, the British control had a heavy day yielding dollars. According to my Paris banking contacts, gossip in London at six p.m. tonight

is

-2-

is that the new basis for the franc will be 45 milligrams
thus making the franc rate against sterling 107.50.

WILSON

RECEIVED
EA: DJW

MAR 2 1937
TREASURY DEPARTMENT
OFFICE OF THE SECRETARY
WASHINGTON, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: March 5, 1937, 7 p.m.

NO.: 120

FROM BUTTERWORTH.

FOR TREASURY.

Today Sir Frederick Phillips stated at a meeting at the British Treasury that the British Treasury, since sending its message to Washington, had received information indicating that so far today the French fund had suffered large gold losses. Sir Frederick was not hopeful that the steps announced by the French would achieve their purpose. He characterized these steps as late and halfhearted - late because the present situation was probably no longer susceptible to mere financial treatment for the over-riding element in France was undoubtedly political considerations, and halfhearted as for instance, France has not abandoned the onerous customs inspection regulations for gold.

Sir Frederick emphasized that Monday would undoubtedly show what would be the reaction of the French public toward these measures. He said that if the French wanted to use their resources they probably in any case could hold out until June, and there was always the chance that the forces of financial deterioration might be outstripped by the forces of economic improvement.

Phillips mentioned, in connection with the French

measures,

Regraded Unclassified

- 2 -

measures, that the change to more flexible methods of operating the French fund, with a view to letting the franc find its natural level, would in his opinion mean that very quickly the franc would move to its lowest limits, and that it would stay there, but even so he did not look on this as a guarantee that at that figure substantial amounts of gold might not be lost. He said that he had information that cuts in credits and expenditure were intended to reduce the French deficit this year from 400,000,000 to 250,000,000 pounds, which he implied was but a step in the direction that is required.

It transpired, during the course of the talk, that yesterday the British authorities were approached regarding the possibility of the loan I mentioned in my yesterday's message (last paragraph) on which the interest would be payable in dollars, sterling or francs, or the franc equivalent of either sterling or dollars. Sir Frederick said that two questions were raised thereby: First, whether in certain circumstances the British authorities would help to make the sterling available - and the answer was in the negative; second, whether it was a wise thing to float such a loan, - and again the answer was in the negative. He said that several small countries in the past had been turned down on the same kind of proposition, and that it would facilitate foreign exchange speculation in a country like France. He mentioned that to have such

- 3 -

a loan "floating about with a high rate of interest" would be disadvantageous. In addition Phillips remarked that he assumed the United States would not find such a loan acceptable if for no other reason than it would probably be interpreted publicly as an attempt to get around the Johnson Act.

As we were leaving Phillips he said, in connection with the general French financial situation, that the British have not made any proposal to Washington, and they have none to make.

BINGHAM.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

NO.: 316

FROM: American Embassy, Paris

DATE: March 5, 1937, 8 p.m.

I was called to the Ministry of Finance at 7:15 this evening by Rueff. He supposed that their communique was familiar to me. I informed him that I had been reading the newspapers. He told me that there had been a meeting this afternoon of the new committee for managing the stabilization fund. The question of assuring option of exchange for prospective subscribers to the national defense loan which the Treasury intends to open Monday, March 8, came up. I was informed by Rueff that it is planned to give to the subscriber option of payment in dollars, sterling or French francs. The members of the Committee were cognizant of the fact that sometimes legal difficulties arise in cases where there is provided option of payment in a certain currency but place of payment in the country/is not provided for. The following question was presented by Rueff:

Would the United States authorities have any objection if the French Government named some bank or firm in New York, such as J. P. Morgan and Company, to act as the agent in the United States for the purpose of paying coupons

coupons of the proposed loan in cases where payment is requested in dollars? He stressed the fact that there would be no subscription in the United States but only cashing coupons in dollars. Rueff informed me that the issue price of the bonds would be close to par, probably 98 or 99, that they would be for ten years, and that the interest would be at four and one half percent. He did not tell me the amount of the loan but efforts will evidently be made to secure a large amount. He was not certain whether there would be any objection to the foregoing arrangement under the Johnson law. Rueff said that it might be possible that an issue of this kind would necessitate certain purchases on behalf of the French Government of dollars to pay off the coupons.

I was told by Rueff that the matter of sterling payments had already been taken up with the British authorities through the Attaché of the French Treasury in London. The British, Rueff said, had answered that if it were a short term operation there would be no objection to naming a paying agent in London. Unless the American authorities gave similar approval, the British were unwilling to approve an arrangement of this kind for the ten year issue in question. It was thought by Rueff that the British plan for the early launching of an important defense loan was the cause of their reluctance.

The

-3-

The French officials are anxious to settle all the terms of the loan in question since it is to be opened Monday. Rueff therefore asked that I try to have an answer on Saturday morning to the above question.

Rueff informed me that at the meeting of the stabilization committee this afternoon one of the first decisions had been to let the franc tend to find its own level instead of keeping at an almost fixed rate as before. I inquired whether they had in mind a lower level for the fluctuation which would now be permitted. He called to my attention the fact that a lower limit was fixed by the October 1 monetary law. END OF MESSAGE.

WILSON

EA:EB

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DATE: March 5, 1937, 8 p.m.

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WILSON

RECEIVED
MAY 9 5 34 AM
1950
TREASURY DEPARTMENT
OFFICE OF THE ASSISTANT SECRETARY
FOR INTERNATIONAL AFFAIRS

EA:EB

TELEGRAM SENT

RB

GRAY

March 5, 1937

8 p. m.

AMEMBASSY

PARIS (FRANCE)

117.

Your 316, March 5, 8 p. m.

FROM MORGENTHAU FOR COCHRAN

Will endeavor to telephone you before 12 o'clock
noon, Washington time, Saturday.

HULL
FL

EA:FL:SMS

PARIS.--PREMIER BLUM ANNOUNCED AFTER A CABINET MEETING TODAY THE RESTORATION OF FREEDOM OF GOLD MOVEMENT, EFFECTIVE MONDAY.

HE DENIED THAT THE GOVERNMENT INTENDED TO DEVALUE CURRENCY OR CONTROL EXCHANGE BUT SAID THAT, ON THE CONTRARY, THE GOVERNMENT WOULD LIBERALIZE FINANCES.

3/5--R838A

ADD CABINET, PARIS

THE CABINET DECIDED TO CREATE A COMMITTEE OF EXPERTS TO DIRECT THE EQUALIZATION FUND COMPOSED OF EMILE LABEYRIE, GOVERNOR OF THE BANK OF FRANCE, J. RUEFF, DIRECTOR OF THE BANK, AND PAUL BAUDOIN, AND CHARLES RIST, NOTED ECONOMIST.

IT WAS DECIDED TO ISSUE A NATIONAL DEFENSE LOAN TO COVER THE REARMAMENT PROGRAM.

PREMIER BLUM ANNOUNCED THAT AS THE RESULT OF THE FREEING OF GOLD MOVEMENT, THE BANK OF FRANCE BEGINNING MONDAY WOULD BUY AND SELL GOLD WITHOUT IDENTITY REQUIREMENTS.

THIS MEASURE, BLUM EXPLAINED, WAS INTENDED TO RESTORE CONFIDENCE, PREVENT FURTHER EXPORT OF "FRIGHTENED" CAPITAL AND CONVINCING INVESTORS TO LEND THE TREASURY THE MONEY IT NEEDS.

BLUM SAID AT THE END OF A TWO HOUR CABINET MEETING:

"THE TRI-PARTITE ACCORD (FRANCE, THE UNITED STATES AND GREAT BRITAIN) REMAINS THE BASE OF FRENCH MONETARY POLICY."

3/5--R906A

ADD CABINET, PARIS

THE NATIONAL DEFENSE LOAN OF UNSPECIFIED AMOUNT WILL BE OFFERED MONDAY MORNING. IT IS TO BE THE ONLY LOAN OFFERED THIS YEAR.

THERE ARE TO BE NO NEW EXPENDITURES EXCEPT TO RAISE THE PAY OF THE LOWER LEVELS OF CIVIL SERVANTS.

PREMIER BLUM WILL ADDRESS THE NATION TOMORROW NIGHT TO EXPLAIN THE GOVERNMENT'S FINANCIAL DECISIONS. PRESIDENT LEBRUN, BREAKING PRECEDENT WILL MAKE A SIMILAR SPEECH SUNDAY, APPEALING FOR DEFENSE OF THE NATIONAL DEFENSE LOAN.

THE BOURSE DROPPED AT FIRST ON MISINTERPRETATION OF THE GOVERNMENT'S DECISIONS. IN EARLY AFTERNOON TRADING IT RECOVERED AND QUOTATIONS WERE HITHER THAN AT YESTERDAY'S CLOSE. THE MARKET WAS FIRM BUT NERVOUS.

3/5--R930A

ADD CABINET, PARIS

FINANCIAL LEADERS SAID THE CABINET'S DECISION TO REMOVE THE MONETARY AND FINANCIAL RESTRICTION AND "RETURN TO THE ESSENTIAL PRINCIPLES OF LIBERALISM" WAS DESIGNED TO COUNTERACT THE EXPORT OF FRENCH CAPITAL, RESULTING FROM "THE EXTREME PENURY OF THE LOCAL MARKET."

WITH FRANCE'S FINANCIAL SITUATION ADMITTEDLY ACUTE, THE GOVERNMENT CHOSE LIBERALISM AND CLOSER COOPERATION WITH THE U.S. AND GREAT BRITAIN RATHER THAN ORDER FURTHER RESTRICTIVE MEASURES ALONG THE LINES OF CURRENCY CONTROL.

BLUM'S STATEMENT THAT THE FRANCO-ANGLO-UNITED STATES MONETARY AGREEMENT REMAINS THE BASIS OF FRENCH POLICY WAS INTERPRETED AS MEANING THAT THE POPULAR FRONT PREMIER INTENDS TO PLACE THE FINANCIAL, COMMERCIAL AND POLITICAL COOPERATION OF THE THREE NATIONS ABOVE ALL ELSE.

THE CABINET'S DECISION UNDOUBTEDLY WILL BRING A BREATHING SPELL DURING WHICH GOVERNMENT REFORMS WILL BE CONSOLIDATED AND THE NATION WILL BE GIVEN GUARANTEES AGAINST EXPENSIVE REFORMS.

ALTHOUGH HOPES WERE HIGH THAT FRENCH CAPITAL WOULD RETURN TO THE COUNTRY THE PROBLEM OF DOMESTIC PRICES REMAINED TROUBLESOME. SOME ECONOMISERS BELIEVED THAT WORLD PRICES WOULD CATCH UP WITH THOSE IN FRANCE SOON.

THE CABINET COMMUNIQUE GAVE ASSURANCE THAT THE NATIONAL DEFENSE LOAN WILL BE THE ONLY LOAN ISSUED THIS YEAR AND THAT OTHER REQUIREMENTS WILL BE COVERED BY SHORT-TERM OPERATIONS.

HOPE OF A BALANCED BUDGET WAS HELD OUT BY THE COMMUNIQUE'S ANNOUNCEMENTS THAT NO NEW EXPENDITURES OF IMPORTANCE WERE CONTEMPLATED.

ESTABLISHMENT OF A FREE GOLD MARKET IN FRANCE BY THE BLUM GOVERNMENT WILL NOT CHANGE THE OPERATING METHODS OF THE TRI-NATION MONETARY ACCORD BETWEEN THE U.S., GREAT BRITAIN AND FRANCE, TREASURY OFFICIALS SAID THIS MORNING.

THE OFFICIAL VIEW OF THE FRENCH MOVE WAS THAT IT WAS PRIMARILY A PSYCHOLOGICAL BID FOR DOMESTIC CONFIDENCE.

IT WAS POINTED OUT THAT THE FREEING OF GOLD OPERATIONS IN FRANCE CONTRIBUTES TO THE STABILITY OF THE FRANC AND FOR THIS REASON, OFFICIALS BELIEVED IT WOULD REDUCE NECESSITY FOR AMERICAN STABILIZATION FUND ACTIVITIES DESIGNED TO PREVENT WIDE FLUCTUATIONS IN THE VALUE OF THE FRANC.

3/5--R1034A

POLITICAL FOES OF PREMIER BLUM RALLIED TONIGHT TO HIS SIDE IN SUPPORT OF THE CABINET'S DECISION TO RESTORE FREE TRADING IN GOLD AS A MEANS OF BUILDING UP CONFIDENCE IN THE GOVERNMENT AND ITS FINANCES.

FOLLOWING CRITICS OF THE GOVERNMENT, INCLUDING PAUL REYNARD AND JEAN CHAILAUX, CAME OUT IN SUPPORT OF A LARGE NATIONAL DEFENSE LOAN TO BE OFFERED MONDAY.

THE CABINET PROMISED THAT IT WOULD BE THE ONLY MAJOR LOAN OFFERED THIS YEAR.

RESUMPTION OF GOLD TRADING EFFECTIVE MONDAY WAS ANNOUNCED IN A STATEMENT AFTER A TWO-HOUR CABINET MEETING IN THE ELYSEE PALACE AND APPROVED BY PRESIDENT ALBERT LEBRUN.

THE CABINET ALSO ANNOUNCED THAT IT WILL NOT DEVALUE THE FRANC FURTHER, BUT ON THE CONTRARY WILL LIBERALIZE FINANCES. THE CABINET ANNOUNCED DRASTIC CURTAILMENT OF PUBLIC EXPENDITURES.

575-15533P

*File
Mar 5 1937*

FRANCE RESTORAS FREE GOLD MOVEMENT

PARIS- U P- PREMIER LEON BLUM ANNOUNCED
AFTER A CABINET MEETING TODAY THE RESTORATION NF
FREEDOM OF GNLD MOVEMENT EFFECTIVE MONDAY

HE DENIED THAT THE GOVERNMENT INTENDAD TO
DEVALUE CURRENHY OR CONTROL EXCHANGE BUT
SAID THAT ON THE CONTRARY THE GOVERNMENT
WOULD LIBERALIZE FINANCES

THE CABINET DECIDED TO CREATE A COMMITTEE
OF EXPERTS TO DIREHT THE EQUALIZATION FUND
COMPOSED OF EMILE LABEYRIE GOVERNOR OF THE
BANK OF FRANCE J RUEFF DIRECTOR OF THE BANK
AND PAUL BAUDOIN

IT WAS DECIDED TO ISSUE A NATIONAL DEFENSE
LOAN TO COVER THE REARMAMENT PROGRAM

PREMIER BLUM ANNOUNCED THAT AS THE RESULT
OF THE FREEING OF GOLD MOVEMENT THE BANK OF
FRANCE BEGINNING MONDAY WOULD BUY AND SELL
GOLD WITHOUT IDENTITY REQUIREMENTS

THIS MEASURE BLUM EXPLAINED WAS INTENDED
TO RESTORE CONFIDENCE PREVENT FURTHER EXPORT OF
-FRIGHTENED- CAPITAL AND CONVINCING INVESTORS TO
LEND THE TREASURY THE MONEY IT NEEDS

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8,75

(2)

ADD FRANCE RESTORES FREE GOLD MOVEMENT
PARIS-U P- BLUM SAID AT THE END OF A TWO-
HOUR CABINET MEETING-

-THE TRI-PARTITE ACCORD -FRANCE THE
UNITED STATES AND GREAT BRITAIN- REMAINS THE
BASE OF FRENCH MONETARY POLICY-

HE SAID THAT HE WOULD ADDRESS THE NATION
BY RADIO TONIGHT TO EXPLAIN THE GOVERNMENT-S
FINANCIAL DECISIONS

PRESIDENT ALBERT LEBRUN ALSO WILL BREAK
PRECEDENT TO SPEAK TO THE NATION ON THE RADIO
APPEALING FOR SUPPORT OF THE NATIONAL DEFENSE
LOAN WHICH MINISTER OF FINANCE VINCENT AURIOL
SAID WOULD BE OPENED MONDAY MORNING- HE DID NOT
SPECIFY THE TOTAL

PURCHASES OF GOLD BY BANK OF FRANCE WILL
BE MADE AT CURRENT RATES

THE COMMITTEE APPOINTED WILL ALSO CONTROL
THE RENTES MARKET

VARIOUS MEASURES PROVIDING FOR ECONOMY IN
EXPENDITURE HAVE BEEN ADOPTED

-0-

8.55

(3)

ADD FRANCE RESTORES FREE GOLD MOVEMENT
PARIS-U P- THE CABINET DECIDED THAT THE BANK
OF FRANCE WOULD BUY GOLD AT THE CURRENT RATE
THEREBY ABANDONING THE PREVIOUS POLICY OF BUYING
AT THE PRE-DEVALUATION RATE

THE STABILIZATION COMMITTEE WAS GIVEN SUR-
VEILLANCE POWERS OVER THE GOVERNMENT SECURITY
MARKET

IT WAS DECIDED THAT THERE SHOULD BE NO
NEW EXPENDITURES EXCEPT TO RAISE THE PAY OF
THE LOWER LEVELS OF CIVIL SERVANTS

AS THE RESULT OF THE NEW GOLD POLICY THE
GOVERNMENT HOPES THAT PART OF THE HOARDED GOLD
ESTIMATED TO TOTAL AROUND 20 000 000 000 FRANCS
WILL RETURN TO THE BANK OF FRANCE

THE NATIONAL DEFENSE LOAN IT WAS SAID
WOULD BE ISSUED WITH A GUARANTEE AND EXCHANGE
OPTION AND WOULD BE THE ONLY LOAN ISSUED THIS
YEAR

THE COMMITTEE OF EXPERTS TO DIRECT THE
EQUALIZATION FUND ALSO INCLUDES CHARLES RIST
NOTED ECONOMIST

PREMIER BLUM IT WAS LATER ANNOUNCED WILL
ADDRESS THE NATION TOMORROW NIGHT AND NOT
TONIGHT

-0-

FRANCS UNDER PRE_S

215
FOREIGN EXCHANGE MARKET

LONDON - ACTIVITY AND NERVOUSNESS CHARACTERIZED THE FOREIGN EXCHANGE MARKET THIS MORNING DOMINATED BY THE FRENCH CABINET MEETING AND ITS OUTCOME

OFFERINGS OF FRANCS CONTINUED ON A HEAVY SCALE AND IT WAS UNDERSTOOD THAT THE FRENCH CONTROL WAS CARRYING OUT ACTIVE OPERATIONS IN ALL CURRENCIES IN SUPPORT OF THE FRANC

FORWARD FRANCS OPENED WITH THREE MONTHS FRANCS AT 325 CENTIMES DISCOUNT AND ONE MONTH FRANCS AT 175 CENTIMES DISCOUNT LATER WEAKENING SHARPLY TO 350 AND 200 CENTIMES DISCOUNT RESPECTIVELY

FOLLOWING THE FRENCH CABINET ANNOUNCEMENT OF A FREE GOLD MARKET ETC IT WAS IMPOSSIBLE TO OBTAIN QUOTATIONS FROM FOREIGN EXCHANGE BROKERS AS THERE WAS MUCH CONFUSION - BROKERS ARE NOT YET CLEAR AS TO THE FULL SIGNIFICANCE OF THE ANNOUNCEMENT

DOLLARS ARE NOW QUOTED AT 4 88 15 - THERE HAS BEEN SOME BEAR COVERING IN FORWARD FRENCH FRANCS

MAR 5 1937

8.50

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PARIS-TRA_D

ERS REPORT PRESSURE ON THE FRANC THE HEAVIEST THROUGHOUT THE MORNING- THE FUND SUPPLIED ALL DEMANDS FOR STERLING AT YESTERDAY-S RATE BUT A STRONG DEMAND FOR DOLLARS VIA LONDON FORCED THE RATE TO 21 55- IT IS APPARENT THAT THE GOVERNMENT MAY BE COMPELLED BY THE SITUATION IN EXCHANGES TO ACT MORE QUICKLY AND MORE DRAS- TICALLY THAN CONTEMPLATED

-0-

9.12

PARIS BOURSE REACTS AFTER STRONG
OPENING

MAR 5 1937

PARIS - THE BOURSE WAS ACTIVE WITH RENTES AND DOMESTIC SHARES UP DURING THE FIRST HOUR BUT LATER A REACTION SET IN AND MANY OF THE GAINS WERE LOST

THE ANNOUNCEMENT THAT THE GOVERNMENT PROPOSES TO LAUNCH A NEW NATIONAL DEFENSE LOAN CONTAINING GUARANTEES AGAINST EXCHANGE FLUCTUATIONS -AMOUNT AND RATE YET UNKNOWN- HAD A DEPRESSING EFFECT SINCE IT IS BELIEVED THIS IS ONLY ANOTHER EXPEDIENT TO RAISE FUNDS FOR THE TREASURY AND THAT THE PUBLIC WILL ONLY SUBSCRIBE MEAGERLY

MAR 5 1937

9.14
 ADD FRENCH FREE GOLD MARKET

PARIS - BY MEANS OF THE NATIONAL DEFENSE LOAN WHICH WILL CARRY AN EXCHANGE GUARANTEE AND OPTION IT IS HOPED APPARENTLY TO RAISE 10 000 000 000 FRANCS OR MORE FROM FRENCH CAPITAL HOARDED AND EXPORTED WHICH PREMIER BLUM RECENTLY ESTIMATED AT 100 000 000 000 FRANCS

-0-

MAR 5 1937

12.40
 TO FIX FRENCH GOLD PRICE DAILY

PARIS - BEGINNING MONDAY THE NEW BUYING AND SELLING PRICES FOR GOLD WILL BE FIXED BY BANK OF FRANCE ACCORDING TO THE STERLING RATE AND THE LONDON OPEN MARKET PRICE AND WILL VARY DAILY

SELLING OF GOLD WILL REMAIN RESTRICTED TO CENTRAL BANKS BUT THERE WILL BE NO LIMITATION AS TO FROM WHOM THE BANK WILL BUY GOLD

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March 5, 1937
 (DJ 2:15 p.m.)

Paris Exchange Market

Paris - After the close of the official Bourse the French Stabilization Fund which had consistently pegged sterling at around 105.14 francs to the point withdrew from the market and the rate fell to 106 and then to 107 with only occasional intervention. This change of tactics was interpreted as revealing the intention to let the market find its own level with a view to the national defense loan on Monday whose terms have not yet been announced.

Exchange traders were nervous, fearing to make commitments and the forward market was merely nominal at around the premium of 2 and 3 francs for the forward sterling.

9.35

134

MAR 5 1937

DOW JONES MORNING GOSSIP

STREET REGARDED THE LATEST FRENCH FINANCIAL PLANS AS A BOLD BID ON THE PART OF THE FRENCH GOVERNMENT TO RESTORE CONFIDENCE AND BRING OUT HOARDED GOLD - PREMIER BLUM IN DENYING THAT HIS GOVERNMENT INTENDED TO FURTHER DEVALUE THE FRANC OR CONTROL EXCHANGE SAID THAT LIBERALIZATION OF FINANCES WOULD BE THE ORDER OF THE DAY AND INCLUDED RESTORATION OF FREE GOLD MOVEMENT MONDAY CONTROL OF RENTES MARKET AND ISSUANCE OF A NATIONAL DEFENSE LOAN TO COVER REARMAMENT PROGRAM - EARLY LONDON MARKETS WERE LOWER

MAR 5 1937

10.50

STOCK MARKET GOSSIP

WALL STREET BROKERAGE OPINION THIS MORNING SUGGESTS A CAUTIOUS ATTITUDE TOWARD THE IMMEDIATE STOCK MARKET AS A RESULT OF INTERNATIONAL FINANCIAL HAPPENINGS - SOME EXPECT IRREGULARITY WITH PROFIT-TAKING IN STOCKS WHICH HAVE LED RECENT ADVANCE - THERE IS NO CHANGE IN THE GENERAL OPINION THAT HIGHER PRICES ARE LIKELY FOR THE LONG PULL

-0-

MAR 5 1937

9.50

FOREIGN EXCHANGE

LONDON - FORWARD FRANCS FURTHER RECOVERED WITH THREE MONTHS AT 318 CENTIMES DISCOUNT AND ONE MONTH AT 206 CENTIMES DISCOUNT - SPOT FRANCS WERE 105 15

WHILE DEALERS APPROVED THE FRENCH GOVERNMENT-S ANNOUNCEMENTS THEY WERE SKEPTICAL AS TO WHETHER THE ANNOUNCEMENTS WILL RESTORE THE CONFIDENCE OF FRENCH CAPITALISTS SUFFICIENTLY TO MAKE THEM REPATRIATE THEIR FUNDS UNLESS THEY FEEL THAT THE BLUM GOVERNMENT WILL NOT LATER IMPOSE FURTHER LEGISLATION PENALIZING FINANCE AND INDUSTRY - FOR THIS REASON MANY OBSERVERS HERE THINK THAT ONLY A REALIGNMENT OF THE FRENCH GOVERNMENT WILL RESTORE CONFIDENCE

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MAR 5 1937

LONDON VIEWS FRENCH SITUATION

12.51
LONDON - FOREIGN EXCHANGE CIRCLES IN LONDON STILL ARE NOT CLEAR WHETHER FRENCH GOVERNMENT HAS DEFINITELY DECIDED TO ABANDON THE IDEA OF IMPOSING AN EMBARGO ON EXPORT OF GOLD AS THEY CONSIDER THAT FREEDOM OF EXPORTS OF METAL IS ESSENTIAL TO RESTORE CONFIDENCE

10.14
OPERATIONS UNDER TRI-PARTITE AGREEMENT NOT
TO BE CHANGED BY FRENCH MOVE OFFICIALS

SAY

MAR 5 1937

WASHN- METHODS FOR OPERATING UNDER THE
TRI-PARTITE MONETARY AGREEMENT BETWEEN THE
U S GREAT BRITAIN AND FRANCE WILL NOT BE
CHANGED BY THE FRENCH MOVE IN ESTABLISHING A
FREE GOLD MARKET TREASURY OFFICIALS SAID TODAY

INSOFAR AS THE FREEING OF GOLD OPERATIONS
IN PARIS CONTRIBUTES TO THE STABILITY OF THE
FRANC IT MAY ALSO MINIMIZE THE NECESSITY FOR
AMERICAN STABILIZATION FUND ACTIVITIES DESIGNED
TO PREVENT WIDE FLUCTUATIONS IN THE VALUE OF THE
FRANC ACCORDING TO OFFICIALS HERE

THE FRENCH ACTION WAS REGARDED PRIMARILY
AS A BID FOR DOMESTIC CONFIDENCE RATHER
THAN AS A SHIFT OF INTERNATIONAL IMPORTANCE

-0-

MAR 5 1937

1045

137

FRENCH MONETARY ACTION SEEN AS BRING-
ING FRANCE CLOSER TO AMERICAN SYSTEM

WASHN - ESTABLISHMENT IN PARIS OF
A FREE GOLD MARKET IN WHICH THE BANK OF FRANCE
WILL BUY AND SELL GOLD AT A FIXED RATE
WAS SEEN HERE BY OFFICIALS AS BRINGING THE
FRENCH MONETARY SYSTEM INTO CLOSER RESEMB-
LANCE WITH THAT FOLLOWED IN THIS COUNTRY

OFFICIALS POINTED OUT THAT INDIVIDUALS
NOW ARE FREE TO BUY GOLD IN LONDON AND SELL IT
TO THE BANK OF FRANCE OR VICE VERSA WHEREAS
SINCE DEVALUATION IN SEPTEMBER THE BANK OF
FRANCE HAS BEEN UNDER NO OBLIGATION TO
HAVE ANY GOLD DEALINGS WITH PRIVATE INDIVIDUALS
- THE BANK OF FRANCE HAS BEEN STABILIZING THE
FRANC BY OFFERING OR BUYING FOREIGN CURRENCIES
IN WHATEVER AMOUNTS ARE NECESSARY BUT HAS
NOT SINCE DEVALUATION BEEN DEALING DIRECT-
LY IN GOLD WITH PRIVATE INDIVIDUALS

INSOFAR AS THE BANK OF FRANCE MAINTAINS A
STABLE PRICE FOR GOLD IT WILL BE CLOSELY
PARALLELING THE PRACTICE IN THIS COUNTRY
WHERE THE TREASURY FREELY BUYS GOLD AT A
FIXED PRICE - PRIVATE GOLD ARBITRAGE TRANSACT-
IONS IN OTHER WORDS WILL NOW AID IN STABIL-
IZING THE VALUE OF THE FRANC AND MAY THEREFORE
LESSEN THE PART WHICH PREVIOUSLY HAS HAD TO
BE PLAYED BY STABILIZATION FUNDS ACCORDING
TO OFFICIALS

MAR 5 1937

10.25

FOREIGN EXCHANGES CONFUSED

FOREIGN EXCHANGE MARKET IS CONFUSED FOLLOWING THE NEW FRENCH GOLD MOVES WITH SPOT FRANCS AT 4 64 5-16C OFF 5-16 POINT- 90-DAY FRANCS ARE QUOTED AT DISCOUNTS RANGING FROM 14 TO 15 POINTS UNDER THE SPOT RATE COMPARED WITH 15 YESTERDAY- STERLING IS STEADY AT 4 DLS 88 3-8C UNCHANGED- THERE IS A FAIR AMOUNT OF BUSINESS IN STERLING ON BOTH SIDES OF THE MARKET BUT THE CONTINENTAL -S HAVE NOT YET QUIETED DOWN SUFFICIENTLY TO PERMIT ORDERLY TRADING

THERE IS NO INDICATION YET THAT THE RESUMPTION OF GOLD BUYING BY THE BANK OF FRANCE IS RESTORING FRENCH CONFIDENCE IN THE FRANC OR IS STIMULATING A RETURN OF CAPITAL TO FRANCE- ON THE CONTRARY A SHARP RISE IN BELGA EXCHANGE IS ATTRIBUTED TO FRENCH DEMAND

REPORTS FROM EXCHANGE QUARTERS INDICATE THAT FOREIGN DEMAND FOR AMERICAN SECURITIES HAS BEEN STIMULATED AND MANY BUYING ORDERS ARE REPORTED TO HAVE BEEN RECEIVED ESPECIALLY FROM CONTINENTAL COUNTRIES

-0-

1053

STERLING AND FRANCS AT NEW LOWS

BOTH STERLING AND FRANCS ARE QUOTED AT NEW LOW FOR YEAR - STERLING IS QUOTED 4 88 1-8 OFF 1-4 CENT AND FRANCS AT 4 64 1-4 CENTS OFF 3-8 POINT

MAR 5 1937

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1140
LULL IN FOREIGN EXCHANGES

MAR 5 1937

A LULL HAS DEVELOPED IN LOCAL FOREIGN EXCHANGE MARKET AS CONTRASTED WITH ACTIVE CONDITIONS EARLIER THIS MORNING - AFTER TOUCHING A NEW LOW FOR YEAR AT 4 88 STERLING IS A SHADE BETTER AT 4 88 1-8 OFF 3-8 CENTS

ADD FOREIGN EXCHANGES

FRENCH FRANCS ARE AT THE LOW FOR YEAR AT 4 64 CENTS OFF 5-8 POINT - GULDERS ARE UNCHANGED AT 54 74 CENTS SWISS ARE 1-2 POINT LOWER AT 22 82 1-2C AND BELGAS 2 1-2 POINTS HIGHER AT 16 87 1-2C

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MAR 5 1937

12 00 M

MAR 5 1937

FRANCS BREAK TO NEW LOW

OFFICIAL CONTROL IS BELIEVED TO HAVE BEEN WITHDRAWN IN THE FOREIGN EXCHANGE MARKETS ABROAD AND STERLING AND FRANCS HAVE BROKEN SHARPLY TO NEW LOWS- STERLING IS OFFERED AT 4 87 3-4 OFF 5-8 CENT - FRANCS ARE OFFERED AT 4 63 CENTS OFF 1 5-8 CENTS AND ARE REPORTED TO BE OFFERED AT 4 61 1-2 IN LONDON

-0-

MAR 5 1937

12,02

FRANCS OFFERED 4 60

FRANCS ARE BEING OFFERED AT 4 60

-0-

STERLING 4 87 3-4 BID

MAR 5 1937

12/5

STERLING IS NOW BID AT 4 87 3-4 OFF

5-8

CENT AFTER HAVING BEEN OFFERED AT 4 87 5-8

FRENCH FRANCS HAVE SOLD AT 4 60 CENTS OFF
4 5-8 POINTS- EXCHANGE TRADERS SAY THERE ARE
NO QUOTATIONS FOR FORWARD FRANCS AT THE MINUTE

-0-

MAR 5 1937

12.41

FRENCH SITUATION

SOME LOCAL BANKERS REGARD AS CONSTRUCTIVE
THE ANNOUNCEMENT OF A RESTORATION OF A FREE
GOLD MOVEMENT BY FRANCE BUT VOICED MISGIVINGS
REGARDING THE ACCEPTANCE BY FRENCH INVESTORS
OF OTHER STATEMENTS IN LEON BLUM-S ANNOUNCE-
MENT

THE BELIEF WAS EXPRESSED THAT A TENDENCY
TO RESTORE FREE MOVEMENTS IN GOLD GOODS AND
TRADE IS A FAVORABLE FACTOR FROM AN INTERNAT-
IONAL VIEWPOINT AND THAT NO LOSS IN GOLD
TO THE UNITED STATES WOULD RESULT FROM THE
FRENCH GOVERNMENT-S ACTION TODAY

HOWEVER SOME BANKERS FEEL THAT THE
ATTEMPT OF FRENCH CABINET TO INSTILL
CONFIDENCE IN THE GOVERNMENT TO A POINT WHERE
CAPITAL OF FRENCH INVESTORS WILL BE REPATRIATED
RESTS LARGELY UPON PERSUASIVENESS OF M BLUM
IN HIS RADIO ADDRESS TOMORROW NIGHT AND IN
THE SUBSEQUENT ACTIONS OF THE GOVERNMENT

IT IS FELT THAT A DEFINITE TEST OF

CONFIDENCE IN THE BLUM GOVERNMENT HAS BEEN CREATED BY THE OBVIOUS ATTEMPT TO INDUCE INVESTORS TO BRING EXPORTED CAPITAL HOME - BELIEF EXISTS THAT DESPITE THE STATEMENT OF BLUM-S ATTITUDE TO THE CONTRARY DEVALUATION OF THE FRANC TO THE LEGAL LIMIT WILL BE NECESSARY TO ACCOMPLISH THIS PURPOSE

IT IS ALSO FELT THAT TANGIBLE ASSURANCE WILL HAVE TO BE GIVEN THAT NO PRESENT OR FUTURE PENALTY WILL BE VISITED UPON INVESTORS WHO REPATRIATE GOLD NOW OR IN THE FUTURE IF THEIR HESITANCY IS TO BE OVERCOME - BANKERS HERE AWAIT BLUM-S RADIO ADDRESS WITH INTEREST TO LEARN WHETHER HIS ATTITUDE TOWARD FRENCH INVESTORS IS SUFFICIENTLY CONCILIATORY TO WARRANT EXPECTATION OF THEIR ACCEPTANCE OF HIS REPRESENTATIONS REGARDING PENALTIES AS WELL AS ASSURANCES REGARDING THE BUDGET AND SOCIAL LEGISLATION

MAR 5 1937

FRANC EXCHANGE 1-11

OFFICIAL EXCHANGE CONTROLS ABROAD HAVE FOLLOWED TODAY AN IN AND OUT POLICY IN AN OBVIOUS ATTEMPT TO CUSHION THE DECLINE IN THE FRANC- THE PARIS CORRESPONDENT OF DOW JONES & CO REPORTS THERE IS A RUMOR THERE THAT THE NEW EXCHANGE COMMITTEE CONTROLLING THE FRENCH FUND HAS DECIDED TO PERMIT A MODERATE RISE IN THE STERLING AND DOLLAR RATES WHICH WOULD MEAN A LOWER FRANC IN NEW YORK

OTHER LEADING EXCHANGES ARE COMPARATIVELY STEADY

MAR 5 1937

12.57

ADD LONDON VIEWS FRENCH SITUATION

LONDON - THEY WOULD ALSO PREFER TO HAVE
SEEN THE COMMITTEE WHICH IS TO ADMINISTER THE
FRENCH STABILIZATION FUND PLACED IN MORE
RESPONSIBLE POSITION AS FOR EXAMPLE THE
GOVERNORSHIP OF THE BANK OF FRANCE RATHER
THAN A PURELY TECHNICAL ADMINISTRATION

LONDON HOPES FOR SUCCESS OF THE NEW
FRENCH POLICY BUT UNTIL THE FRENCH REACTIONS
ARE MORE CLEAR AND RESPONSE TO THE NEW
DEFENSE LOAN IS AVAILABLE LONDON IS STILL
DUBIOUS OF THE EFFECTIVENESS OF THE PROPOSED
MEASURES

1253

FRANCS LOWER IN LONDON
 LONDON - WITH THE OFFICIAL PARIS CONTROL
 WITHDRAWN FROM THE EXCHANGE MARKET SPOT
 FRANCS WEAKENED SHARPLY TOUCHING 106 1-2
 FRANCS OFFERED TO THE POUND WITH NO BUYERS -
 FORWARD FRANCS ALSO WEAKENED TO 331 CENTIMES
 DISCOUNT FOR THREE MONTHS AND 218 CENTIMES FOR
 ONE MONTH
 -0-

MAR 5 1937

9
126

AMSTERDAM ON FRENCH MOVE

AMSTERDAM - ALTHOUGH WELCOMED AS DECIDEDLY
 SOUND THE NEW FRENCH MEASURES ARE HARDLY
 CONSIDERED HERE AS SUFFICIENT FOR RESTORING
 CONFIDENCE IN FRANCE AND BRINGING ABOUT
 REPATRIATION OF FRENCH CAPITAL
 -0-

MORGENTHAU MEETS WITH MONETARY AND FOREIGN
RELATIONS ADVISERS

MAR 5 1937

WASHN- SECY MORGENTHAU MET FOR A HALF
HOUR WITH TWO ADVISERS ON MONETARY MATTERS
ASST SECY TAYLOR AND ARCHIE LOCHHEAD OF THE
STABILIZATION FUND AND DR HERBERT FEIS ECONOMIC
ADVISER TO THE STATE DEPT

NEWS REPORTS ON THE DEVELOPMENTS IN THE
FRENCH SITUATION WERE TAKEN TO THE CONFEREES
DURING THEIR DISCUSSIONS

SECY MORGENTHAU HAS INDICATED HE WILL
MAKE NO PUBLIC ANNOUNCEMENT ON THE FRENCH
SITUATION- TREASURY OFFICIALS STATE THAT
THE FRENCH METHOD OF BUYING GOLD FREELY BUT OF
SELLING ONLY TO CENTRAL BANKS IS A DIRECT PAREL
-LEL WITH THE AMERICAN PRACTICE

-0-

FRANCS BREAK AGAIN 135

NEW WEAKNESS HAS DEVELOPED IN FRANC
 EXCHANGE WITH THE SPOT RATE NOW QUOTED AT 4 53
 CENTS OFF 11 5-8 POINTS - STERLING IS
 QUOTED AT 4 87 11-16 OFF 11-16 CENT

MAR 5 1937

-0-

30 MAR 5 1937 FOREIGN EXCHANGES QUIET

EXCITEMENT HAS DIED DOWN IN FOREIGN EXCHANGE
 MARKET AND RATES ARE STEADYING OUT- FOR THE PAST
 HOUR STERLING HAS BEEN QUOTED 4 87 5-8 TO
 4 87 11-16

AFTER SELLING AS LOW AS 4 52C FRENCH
 FRANCS ARE STEADY AND QUIET AT ABOUT 4 55C

THERE IS PRACTICALLY NO ACTIVITY IN OTHER
 LEADING EUROPEANS- BELGAS CONTINUE AT 16 87
 1-2C AND GULDERS AT 54 74C

SOME IMPROVEMENT IS NOTED IN FORWARD FRANCS-
 THERE IS A BID FOR A SMALL AMOUNT OF ONE MONTH
 FRANCS AT A DISCOUNT OF 6 POINTS UNDER THE SPOT
 RATE COMPARED WITH 9 POINTS EARLIER IN THE DAY
 AND A SMALL BID FOR THREE MONTHS AT 13 POINTS
 COMPARED WITH 14 POINTS AND MORE EARLIER

STERLING FUTURES ARE A SHADE FIRMER WITH
 DISCOUNT ON ONE MONTH STERLING AT 3-8C UNDER
 SPOT AND THREE MONTHS 29-32C- EARLIER IN THE
 DAY THE DISCOUNT ON 90-DAY STERLING HAD RANGED
 FROM 15-16C TO A FULL CENT

-0-

2137
MAR 5 1937

FRANCS WEAK IN LONDON

LONDON - SPOT FRANCS CLOSED VERY WEAK IN THE LONDON MARKET - EXCHANGE BROKERS WERE STILL CONFUSED AT THE CLOSE AND WERE QUOTING WIDE AND RATHER DIFFERING RATES - IN SOME QUARTERS FOR EXAMPLE THE CLOSING RATE WAS QUOTED AT 107 FRANCS TO THE POUND WHILE OTHERS WERE QUOTED 106 5-8

VOLUME OF DEALINGS IN THE AFTERNOON WAS SMALL BUT THE TOTAL TURNOVER FOR THE DAY WAS VERY LARGE IN THE EXCHANGE MARKET HERE

SOME LONDON BANKERS BELIEVE THAT THE SPOT FRANC WILL BE ALLOWED TO DEPRECIATE TO 112 FRANCS THE LOWER LIMIT PROVIDED BY THE DEVALUATION LAW ON THE BASIS OF THE CURRENT DOLLAR STERLING RATE WHILE OTHERS HEAR A RUMOR THAT SUPPORT WILL BE FORTHCOMING AT AROUND 108

BOTH DUTCH AND SWISS BANKERS ARE SCEPTICAL OF THE SUCCESS OF THE FRENCH PLAN AND A CONSIDERABLE FLIGHT FROM THE FRANC TOWARDS SWITZERLAND IS REPORTED

UNTIL THE ANNOUNCED BROADCASTS IN FRANCE HAVE BEEN MADE LONDON DEALERS ARE ADOPTING A CAUTIOUS ATTITUDE - CLOSING THREE MONTHS FORWARD PARIS RATE WAS AT A DISCOUNT OF 3 FRANCS AND ONE MONTH 2

3-21
GOLD TO FRANCE

PARIS-U P- LESS THAN 2 HOURS AFTER THE
FRENCH CABINET HAD RESTORED COMPLETE LIBERTY OF
GOLD MOVEMENT THE FIRST SHIPMENT OF GOLD TO
FRANCE IN MANY WEEKS ARRIVED AT THE CENTRAL
BANK- THE CONSIGNMENT OF 1 1-2 TONS OF GOLD
BARS CAME FROM BRUSSELS BY AIRPLANE

-0-

MAR 5 1937

March 6, 1937

Cables were given to me last night at 9 o'clock by Dr. Livesey at my home.

I told Livesey it was impossible for me to give an answer to such an important cable as No. 316 and that he should please cable Cochran that I would not have an answer for him until noon, Saturday.

I talked to Cochran at 7:30 this morning and he said that the people were very nervous and that Blum's secretary had been in touch with Cochran because Bonnet had been asking what was this exchange of letters between Blum and Baldwin and that Blum wanted to assure me that there had been no such exchange of letters; that he had received word through the British Embassy in Paris from the British Government, but that no direct exchange of letters had taken place.

Cochran said that he accepted their interpretation of the story, but believed that such an exchange of letters had taken place. I told Cochran that at this stage it was unimportant whether it had or had not, but that he should write me a personal letter so it could go into my diary.

Cochran said that Sir Frederick Leith Ross was going to call on him at 5 o'clock this afternoon.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 6, 1937

TO Secretary Morgenthau
 FROM M. A. Harris

The 3% Treasury notes due 4/15/37 were quoted at the close last night 100.29 bid, 100.31 asked, off 3/32nds. This is a premium of about 19/32nds in excess of a zero yield to maturity.

3% TN 4/15/37 IN EXCHANGE FOR 2 1/2s 1949/53 AT A PRICE

<u>Current Bid Price of 2 1/2s 1949/53</u>	<u>Offered Price in exchange for 3% TN 4/15/37</u>	<u>Price Difference</u>	<u>Price difference plus one month's interest</u>
101 7/32	100 16/32	23/32	30/32
101 7/32	100 24/32	15/32	23/32
101 7/32	101	7/32	15/32

Note: Value of one month interest on 3% TN 4/15/37 is 8/32nds.

March 6, 1937

9:40 a. m.

Present:

Ambassador Bonnet
Mr. Jules Henry
Mr. Livesey
Mr. Taylor
Mr. Lochhead

(Note: The Ambassador spoke in French and his remarks were interpreted by Mr. Jules Henry, unless otherwise specifically stated.)

Ambassador Bonnet: I talked at great length this morning with the Finance Minister:

H.M., Jr.: This morning?

Ambassador: This morning. About an hour. The Minister first asked the Ambassador to thank you for the friendly way in which you considered the situation.

Then, this is the way he looks at the situation. The figures which you gave me yesterday and which I forwarded are absolutely correct. The idea of the Government's project is that the exchange be manipulated between 105 and 112 to the pound in a better way than it has been done until now. That criticism was made by the Ambassador yesterday morning himself. Until now, the rate of the pound had been limited to 105, that rate being supported with great difficulty, so that everybody was under the impression that the only thing the pound could do would be to go up between 105 and 122, so that all the exporters were keeping their pounds or their dollars. What the French Minister of Finance wants to do is to try to reach a rate at which the French franc would be stabilized between 105 and 112 -- between 105 and 112 -- below 105, of course, but not necessarily as far as 112 as since you yourself observed yesterday the franc was holding by itself

-2-

when the rate reached 4.53. From now on the fund of the equalization, from the explanation I received from Minister Auriol this morning, the franc will not be held at a rate which would be fixed between 4.84 and 4.41. The Minister of Finance reserves the right to make it vary in order, if possible, to warn speculators, in order to make the speculators careful, since the speculators will not know that there is a fixed rate, which, until now, was 4.84. Mr. Auriol thinks that after some time of experience he will realize the real franc of the franc is between 4.84 and 4.41, and at that time he will decide upon the definite stabilization. It is possible that it might be 4.52, like the rate of yesterday. It is possible that it may be less. It might perhaps be more. The events of the new few days will dictate his course of action. Besides, the Minister of Finance told me that this morning, after intervention, the pound was holding around 107 and that the fund of the equalization was not used, so that the rate looked natural. That is the first part of the conversation I had this morning with Mr. Auriol and which answers your question of yesterday.

HM, Jr: Oh, I take it he has something else. This information which you give me just now is very useful and very encouraging.

Ambassador: Since Mr. Auriol knew I was going to see you this morning, he has asked me to speak to you about the loan matter, concerning which he intends to send me a telegram, but this telegram has not reached me yet and as long as I am here

HM, Jr: I hope his telegrams come quicker than ours do.

Ambassador: As you noticed yesterday, the French Government has decided upon other measures. They give up the idea of a project of public works, which they had in view and which would have cost 8,000,000,000 francs. As the Government state that the unemployment is being reduced, they feel it is indispensable to suppress those expenditures. They also decided to stop any further raise in salaries of civil servants which were being asked. So that from now on the main burden upon the French Treasury

-3-

will be the loan for the national defense. In order to make that loan a success, the French Government has decided to take the same step as Mr. Caillaux did in 1925 -- a loan with guarantee of exchange, which means that whatever the fluctuations of the franc are, the subscribers will be sure to receive always the same interest. I suppose, for instance, that the interest is 4 francs and I suppose that the franc loses 100% of its value, which I refuse to contemplate; in ratio of the pound to the dollar, the subscriber would receive 8 francs instead of 4.

HM, Jr: Excuse me.

Dr. Livesey: These are assumptions which he sets out.

Mr. Taylor: It would be the equivalent of 8 francs.

The Ambassador: The Ambassador has not finished. He is going to explain that to you.

HM, Jr: I am sorry.

Ambassador: It was a supposition on his part that the Government was giving a guarantee of exchange

HM, Jr: On that basis, I think I would want to subscribe too!

Ambassador: The best example, in the Ambassador's opinion, is to take the example of a loan which exists, and which I know very well because I was in Mr. Caillaux' cabinet when it was issued. I refer to the loan of 4%-1925. When that loan was issued, the rate of the pound was 95 francs, but in the contract we provided that if the pound happened to rise, the rate of interest would also rise in proportion to the pound. Myself I have some of that loan -- some bonds. If tomorrow, let us suppose, the pound would be worth twice 95 francs, that is to say 170 francs, I would receive twice the interest I would receive -- an interest equal to twice the value of the one I receive today. In that way I am guaranteed against anything that would happen to the national currency of France. That is what exists

-4-

today in the loan of 1925 and many French people possess some bonds of that loan and are very satisfied.

HM, Jr: What does that bond sell at today?

Ambassador: 96 francs. But it would be worth much more if due to unforeseen circumstances dating back to Mr. Laval's cabinet it had not been decided that that loan would be the only one that would be registered and as the French people prefer bearer's bonds, because I am sorry to recognize that it is for them the only way to escape the income tax.

HM, Jr: I know what that is. We have the same trouble here.

Ambassador: That loan, consequently, has gone down. Under Laval's cabinet the bond has gone down 15 points, because it was worth 110 francs. It came down to 95. And since Mr. Auriol is Minister of Finance it has not gone down further, contrary to all the others. It is a loan of that character that the French Government today is ready to issue.

I do not know exactly what the conditions of the interest will be. Perhaps they are not fixed yet. But what I know is that it will be the same formula and that the subscriber to the loan will be able to be paid at the rate of the franc on the day of the subscription in such a manner that even if the franc were subject to further depreciation the holder would have his interest -- the same interest -- and his buying power would be the same. Such a loan will be open only to French subscribers and we are not asking for any foreign subscriptions.

And what the French Finance Minister would wish to be able to be in position to say is that when that loan has been issued, the coupons will be paid in all the banks, foreign as well as French, and, in particular, in American and English banks. It is not a new thing. Since I see personally, since I have been Ambassador here to Washington, I have some French bonds -- I give my coupons to an American bank for my account and they do it without any difficulty.

I am going to explain to you for what reasons

-5-

Mr. Auriol attaches some especial interest to that. It is because he thinks that the French people who will subscribe perhaps are of the conviction that some day the French Government might modify the law and might suppress that guarantee of exchange. Such a fear is not founded since for the loan of 1925, issued by Mr. Caillaux and myself, for the last 12 years never it has been touched, never the guarantee of exchange has been modified. That would be guaranteed. That would be fixed. But I think that Mr. Auriol thinks that if he tells the French people 'You will be able to receive the coupons of that new loan not only in the French banks, but even crossing the Channel, and go to a bank in London, I give you a supplementary guarantee that never the guarantee of exchange will be modified'.

Mr. Auriol has then asked me again to ask you the question whether you see any objection to the proposed announcement on this bond, since the practice exists already.

HM, Jr: My cable came through a little bit quicker than the Ambassador's, so I know something about what the Ambassador is talking about. The proposal possibly has been changed since I received it. The question as it was proposed to me was 'How would we feel if the French Government would designate a New York bank as agent to pay these coupons?' Now since that proposal was put to me, they have changed.

Ambassador: No. The proposal has not been presented to me exactly like that this morning, but in the telephonic conversation you sometimes cannot understand. Evidently the fact that a bank will be designated as agent would be because at the present moment when a French holder receives payment of his coupon by an American bank he has considerable expenses to pay, while, if I understand, what the French Government would be able to obtain is that by the designation of a bank -- an agent bank -- the latter would be able to pay the French coupon exactly like a French bank, without any expenses. But I say this, it is not because Minister Auriol told me, but just what you, Mr. Secretary, said.

HM, Jr: This 1925 loan the Ambassador talked about,

-8-

in that loan have they designated an American bank to pay?

Ambassador: He does not know.

Mr. Henry (speaking for himself): I do not know myself, but many times I have heard the French attache here mention the fact that Morgan was designated agent.

HM, Jr: May I ask you a question. From your previous experience, how important would it be, do you think, to the success of this loan that you would have to designate an American agent as payee. The alternative would be that you say it would be paid in francs, pounds or dollars, but the dollars would be paid on presentation at the Bank of France. How important is it?

Ambassador: For me the important fact would be that if a bank in France or even for the Bank of France, the French Government can always change the guarantees that are given, while when the Government says that it will be paid in American bank the subscriber thinks that the French Government could not touch, modify, anything that can be done by an American bank.

The second point upon which Mr. Auriol is insistent is (and he thinks you will be grateful for that) is that in a period which is very difficult, if he received a verbal answer from you to his request it would be another moral and friendly encouragement.

HM, Jr: This question that has been raised, I don't want to even say "proposal", came in so late last night that we haven't had time to study it, but we are giving it the most friendly consideration. I will need several hours. And I understand that the same proposal has been put up to the British.

Ambassador: I think so, the Ambassador says.

HM, Jr: And I am not sure what their answer is. But possibly within the next couple of hours the Ambassador will have his cable.

Ambassador: (Speaking in English) I hope.

-7-

HM, Jr: I will have to give one hour this morning to my own refunding of \$500,000,000 for Monday. And I have told them that I will devote one hour this morning. So if you would do this, Mr. Ambassador, if you get your cable, telephone Mr. Taylor that it has come in. You see?

Ambassador (speaking in English) All right.

HM, Jr: Because it will take time. In the meantime, I am having this proposal studied very carefully and we will give it the most friendly consideration.

Ambassador: That the spirit in which the French loan is being issued corresponds to American policy. It is to stop, to try to stop, through the guarantee of exchange to let French capital go out of France and then to bring back, if possible, some of those that have gone out.

HM, Jr: Well, I want to tell the Ambassador -- most likely I don't even have to mention -- that I was very low yesterday on this situation, but I feel much better today.

March 8, 1937

The group remained after the French Ambassador had departed, and the Secretary sent for George Harrison and Mr. Oliphant to join the conference.

HM, Jr: What I want to tell you gentlemen is this: there is nothing new from the Ambassador. It has taken him 55 minutes to tell me what was in Cochran's cable. It is exactly 53 minutes -- I don't want to exaggerate. And it took him 53 minutes to tell me what was in that cable.

As I told the French, I have got to go from 11 to 12 on our own refunding. The British are coming in, in five minutes, with another cable. After 12 o'clock I would like to meet with you people and decide what we want to tell the French about this idea of their getting out a three-way coupon and whether we want to raise any objection about their appointing an American Bank as agent to cash this thing or whether we take the suggestion that you (George Harrison) threw out that simply let it be paid in France by the French. Would you (George Harrison) ask your office -- the 1925 loan which he said was practically the same as this, you can have your office check to find out what the condition is.

Mr. Harrison: I am having them check up to find out what all their loans are.

HM, Jr: I asked him, Would you mind telling me what importance, who stress do you lay on having an American bank designated as payee. To the French Ambassador it is very important 'because if we mention an American bank that you can present your coupon to, that means to the French investor that the American bank guarantees to be paid in dollars'.

Mr. Taylor: He didn't say that.

HM, Jr: That's the interpretation I put on it -- that if an American bank guarantees it

Mr. Oliphant: Of course, he's wrong. The legal rights to a holder are just the same in any country and

-2-

the rights of the French Government as a sovereign are the same in any country, but it does give an indication of better security to an investor.

HM, Jr.: I suggested the coupon be paid by the Bank of France. He said, 'No. The French investor would not have the same confidence, but if some American bank were named he would feel that the rules could not be changed. I am bringing out -- maybe I overstated it a little bit, but I want to give this very careful consideration. Will you have something for me by 12 o'clock.

Mr. Oliphant: I have something for you right since. Since a quarter of nine, I have been discussing this with the Solicitor's Office since the responsibility is on the Department of Justice, and the Department of Justice is agreed upon what their formula is.

HM, Jr.: What's that?

Mr. Oliphant: That while the designation of such an agent and its act of thereafter paying the coupon might not be a violation of the Johnson Act, nevertheless the sale of the bonds to Americans would be a violation of the law and no officer of the Government can undertake to approve any measures calculated to encourage such sales.

HM, Jr.: Well, then the answer is no.

Mr. Oliphant: Right. I think that is as far as the Department of Justice would be willing to go.

Mr. Harrison: Just for illustration -- suppose it was a coupon just payable in Paris in dollars. There would be no provision against my buying a bond in Paris or sitting here I could order it purchased in Paris.

Mr. Oliphant: Then you get into some pretty difficult questions.

HM, Jr.: Of course, the President at Cabinet gave explicit orders that the Department of Justice give no rulings on that -- but don't tell him that; he can give us a ruling. But the President gave very definite orders that the Attorney General should give no rulings on this.

-3-

Mr. Oliphant: He meant to outside banks.

HM, Jr.: When you talk to the Solicitor's office, do you mean Stanley Reed?

Mr. Oliphant: No. Bell, the Assistant Solicitor who handles this sort of thing.

HM, Jr.: What I would like to do -- Mallet is coming in with a message from Chamberlain

Mr. Oliphant: That formula has been agreed upon and my stenographer took it down and she is out here and ready to read it.

HM, Jr.: No. What I am trying to do is to find out when the President can see me, but what I would like to do is take this thing and I would like you fellows to go into Wayne Taylor's office and chew it over and see if you are in agreement.

Mr. Oliphant: You mean on the formula from the Solicitor's office?

HM, Jr.: Yes.

Mr. Oliphant: Well, I would not undertake to revise the Solicitor's opinion. I would not accept responsibility for revising his opinion.

HM, Jr.: Well then, here is what we will have to tell them -- they can't have a coupon payable here.

Mr. Oliphant: That's the way our discussion stands and as soon as this is typed, Mr. Bell would want to go back to the Department of Justice to check it.

HM, Jr.: Can I have a clean-out statement by 12 o'clock?

Mr. Oliphant: Yes.

The Secretary then spoke to Mr. McIntyre and said he would like to see the President between now and 12 o'clock, but that was impossible although the President would speak

-4-

speak to him on the phone at any time. McIntyre also told the Secretary that he was expected at one o'clock for lunch with the President and the six Governors who are here representing the Mayors' Unemployment Committee.

Mr. Oliphant: Our relation in this picture is that you are asking the Attorney General for his advice as to how you can respond to this inquiry or is the Secretary of State asking that. Why not say you are asking him informally.

HM, Jr.: I am asking him informally to advise me. The Treasury is the only Department that can ask the Attorney General for advice informally; except the President, I am the only one who has the right to go to the Attorney General direct.

(Referring to news ticker:

Look at this: "U.P. 10:29 a.m. Paris. French political circles reported today that an agreement had been reached under which American banks may invest in the forthcoming French defense loan without infringing the Johnson Act.

The reports, not officially confirmed, said the agreement was in the form of an understanding between Henry Morgenthau, Jr., Secretary of the Treasury, and Premier Leon Blum's Government."

The nice thing about the French is, they never wait for your answer. They are sweet people.

Mr. Harrison: It's their imagination which has made such progress in Art.

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While the Treasury cannot, of course, express either its approval or disapproval of the proposal of the French Government to issue a loan payable in either francs, pounds or dollars at the option of the holder, nevertheless, in response to your specific inquiry, and, in view of American legislation, it does envisage objections to the appointment of an agent in New York for the purpose of making such payments in dollars. ~~as offered.~~

Secretary Morgenthau appreciates the cooperative attitude of Minister Auriol in informing him of the details of the financial program of the French Government, and hopes that the new loan will be a great success.

Typed 5/6'37

March 8, 1937

10:35 a.m.

Present:

Mr. Mallet
Mr. Taylor
Mr. Lochhead
Dr. Livesey

Mr. Mallet: Their telegram is not as punctual as they foretold. (Copy is attached.)

HM, Jr.: While I am reading this, I thought you might like to know what the French say on this:

"Washn - American cooperations insofar as it is possible with French monetary moves over the week end was indicated to-day when Secy Morgenthau conferred at length with the French Ambassador Georges Bonnet and with George L Harrison President of the New York Federal Reserve Bank.

At the conclusion of the conference the French Ambassador who was accompanied by an unidentified member of the French embassy staff said there was nothing he could say about the conference.

Following the departure of the Ambassador Secy Morgenthau continued in conference with Mr Harrison and Treasury officials."

HM, Jr.: Well, this is what I said. I take it this is from the Chancellor?

Mr. Mallet: It take it, actually it is probably Sir Warren Fisher, because I read in the paper that the Chancellor made a speech last night at Edinburgh.

HM, Jr.: reading:

"Please inform Mr. Morgenthau that we shall give constant attention to pound-dollar fluctuations to-day keeping market in order and flattening out any excessive

3-6-36
163

Please inform Mr. Morgenthau that we shall give constant attention to pound-dollar fluctuations to-day keeping market in order and flattening out any excessive movements in accordance with our approved practice. At the moment this message leaves market in dollars appears fairly quiet; franc market naturally jumpy but Bank of France appears to be giving some small support.

We agree that franc exchange rates must depend on what is done in Paris.

We think it is too early to form any confident opinion as to effects of franc disturbance on pound-dollar rate. Trend was adverse to pound yesterday and as Mr. Morgenthau will have learned this morning we supported pound to amount of roughly 25 million dollars. We have no settled plan for Monday other than to continue our usual policy and we find it difficult to forecast what trend of market will then be. Bank of England will communicate to Federal Reserve Bank this afternoon any impressions they form as result of to-day's business.

6-70
MORGENTHAU CONFERS WITH BONNET AND
HARRISON

MAR 6 1937

164

WASHN - AMERICAN COOPERATIONS INsofar
AS IT IS POSSIBLE WITH FRENCH MONETARY MOVES
OVER THE WEEK END WAS INDICATED TODAY WHEN
SECY MORGENTHAU CONFERRED AT LENGTH WITH THE
FRENCH AMBASSADOR GEORGES BONNET AND WITH
GEORGE L HARRISON PRESIDENT OF THE NEW
YORK FEDERAL RESERVE BANK

AT THE CONCLUSION OF THE CONFERENCE THE
FRENCH AMBASSADOR WHO WAS ACCOMPANIED BY AN
UNIDENTIFIED MEMBER OF THE FRENCH EMBASSY
STAFF SAID THERE WAS NOTHING HE COULD SAY
ABOUT THE CONFERENCE

FOLLOWING THE DEPARTURE OF THE AMBASSA-
DOR SECY MORGENTHAU CONTINUED IN CONFERENCE
WITH MR HARRISON AND TREASURY OFFICIALS

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-2-

"movements in accordance with our approved practice. At the moment this message leaves"

HM, Jr.: When did the message come?

Mr. Mallet: The message was dated 12:40 and they would have to allow time for deciphering.

HM, Jr.: Noon today?

Mr. Mallet: Oh, noon today? Yes, I should say just about noon.

HM, Jr.: (resuming reading)

"At the moment this message leaves market in dollars appears fairly quiet; franc market naturally jumpy but Bank of France appears to be giving some small support.

"We agree that franc exchange rates must depend on what is done in Paris."

HM, Jr.: Check on that!

(resuming reading)

"We think it is too early to form any confident opinion as to effects of franc disturbance on pound-dollar rate. Trend was adverse to the pound yesterday and as Mr. Morgenthau will have learned this morning we supported pound to amount of roughly 25 million dollars. We have no settled plan for Monday other than to continue our usual policy and we find it difficult to forecast what trend of market will be then. Bank of England will communicate to Federal Reserve Bank this afternoon any impressions they form as result of today's business."

Mr. Lochhead: They will telephone.

HM, Jr.: The thing we are in right now and have been --

-3-

I am sort of disapointed you did not have something for me.

Mr. Mallet: I am very sorry.

HM, Jr: I don't think you know what I am going to say and that is that the French put up to us the following proposal. They have put up this question to us:

"Would the United States authorities have any objection if the French Government named some bank or firm in New York, such as J. P. Morgan and Company, to act as the agent in the United States for the purpose of paying coupons of the proposed loan in cases where payment is requested in dollars?

Mr. Mallet: The French Government?

HM, Jr: Yes. That they are proposing on Monday to issue a 10-year 4 $\frac{1}{2}$ % bond, the coupon, at the option of the holders, payable in francs, pounds or dollars. And they want to know how we feel about their designating an American bank as an agent.

Mr. Lochhead: An American bank in New York.

HM, Jr: An American bank in New York as their agent and up to now we have given them no answer. Now the inference, in fact they very much say so

Mr. Mallet: To name an American bank?

Dr. Livesey: As their agent to cash coupons.

HM, Jr: Just on interest.

Mr. Taylor: Principal too.

HM, Jr: This is approximately what they say -- that they have taken this matter up with the British authorities as to making similar arrangements in London and that the British replied that if it was a short term operation they

-4-

would have no objection, but that the British were not willing to approve such an arrangement for ten years unless we give a similar ruling.

Mr. Mallet: Was that with the Bank of England or what?

HM, Jr: In our case they were talking about appointing J. P. Morgan and Company as their agent. Now frankly it came in too late last night to do our homework on this end, as I say, I told them that I have to devote 11 - 12 on how we are going to decide how we will refinance \$500,000,000 on Monday. I have to devote an hour to that. It is worthy of that. I can't give them an answer until after noon, but I think if you could get off a rush cable and ask them -- I mean, this is what the French are telling me that you are supposed to have said.

Mr. Mallet: All this story comes to you through the Treasury?

HM, Jr: No. This story comes from the American representative in Paris as told to him by the French Treasury.

Mr. Mallet: I see. You have nothing from London on that?

HM, Jr: No. I have nothing.

Mr. Mallet: Well, of course, I will send anything.

HM, Jr: Wait a minute.

Mr. Mallet: It will be easy if you will give me a message on that.

HM, Jr: This is from Butterworth in London -- this thing moves so fast I had forgotten I had this message. (Cable 120 from Butterworth, attached hereto.)

No use sending any message. Now here comes another one. Might as well read it. Don't know what it says. (Cable 122 from Butterworth, copy attached.)

"Waley asked, during the course of a

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: March 5, 1937, 7 p.m.

NO.: 120

FROM BUTTERWORTH.

FOR TREASURY.

Today Sir Frederick Phillips stated at a meeting at the British Treasury that the British Treasury, since sending its message to Washington, had received information indicating that so far today the French fund had suffered large gold losses. Sir Frederick was not hopeful that the steps announced by the French would achieve their purpose. He characterized these steps as late and half-hearted - late because the present situation was probably no longer susceptible to mere financial treatment for the over-riding element in France was undoubtedly political considerations, and halfhearted as for instance, France has not abandoned the onerous customs inspection regulations for gold.

Sir Frederick emphasized that Monday would undoubtedly show what would be the reaction of the French public toward these measures. He said that if the French wanted to use their resources they probably in any case could hold out until June, and there was always the chance that the forces of financial deterioration might be outstripped by the forces of economic improvement.

Phillips mentioned, in connection with the French

measures,

measures, that the change to more flexible methods of operating the French fund, with a view to letting the franc find its natural level, would in his opinion mean that very quickly the franc would move to its lowest limits, and that it would stay there, but even so he did not look on this as a guarantee that at that figure substantial amounts of gold might not be lost. He said that he had information that cuts in credits and expenditure were intended to reduce the French deficit this year from 400,000,000 to 250,000,000 pounds, which he implied was but a step in the direction that is required.

It transpired, during the course of the talk, that yesterday the British authorities were approached regarding the possibility of the loan I mentioned in my yesterday's message (last paragraph) on which the interest would be payable in dollars, sterling or francs, or the franc equivalent of either sterling or dollars. Sir Frederick said that two questions were raised thereby: First, whether in certain circumstances the British authorities would help to make the sterling available - and the answer was in the negative; second, whether it was a wise thing to float such a loan, - and again the answer was in the negative. He said that several small countries in the past had been turned down on the same kind of proposition, and that it would facilitate foreign exchange speculation in a country like France. He mentioned that to have such

- 3 -

a loan "floating about with a high rate of interest" would be disadvantageous. In addition Phillips remarked that he assumed the United States would not find such a loan acceptable if for no other reason than it would probably be interpreted publicly as an attempt to get around the Johnson Act.

As we were leaving Phillips he said, in connection with the general French financial situation, that the British have not made any proposal to Washington, and they have none to make.

BINGHAM.

EA:LW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: March 6, 1937, 1 p.m.

NO.: 122

FROM BUTTERWORTH.

FOR TREASURY.

Waley asked, during the course of a telephone conversation, whether Washington had sent word as to

(1) Whether or not the French authorities had approached Washington in the matter of the loan discussed in the telegram of March 5.

(2) If so, what reply had been given by Washington to the French request to be permitted to have a paying agent in the United States and quotations on the American exchange.

Waley it seemed was rather more surprised than pleased that France apparently had gone ahead. He indicated that this afternoon he had an appointment to see the Acting Financial Attaché of the French Embassy.

Specific request was not made by Waley, but it was obvious that before he has the afore-mentioned interview he would very much appreciate receiving an answer to the above questions.

BINGHAM.

EA:LWW

-5-

"telephone conversation, whether Washington had sent word as to

(1) Whether or not the French authorities had approached Washington in the matter of the loan discussed in the telegram of March 5.

(2) If so, what reply had been given by Washington to the French request to be permitted to have a paying agent in the United States and quotations on the American exchange.

HM, Jr.: "Quotations on the American exchange" -- that's a new one.

HM, Jr.: (resuming reading)

"Waley it seemed was rather more surprised than pleased that France apparently had gone ahead. He indicated that this afternoon he had an appointment to see the Acting Financial Attache of the French Embassy.

"Specific request was not made by Waley, but it was obvious that before he has the afore-mentioned interview he would very much appreciate receiving an answer to the above questions."

HM, Jr.: You are en courant now. This is what your people are worrying about. We have no such answer yet, because we have not made up our own mind. Continuing our policy of keeping you informed of what we do or don't do, as soon as we make up our mind I will ask you to come down and let you know. And I think that's that!

Mr. Mallet: Would you like me just to telgraph this?

HM, Jr.: Yes.

Mr. Mallet: Unless you are telegraphing to Butterworth.

-6-

HM, Jr.: You do it, and I may telephone Butterworth just to keep him informed. I think I will phone Butterworth, just so he does not get restless.

I could not help but be amused that every despatch from London blames you for making the French devalue.

Mr. Mallet: I have not read the New York Times.

HM, Jr.: (reading headlines) "France Ends Curb on Gold. British Pressure is Seen." (Copy of this article is attached hereto.)

If you do send a message you might add that I am less worried today than I was yesterday. I am not saying I am cheerful, but yesterday I was pretty hopeless about it. And if we had not had the Tripartite Agreement we would never have gotten through the day. But we had our machinery and the machinery worked beautifully. Worked beautifully!

After Mallet left, the Secretary telephoned to the Secretary of State and the following is a record of their conversation:

March 6, 1937.
11:03 a.m.

174

H.M.Jr: Hello

Cordell
Hull: Hello.

H.M.Jr: Cordell.

H: What's going on?

H.M.Jr: Well I - Livesey just left here and he's been with me for two hours, see?

H: Who was this?

H.M.Jr: Livesey.

H: Oh yes Livesey.

H.M.Jr: So he's got all the details.

H: Yes.

H.M.Jr: But I wanted to tell you personally before I make any decision.....

H: Yes.

H.M.Jr:on the - of what the French are asking I'm going to call you up and get your advice.

H: Yes, the French are making certain requests, are they?

H.M.Jr: They're making definite request of us.

H: Yes.

H. M.JrE And Livesey has been here for an hour and a half; he's got it all at his fingertips.

H: Yes.

H.M.Jr: And I'd appreciate it if between now and 12 you could talk to him.....

H: All right I'll make it a point to.

V.E.Jr:and then around 12 o'clock - will you be in from 12 to 12:30.

H: Yes - yes.

H.M.Jr: By that time our lawyers will have gone over this thing and I'd like very much to call you up.

H: All right - I don't suppose - do you think Feis could be of any use.

H.M.Jr: Well Feis is up at Harvard.

H: I know he's up there; we could talk with him.

M.M.Jr: No, this has gotten down to an interpretation of the Johnson Act.

H: Oh yes I see.

H.M.Jr: And its not economics that he does.

H: Oh yes well that's all right.

H.M.Jr: Its horsensense.

H: Yes, all right.

H: M.Jr: No, but.....

Hull: Do you think I should call in my lawyers on it?

H.M.Jr: I think it would be helpful.

H: They can - they have to back yonder you know.

H.M.Jr: We put it up to the Solicitor over at the Attorney General.

H: Well I guess that's the place to put it up.

H.M.Jr: Well we've already done it and he's given us an informal opinion and they're typing it now.

H: Oh I see.

- 3 -

H.M. Jr: Yes, the Solicitor to the Attorney General is giving us this formal opinion.

H: Yes, all right then Henry I'll - I'll be glad.

H.M. Jr: But that's where we've gone.

H: Yes.

H.M. Jr: And I might say that the opinion is unfavorable.

H: Yes, I see. Well I thank you very much.

H.M. Jr: Thank you sir.

New York
Times
March 6,
1937

FRANCE ENDS CURB ON GOLD TO REGAIN VAST SUM ABROAD

National Defense Loan Floated Monday Will Be Repaid in Metal on Demand

BUDGET TO BE BALANCED

Cabinet Announces That Needs of Treasury Can Now Be Met by Ordinary Methods

BRITISH PRESSURE IS SEEN

London Expects Blum Also Will Be Forced to Devalue Franc to Lowest Legal Limit

By P. J. PHILIP

Wireless to THE NEW YORK TIMES

PARIS, March 5.—Proclaiming once more that the monetary agreement concluded last September with the United States and Great Britain remains the basis of its policy, the French Cabinet announced today measures which it is hoped will restore confidence and turn the flow of gold back toward France.

These measures are not in any way revolutionary or exceptional. Neither are they "socialistic." They form what a government communiqué described as a coherent whole for the settlement of monetary, treasury, budgetary and price problems acting on each other.

After the announcement about noon the measures received general approval on the Bourse.

Payment to Gold Permitted

Outstanding among the five proposed measures was that in which the government, in announcing the issue Monday of a national defense loan, declared its confidence in the franc by undertaking repayment "with guaranteed and optional exchange," that is to say, in gold if demanded.

Second in importance came the statement that the government had received not to proceed by further increases expenditure the restoration of a balanced budget.

Third, free imports of and commerce in gold and its purchase by the Bank of France without inquiry into the identity of the seller have been restored.

Fourth, announcement was made that improvement in the economic situation and reduction of unemployment had been calculated as likely to lighten the treasury's burden by about 4,000,000,000 francs so the treasury's needs could be met by ordinary methods.

Fifth, a special commission composed of Emile Labeyrie, governor of the Bank of France; Jacques Rueff, director general of the Finance Ministry; Charles Rist, economist and banker, and Paul Baudouin, director general of the Bank of Indo-China, will henceforth direct the operations of the exchange equalization fund set up last October to defend the franc. They will also supervise the market for national bonds and assure the security of commerce and the stability of prices.

Importance of Plans Stressed

Without dramatizing the situation it may be said that these measures form the government's alternative to exchange control and directed economy. The whole future of France, it is emphasized, depends on the reply made to the demand for Frenchmen's confidence in the franc and in France.

Perhaps, unfortunately, it is felt by some that Premier Léon Blum and Vincent Auriol, the Finance Minister, could not resist making that clear and pointed in their declaration which was read by Mr. Blum to newspaper men. There is a spirit of combat in the phrase that the national defense loan is being issued in such conditions that "no Frenchman can plead his personal interest in order to dodge his civil obligations" and in this concluding phrase:

"The government believes it has done its duty. It counts on every Frenchman to do his."

At the same time it is recognized that there is great astuteness in the whole measure, to the construction of which much thought has been given during the past two months and advice has been sought in London and Washington.

Although it originates from the Leftist People's Front government there is no doubt that the plan meets national approval. Its promise to reduce or at least restrain expenditure and to balance the budget will get approval from every one, from the most conservative Senator to the humblest taxpayer. The abolition of the system of inquiry for gold holders will be popular.

There is general confidence in the four men who have been appointed to supervise the manipulation of the exchange stabilization fund and there is real attraction as well as

Continued on Page Twenty-eight

FRANCE ENDS CURB ON DEALS IN GOLD

Continued From Page One

patriotic self-confidence in the declaration that subscribers to the national defense loan will be repaid with cash of the same value as that they subscribe.

Lebrun Will Make Appeal

President Albert Lebrun will emphasize the national character of the loan by making the first appeal by radio Sunday evening. Subscriptions will be opened Monday morning. The government announced that this would be the only loan floated this year.

It is hoped the loan's terms will attract a large part of the immense amount of French capital that went abroad in recent years, in many cases embarrassing centers where it took refuge. That is the crux of the whole problem and to that end every possible method of persuasion will be used.

Edouard Herriot, Edouard Daladier, President of the Senate, and Joseph Caillaux are announced among those who will make radio appeals. Tomorrow evening Premier Blum in a radio talk will comment on today's decisions.

In parliamentary circles the Cabinet's action formed the topic for animated discussion. In the Socialist group particularly there appeared dismay at what some Opposition newspapers tonight proclaimed "a check to the People's Front."

Some Deputies contended the decisions taken by the government today required sanction by Parliament, and it appeared probable that on account of preparations for interpellations on his financial policy Mr. Blum announced today they would be made the subject of debate next week.

Among moderates and conservatives there is general approval, voiced by such Deputies as Paul Reynaud and Pierre-Etienne Flandin and Senators Abel Gardey and Marcel Regnier. Mr. Flandin qualified his praise by saying that the financial program Mr. Blum had adopted was satisfactory on condition that he made his economic policy conform and dropped several projects now waiting action by Parliament.

Mr. Blum will appeal to the nation to support his plan in a broadcast tomorrow at 7:30 P. M. (2:30 P. M. New York time) and President Lebrun will speak Sunday at 7 P. M.

OLD LAWS STILL CURB GOLD

French See Obstacles to the Cabinet's New Policy

WISCONSIN IS THE NEW YORK TIMES
PARIS, March 5.—It is juridical niceties there is some question as to how the government's decisions today regarding free dealings in gold can be reconciled with various measures previously adopted by the Cabinet.

In accordance with the Devaluation Act of last October all dealings in gold bars, ingots and coins are subject to authorization by the Bank of France. Imports and ex-

ports require authorization of the bank. It is contended today's Cabinet order for free imports and internal dealings in gold does not conform with the Devaluation Act. It is pointed out, however, that only imports are permitted and exports are still forbidden and that the Cabinet's ruling today is reversible at will and therefore has no assurance of permanence.

In the Devaluation Act there are various provisions concerning the declarations of gold holdings here and abroad and punishment for failure to make declarations. These provisions cannot be rescinded with today's order to the Bank of France to purchase gold without verifying the identity of the seller and there is some doubt whether such operations can begin Monday as stipulated in the government communiqué.

The Cabinet's policy on gold has been subject to repeated fluctuations. Finance Minister Vincent Auriol by radio and in numerous written statements has voiced threats against hoarders. At the time of devaluation the government announced its intention to purchase gold at a price taking no cognizance of its rise in price through devaluation.

Later a special bond issue was made to which gold holders were permitted to subscribe and make a profit on devaluation. Twice the date on which prosecutions of gold hoarders were to begin was extended. Today's order removes any stigma from the gold hoarders but provides no compensation for persons who delivered gold to the bank under conditions less advantageous than are now offered to sellers of gold.

About two weeks ago the government issued a decree authorizing the customs service to raid homes for the confiscation of illegally held gold bars, ingots and coins, before gold can be openly bought and sold it is thought this decree must be revoked.

French Situation

PARIS -- FRENCH POLITICAL CIRCLES REPORTED TODAY THAT AN AGREEMENT HAD BEEN REACHED UNDER WHICH AMERICAN BANKS MAY INVEST IN THE FORTHCOMING FRENCH DEFENSE LOAN WITHOUT INFRINGING THE JOHNSON ACT.

THE REPORTS, NOT OFFICIALLY CONFIRMED, SAID THE AGREEMENT WAS IN THE FORM OF AN UNDERSTANDING BETWEEN HENRY MORGENTHAU, JR., SECRETARY OF THE TREASURY, AND PREMIER LEON BLUM'S GOVERNMENT.

3/6-R1029A

IT WAS UNDERSTOOD THAT THE U.S. GOVERNMENT WOULD NOT OPPOSE BANKS ADVISING CLIENTS TO SUBSCRIBE TO THE LOAN INASMUCH AS THE BONDS WOULD BE PAYABLE IN DOLLARS AND STERLING. THE AMERICAN BANKS, THE REPORTS SAID, WOULD NOT BE PERMITTED TO TAKE UP THE BONDS DIRECTLY.

THE AMOUNT OF THE LOAN HAS NOT BEEN MADE PUBLIC BUT IT IS BELIEVED THE GOVERNMENT HOPES TO REALIZE AT LEAST 10,000,000,000 FRANCS (\$455,500,000).

ON THE BASIS THAT THE REPORTS OF AMERICAN PARTICIPATION ARE CORRECT, PREDICTIONS WERE MADE THAT THE LOAN WOULD BE QUICKLY SUBSCRIBED. IN THIS CONNECTION THE PARIS MIDI SAID THE LOAN WOULD BE COVERED A FEW HOURS AFTER THE LISTS WERE OPENED ON MONDAY.

OPINIONS WERE BELIEVED THERE WAS NOTHING EXISTING IN PRESENT LAW TO PREVENT AMERICANS FROM TRANSFERRING FUNDS TO PARIS TO PURCHASE FRENCH BONDS OR STOCKS ON THEIR OWN INITIATIVE. BRITISH BANKS, IT WAS EXPECTED, ALSO WOULD URGE THEIR CLIENTS TO TAKE UP THE ISSUE AS AN ATTRACTIVE INVESTMENT."

3/6-R1057A

March 6, 1937.
10:50 a.m.

McReynolds: Good morning Secretary.

H.M.Jr: Hello Mac.

McR: Yes.

H.M.Jr: Get this. Last night Dr. Par - ah - Mayor LaGuardia called me and it seems not only have we lost our correspondence but he's lost his his.

McR: Yes.

H.M.Jr: We gave him authorization of use of that island down there in New York bay - hello

McR: Yes.

H.M.Jr: I promised him that I would have on his desk Monday morning an authorization signed by me so that he could have that island because he's got to go before his Board to get its approval.

McR: All right.

H.M.Jr: I - ah - Miss Switzer knows about it and Dr. Parran knows about it but I've given him my word it would be on his desk Monday morning. Now you see that.....

McR: I'll see that it is - I'll be respon.....

H.M.Jr: If necessary I'll sign another letter but he says that he's lost my letter and it seems that we've lost ours down here.

McR: I have ^{'nt} seen anybody.....

H.M.Jr: Well... Parran knows all about it.

Mc R: You - you - you know that you did sign it.

H.M.Jr: I know I signed it.

McR: Oh well (laughs) since our people couldn't find it and he couldn't find it I thought maybe he didn't.....

- 2 -

H.M.Jr: And I'd almost swear that you brought it in yourself.

McR: I don't remember ever having seen it.

H.M.Jr: Well if you can't find it for God's sakes write another one.

McR: We'll see that there's one - I've had everything turned upsidedown this morning.....

H.M.Jr: All right I promised him to have it.

McR:and I'll see that you have one.

H.M.Jr: O.K.

MEETING ON MARCH FINANCING

March 6, 1937.
11:00 A.M.

Present: Mr. Taylor ✓
Mr. Bell ✓
Mr. Harrison
Mr. Seltzer ✓
Mr. Haas
Mr. Lochhead
Mr. Harris,

H.M.Jr: Well, the first thing, George, isn't it to call up our friend Mr. Burgess? Right? I haven't talked to him today.

Harrison: I've talked to him, but I think you better talk to him.

H.M.Jr: Have you seen 122 (a cable)?

Harrison: No.

H.M.Jr: Here it is.

(Harrison reads cable)

Puts a little different light on it, doesn't it?

Now we'll get Professor Burgess on the telephone and let him give us a lecture. (On phone) Get Dr. Burgess in New York.

Harrison: He doesn't think much of your market today. Quotations are about what they were last night, but they weren't too good last night. Corporate bond market isn't very good.

H.M.Jr: Well, you know what I said at our meeting Wednesday. Remember? You were here, weren't you?

Harrison: Yes.

H.M.Jr: That I was very nervous Wednesday, wasn't I?

Harrison: I think he thinks you'll have to be fairly generous.

H.M.Jr: Well, how generous? Hello? (To Burgess on phone; record of conversation on dictaphone at 11:08 A.M.)

- 2 -

- H.M.Jr: All right, we'll go around the room this way.
- Harrison: As I see the picture, Mr. Secretary, the situation is worse than it was last Wednesday. The bond market yesterday was off anywhere from three to seven thirty-seconds. Your 2 $\frac{1}{2}$ s were off three thirty-seconds. They're off another thirty-second this morning, because when I talked to Burgess even a half hour ago they were 101 7 and 8, and he says now they are 101 6. So they haven't picked up anything. That being so, and with the uncertainty of the foreign picture, although I don't see how that should fairly affect us except psychologically - nevertheless, if I wanted to play safe I think you've got to make a generous offer. Now, last Wednesday you talked about giving them three-quarters.....
- H.M.Jr: With double interest.
- Harrison: Well, one way or the other.
- H.M.Jr: That's right.
- Harrison: Now, Burgess's proposal is equivalent to giving them one full point. Whether you fix it in the premium or by payment of double interest doesn't make much difference.
- H.M.Jr: That's right.
- Harrison: I personally favor fixing it by the premium or lack of premium rather than by an adjustment of interest.
- H.M.Jr: Against the premium rather than the adjustment of interest?
- Harrison: Yes, I'd be in favor of no premium rather than an adjustment of interest.
- H.M.Jr: Well, Wednesday we were talking about giving them three-quarters.
- Harrison: And now, because of developments, the question is whether you should give them a whole point. That's what Burgess says, and I think it's the most conservative thing you can do. Maybe it's too much; in that event you might charge them a quarter premium

- 3 -

and get away with it. It's just a question, I think, between those two things. I wouldn't consider any of the other suggestions.

H.M.Jr: You wouldn't?

Harrison: No. I think a new bond is altogether too small, don't you, Danny?

Bell: You mean the five hundred million is too small for a new bond?

Harrison: Yes, you don't need to do that.

Bell: No, I don't think there's enough difference between the '50-'54 and the 2 $\frac{1}{2}$ December to worry about it.

Harrison: That's what I mean; one way or the other, there's hardly enough difference between the two to justify putting out a new issue.

Bell: '50-'54 would sell for about 101.

Harris: Sell around a point premium.

Haas: I doubt if you want to build on top of that particular bond, either, later on.

Harrison: But in either event you're giving them a point premium; therefore, if you're going to give them a full point, why not with the present issue rather than a new issue?

H.M.Jr: Well, I'm going to listen and absorb it, see? I mean I don't....

Harrison: That's the present opinion, subject to change, as we all are, I hope.

H.M.Jr: Oh yes. I mean.... Wayne?

Taylor: I would do either the new bond at par or the...

H.M.Jr: A new bond?

Taylor: A new bond at par, or I would do the combination of the double interest, so that you would do it at the half point premium.

- 4 -

H.M.Jr: You're in favor of giving them a half point premium?

Taylor: I'm talking about if it's going to be a full point premium, that you can offer an exchange at par and a half.

H.M.Jr: Give them double interest.

Taylor: Which makes...

Harris: Thirty thirty-seconds.

H.M.Jr: Thirty thirty-seconds, yes. Which do you prefer?

Taylor: I think in view of all the circumstances - I mean I lean a little more to the half premium with the double interest. I think it looks better from the Treasury's point of view to do it that way.

Harrison: Then they come out with a net of three-quarters.

Bell: Yes, about a net of three-quarters. No, almost a point.

Taylor: It works out the same.

Harrison: That's right, it works out the same.

Bell: And that's with...

Harris: The price difference would be 22 thirty-seconds plus a month's interest, which is 8 thirty-seconds; makes 30 thirty-seconds.

Taylor: I think a premium of a quarter point looks funny.

Bell: Yes

Taylor: Half a point looks a little better.

H.M.Jr: You mean you'd offer it at 100 $\frac{1}{2}$ and give them double interest.

Taylor: Yes, if you use the old bond.

H.M.Jr: And which do you lean towards, the old bond or the new bond?

- Taylor: Towards the old bond.
- H.M.Jr: All right. Professor (Seltzer)?
- Seltzer: I feel pretty much the same way. If you offer the thing at an effective premium of a quarter; that is, if you offered bonds at a hundred and a quarter or offered them at a hundred and a half with double interest, you'd be giving the noteholders exactly what the premium is at present on maturing notes, and you'd have a margin of safety, a considerable margin of safety. That is, your 2 $\frac{1}{2}$ s would have to go down by 23 thirty-seconds of a point before removing all incentive on a price basis to meet the exchange.
- H.M.Jr: Well, let me put it this way, if you don't mind. Leaving out - do you prefer using the old bond or a new bond?
- Seltzer: The old bond.
- H.M.Jr: And how much - sell it at par or would you give them....
- Seltzer: Sell them at either par and a quarter, single interest, or par and a half, giving them double interest. It all amounts to the same thing.
- H.M.Jr: And which do you prefer?
- Seltzer: I haven't any choice between those two.
- H.M.Jr: You haven't any choice?
- Seltzer: No.
- H.M.Jr: Georgie?
- Haas: I'd lean towards Wayne's suggestion. I don't think there's much choice there, but I'd lean toward that of par and a half and I'd use - of course, use the old bond. I think we should think twice before we put out another bond, because I doubt if we'd want to put another issue out with those call and maturity dates. So I'd take Wayne's suggestion in toto. I agree with that.

- 6 -

- Bell: I agree with that - hundred and a half, the old bond, and giving double interest.
- H.M.Jr: Just like that?
- Bell: Right.
- H.M.Jr: Harris?
- Harris: I like the old bond too. The present market premium on the notes is 18 thirty-seconds.
- H.M.Jr: The notes?
- Harris: Yes, and I think if you do it at par and a half...
- H.M.Jr: Double interest?
- Harris: Without giving them the double interest. That would give them a premium of 22 thirty-seconds.
- Haas: That's about the way we figured it. That's about the way we had it when we came in.
- H.M.Jr: Single interest?
- Haas: The other is gravy, more or less.
- Harris: If you want to be ultra-conservative, you can give them double interest and that....
- H.M.Jr: I don't think today we want to play around with a new bond, because we don't know where we'll be in June and we've got that '42 date open; we might want in June to sell - oh, five or eight hundred million dollars of a five-year note into '42.
- Seltzer: And the fact that your outstanding bond has a definite premium which is known, I think, is an advantage. Your new bond you'd have to get priced first; there would be some uncertainty.
- H.M.Jr: And if I am correct, I think this 2½ bond is a rather popular bond.
- Harrison: Good coupon.

- 7 -

H.M.Jr: I mean it's been distributed and they like it. What?

Harrison: Yes.

H.M.Jr: Well, I might say we are all in accord that we don't want to play around with the new one. We can tell that to Burgess and that will clarify his thinking. What?

Harrison: Yes

H.M.Jr: So it gets down to a question of pricing the old bond.

Harrison: And we are all in accord that we want to give them somewhere between three-quarters and a point premium. How you do it is another question. I don't much care how.

H.M.Jr: We are all in accord that we don't want to play around with a new bond.

Harrison: Well, I am.

H.M.Jr: Well, I - that's for everybody.
(On phone) Dr. Burgess, please.

Harrison: How much premium would they get, Harris, if you made just a par for par exchange in 2½s?

Harris: They would get one point and 6 thirty-seconds.

Harrison: One point six.

Harris: One point, 6 thirty-seconds.

Harrison: Well, that's too steep from your standpoint.

Harris: Well, the market is only pricing the rights on that at 18 thirty-seconds, and that would give them an awful lot of gravy.

Harrison: Over the rights?

Harris: Yes

Harrison: May do that before noon.

Harris: On that?

Harrison: Even on your present proposal, because the rights are falling off. I wouldn't give them over a point.

H.M.Jr: Hello, Burgess (On phone; conversation recorded on dictaphone at 11:23 A.M.)

Harrison: He agrees with you (Taylor) on that.

I'm surprised at you, Harris, about par and a half without the double interest. I think you've got a great deal of courage, haven't you?

Harris: I think 22 thirty-seconds is enough.

Bell: I can agree with you - I could if it weren't for this foreign situation.

Harris: Well, you're giving them 4 thirty-seconds more than they think they're going to get, or what they value it at.

H.M.Jr: Hello (On phone; has conversation with Dr. Feis)

Taylor: I'm still waiting for the time when we can afford to fool with that premium and have them be wrong, but I don't think that this is it.

H.M.Jr: Let me ask you a question, George. I don't want to today - Monday give the market anything which might give the financial circles a chance to say - I mean I don't want to give anybody the slightest chance to write anything; I mean I'd rather take the criticism that it is too generous; I'll take that; I can take that. But I mean if this double interest and all that is going to be difficult to explain, I don't want to have to explain anything, see? I mean - I mean I'd much rather, naturally, have it look like I was getting a hundred and a half. Do you follow me?

Harrison: Yes, I see.

H.M.Jr: I mean are the financial writers and all that stuff - is this going to give them a chance? The New York Tribune is always looking for trouble; they're always

- 9 -

looking for trouble. The Journal of Commerce is always looking for trouble. Does it give those fellows any chance to write something unfriendly?

Harrison: Well, I've always had the feeling that double interest affords more opportunity for an unfavorable critic than the price at which you put the bond, because one is a question of judgment and the other is so easy to get a following on, and the people say, "Why, the Treasury is paying double interest to somebody who happened to own these securities." Now, you can get the same thing out of the price or give them that without risk of that same criticism. However, you have so often done it with double interest that I don't think it is very much of a risk so far as criticism is concerned if you want to do it that way. My mind is balanced clearly on this: par and a half plus double interest or par and a quarter.

Now, the arguments for one and the other are about like this: that the double interest might be a basis of criticism, probably won't be; the par and a quarter looks pretty picayune.

H.M.Jr: Well, you see, in this group - I mean the chance....

Harrison: One more thing, on Harris's suggestion of par and a half without double interest. I think that normally that would be fair, perfectly fair pricing; I think this particular week-end it would be bad judgment.

H.M.Jr: I think normally half a point premium would be plenty. I'd take a chance. If this was the 15th of December instead of the 15th of March, I'd go out and pay a half point and I wouldn't bat an eyelash, see? I'd give them a half point and wouldn't bat an eyelash. But we know in this room that there isn't a fifty-fifty chance today, this moment, that the French loan Monday is going to be a success. I mean I think that is the most optimistic thing you can say, isn't it, that the French loan on Monday has a fifty-fifty chance of being a success.

Harrison: May I ask you a question, Mr. Secretary? Have they ever told you what the open....

- Taylor: Open end - all they can sell.
- Harrison: Oh, I see. Of course, if I were a Frenchman, I'd feel a little differently; I'd feel that's a pretty darn good buy.
- Taylor: I don't think we can tell. They've at least got a...
- H.M.Jr: Well, you'd say a fifty-fifty chance, is that it?
- Taylor: I'd say at least a fifty-fifty chance.
- H.M.Jr: Well, especially if we turned them down, I wouldn't think that is so. You wouldn't go farther than a fifty-fifty chance.
- Taylor: I'd say today they've got better than an even chance, whereas yesterday or the day before I wouldn't have thought so.
- H.M.Jr: Well, now we're talking about whether we should give any more - the other day I was talking - Wednesday - whether I should give them half a point or three quarters of a point; today it's a question of three quarters of a point or a point.
- Harrison: Well, on the half plus double interest you give them thirty thirty-seconds, don't you?
- Taylor: Practically a point.
- Harrison: Practically a point, and I think you could add....
- Seltzer: Same thing on par and a quarter without double interest.
- H.M.Jr: But on a new issue - let's be fair - on a new issue, George, we always figure about par and a quarter, don't we?
- Harrison: That is on a cash issue, Mr. Secretary.
- H.M.Jr: Yes I know, but didn't we....
- Haas: We usually figure a little over a point.
- Seltzer: Over a point.
- H.M.Jr: Little over a point.

- 11 -

- Seltzer: Figuring as high as a point and a half.
- H.M.Jr: But a little over a point, haven't we, when we got down to it?
- Seltzer: That's right.
- Bell: Which is too much for normal financing.
- Taylor: Yes
- Harrison: (Nods yes)
- Haas: Well, par for par, single interest, is nearly a point and a quarter.
- Harrison: Well, I think we all agree that's too high.
- H.M.Jr: What? Par for par?
- Harrison: Par for par and single interest gives them one point and six thirty-seconds.
- Harris: If the market should turn strong on Monday it would look bad. Those bonds might go up to one and a half. Collect an awful lot.
- Harrison: I think we can throw that out on that side.
- H.M.Jr: And you don't like par and a quarter?
- Harrison: Well, I don't mind it so much, and I don't feel there is so awful much difference between par and a quarter, single interest, and par and a half, double interest; I don't care.
- Taylor: Seigniorage is better, with par and a half.
- H.M.Jr: If you took it par and a half with double interest, how much would the bond have to drop so it got down to only a half point.
- Harris: It would have to drop 14 thirty-seconds.
- H.M.Jr: 14 thirty-seconds - so it would have to go to par 25, wouldn't it?

Harris: That's right.

Bell: About 24 or 25.

Harris: The bonds never have sold down that low.

H.M.Jr: Have they ever sold....

Harris: No, they haven't. They've been as high as 101 and 17. So they've remained very stable in a narrow range there, those long bonds; they haven't fluctuated very much.

H.M.Jr: Of course - I don't know who put it up to me when we were talking about this premium that it would take it out of the investor - I mean in the sense - I mean if I get par for my new issue I'm getting by; the other way I'd have to take it out of the pockets of the citizens of the United States. What?

Taylor: (Nods yes) Both ways.

H.M.Jr: No, but I mean if I get par for my issue, well, that's par.

Taylor: Well, it's both ways. If you sell a bond at par which you figure is going to go to a point premium, why, you could have sold it at 99, but the equivalent would be - so you are paying a point whether it's in premium or any other way, and that comes out of the investor - taxpayer.

H.M.Jr: Well, if this thing should go badly Monday, can you conceive the Governments dropping at an average - Governments dropping at an average of about half a point?

Harrison: I should not think so. Our experience has always been that you have a weak bond market in a period of uncertainty as to what is going to happen in a financing, but after the announcement comes out you don't have as much trouble, as a rule. I'd be very surprised if it drops a half point.

H.M.Jr: Who's in favor of par for par?

Haas: Single interest.

- Seltzer: Well, if you're extremely nervous, I'd say par for par and your troubles are over.
- H.M.Jr: Well, par for par, single interest?
- Seltzer: I'd say if you want to be absolutely safe, surely; your troubles are over.
- H.M.Jr: Well, who's in favor of par and a half double interest?
(Bell, Haas and Taylor raise hands)
- Harrison: I'd be for that or the other.
- H.M.Jr: Which are you (Harris) for?
- Harris: Just par and a half, single interest.
- H.M.Jr: All right. Which are you (Taylor) for?
- Taylor: I'm for par and a half, double interest. If you don't do that, you go to par - straight exchange.
- H.M.Jr: (On phone) Mr. Burgess, please.
- Harrison: I think you (Harris) will probably prove to be right. I think you'll be proved to be right on Monday. But the Secretary shouldn't put himself in the position of gambling on that 25 percent chance that you won't be right.
- Bell: If it weren't for your foreign situation, I'd go along with Harris.
- H.M.Jr: Hello, Burgess (On phone; conversation recorded on dictaphone at 11:47 A.M.)
- Harrison: I'd like to ask, when you call back, the question - you ask him, if you will - why he thinks he may have a bond market that would go off from a half to three quarters, even though the French thing should fail. First of all, if the French loan fails, you won't know it for several days.
- H.M.Jr: No, no, they'd have to make it known.

- 14 -

- Taylor: Yes, but you won't know how it's gone for at least two days or more.
- H.M.Jr: But on this thing - it isn't like a cash offering.
- Taylor: Well, all the more reason why you don't have to be so generous with it. I mean if it were a cash offering, that would be one thing; but this is an exchange and...
- Bell: You can cut it a little thinner if you want to.
- H.M.Jr: Well, you heard Burgess. Do you (Harrison) want to talk to him?
- Harrison: I'd like to ask him the question whether he thinks that, even if the French thing should be a failure and a mess - whether he believes that would be much of a shock to our bond market. I think the real influence on our bond market is the one that he's given, that people now feel that prices are going up and that interest rates will go up, or that fixed investments won't be as valuable as they have been in the past, and therefore they are turning to stocks and they are a little bit out of the bond market, both corporate and Government. But I don't think that would mean a rapid drop. It may mean a gradual easing of bond prices. But even so, you've got a pretty good margin with par and a half and double interest, and I wouldn't worry about it.
- Harris: What Burgess probably also is worrying about - he knows that the corporate bond market hasn't acted like this bond market; in other words, to date the Government bond market has acted much better than the corporate. He's afraid that it's liable to catch up with the corporates.
- H.M.Jr: That's the thing, and we are weeks behind the corporate thing.
- Harris: Mr. Secretary, if the market does drop to par and 24 thirty-seconds, they either have to take par or turn them in and get that 24 thirty-seconds.
- Seltzer: Of course, they'd get eight of that back; they'd get three percent interest in between March 15th and April 15th.

- 15 -

- Harris: So since it's an exchange, they only have one of two things they can do, turn them in for par or take them and...
- H.M.Jr: Of course, there's another thing which somebody said; if I offer par for par, it shows how worried I am. That's the other side of it.
- Harrison: And shows that you are appraising the situation very much more delicately than the fellows who are pricing the rights today.
- Haas: And by putting this at par and a half it shows that apparently there's been some - this is an old issue out, there's some improvement, you come out and you're not offering it at par - I mean that's the improved look - face you put on it.
- H.M.Jr: Well, let me get him. (On phone) Get me Mr. Burgess again, please.
- Want to talk to him? You (Harrison) want to, don't you?
- Harrison: Well, I just want to ask him that one question.
- Taylor: Cash offering, I'd feel differently - but exchange, way, don't let them hold you up.
- H.M.Jr: Well, I don't feel - I don't feel that way.
- Hello (On phone; conversation with Burgess recorded on dictaphone at 11:55 A.M., Harrison and H.M.Jr both speaking to Burgess)
- Harrison; I think if I were advising you, I'd say par and a half and double interest. I think if I were in your place I'd do par for par. That's the way I feel.
- (Hearty laughter)
- Haas: That's backing up.
- Bell: That's hedging.
- H.M.Jr: He said if he were advising me he'd do par and a half, double interest, but if he was me he'd do par for par.
- Bell: That's no advice.

- 16 -

- Seltzer: He's sure this way he'll be able to sleep tonight, whereas if he were in your place and offered par and a half, double interest....
- Harrison: I'm just on the assumption that it's easier for me to sleep than it is for you under your situation.
- H.M.Jr: Oh yes, no argument about that.
- Haas: The amount of money involved isn't large, in view of the whole problem. It is just whether the market will interpret it as a sign of weakness. And I sort of doubt if that is the case. After all, that is - you're offering it par for par and that's been the usual thing.
- Seltzer: If you're nervous about it, as I said before, it is - since it's a million and a quarter dollars on five hundred million, a quarter of a point - that's all we're talking about, one quarter of a point, no matter how you're dressing it.
- H.M.Jr: Wayne?
- Taylor: You're feeling generous to give the boys a million and a quarter, but I don't think you have to do it.
- H.M.Jr: Christ! - one says one thing and the other...
- Taylor: No, I'm opposed to it.
- Bell: A million and a quarter is a lot of money out in Illinois, and I am not in favor of giving it away. I want a hundred and a half and double interest. And if it doesn't go by a hundred million, we'll go on issuing bills and retire them.
- H.M.Jr: Oh no. No!
- Bell: We may have to do that.
- H.M.Jr: They can only do that to me once.
- Bell: No, I think if you don't get a hundred million of them in exchange that's not a failure.
- H.M.Jr: Oh, I didn't follow you.

- 17 -

Bell: I don't think that's a failure.

H.M.Jr: Well, you know, there's so many danger signals, there's so many things.

Let's just let this thing simmer a minute. I wonder if Mr. Oliphant is ready to report. (To Kieley) Tell Oliphant and Oppen to come in.

(Oliphant and Oppen come in to report on French loan situation; record transcribed separately)

H.M.Jr: Now, as to this financing. I'm going to do the conservative thing: par for par - especially with a close of 101 5.

Harrison: That's what I would do.

H.M.Jr: I'm not going to take any chances.

Bell: Very sweet.

H.M.Jr: Me?

Bell: You and the offering.

H.M.Jr: All right, Dan.

Harrison: You can't save some of that generosity for the French, can you?

H.M.Jr: Look, everything that you've told me is unfavorable. Nobody has given me any favorable news. Now, why should I risk at this stage a five hundred million dollar issue? Why should I take the risk for a million and a quarter dollars on five hundred million?

Taylor: Well, the only difference of opinion is that you're not going - taking any risk.

Lochhead: I think it's going to be taken as indication of weakness. I think it will bring down the other level of bonds instead of insuring this.

H.M.Jr: Well, I'm not - I can't help that. You (Harrison) would do the same if you were in my shoes?

- 18 -

Harrison: I think I would, Mr. Secretary; but as your fiscal agent and advising you, I think I advise you rightly when I think you could make the other go.

H.M.Jr: But I've never put over an issue that Burgess didn't say I can do it.

Hello (On phone; conversation with Burgess recorded on dictaphone at 12:40 P.M.)

H.M.Jr: Well, I can't help it. Par for par.

Bell: I don't know whether we can get them ready at one o'clock.

H.M.Jr: That's all right. I want you at my press conference; it will be in five minutes.

Excerpt from 11:00 A.M. Meeting of March 6, 1937.
RE: FRENCH LOAN CRISIS

Present: Mrs Klotz
Mr. Taylor
Mr. Bell
Mr. Haas
Mr. Seltzer
Mr. Harris
Mr. Harrison
Mr. Oliphant
Mr. Opper

Taylor: "Please tell Secretary Morgenthau that the Ambassador has not yet received the cable that he is expecting." This is from Mr. Henry.

Bell: Do you want me?

H.M.Jr: Why, very much.

The terms of my issue depends on what you (Oliphant) say. We've been sweating on my issue.

Oliphant: Well, this is the statement, and the Assistant Solicitor called me at 13 minutes to twelve and said that the Attorney General had written "Approved" on the bottom but had added another statement, that he deemed it largely a question of policy, and I'm waiting for that to come over; I want to see that.

Harrison: Largely a question of what.

Oliphant: Of policy.

H.M.Jr: "Would the United States authorities have any objection if the French Government named some bank or firm in New York, such as J. P. Morgan, to act as the agent in the United States for the purposes of paying coupons under the proposed loan in cases where payment is requested in dollars?"

That's the question. The answer to the foregoing question is: "While the designation of such an agency and its later payment of coupons from funds theretofore put in its hands by the French Government might not be a violation of the Johnson Act, nevertheless, the sale of the proposed bonds through Americans would violate the spirit, if not indeed the letter of the Johnson and in consequence no office of the Government could undertake to approve this or any other measure calculated to encourage the purchase of the proposed bonds by Americans."

Now, that's that.

Taylor: And he's adding that it is largely a question of policy.

H.M.Jr: (On phone) Get me Secretary of State, please.

Is that what you (Bell) are worrying about?

Bell: I haven't any worries.

H.M.Jr: The fellow that's got to worry is the Federal Reserve Board.

Harrison: We're used to it.

H.M.Jr: Well, this is very important.

(To Oliphant) George Harrison said, "If I was giving you advice, I'd do it one way; if I was Secretary of the Treasury, I'd do it another."

Oliphant: (Laughs)

Mrs Klotz: He didn't say that?

H.M.Jr: Yes, he did. But he said it with a smile on his face.

Harrison: That's a lot more honest than a lot of your advisers would be.

H.M.Jr: Hello, hello. Hello, Cordell? (On phone; has conversation with Mr. Hull, recorded on dictaphone at 12:08 P.M.)

Now, what I want - if I could be alone a minute. I want to talk to the President if I may.

(Group leaves while Secretary has phone conversation with President, returning at 12:35 P.M.)

Now, I told Cordell I'd send him a photostat. We'll send one to Mr. Hull. Have three photostats made, and then I'll keep the original, one goes to Mr. Hull, and two go to Herman Oliphant. (Referring to memo from Department of Justice)

Now, I talked to the President on this thing, and he's waiting in case Cordell says something one way or the other. We're simply going to answer the French their particular question and say, "No," that's all

- 3 -

They've asked us a question. We're going to say, "No" and that's all as to that particular question.

And when I see the boys now, I thought what I would do with them is say, "Now you'll have to excuse me on this French thing, and I have nothing to say." I can't tell them that the French have asked me this thing.

Taylor: (Nods no)

H.M.Jr: And if I say I'll see them this afternoon, that will make them think I did say something.

March 6, 1937.
11:03 a.m.

203

H.M.Jr: Hello

Cordell
Hull: Hello.

H.M.Jr: Cordell.

H: What's going on?

H.M.Jr: Well I - Livesey just left here and he's been
with me for two hours, see?

H: Who was this?

H.M.Jr: Livesey.

H: Oh yes Livesey.

H.M.Jr: So he's got all the details.

H: Yes.

H.M.Jr: But I wanted to tell you personally before I
make any decision.....

H: Yes.

H.M.Jr:on the - of what the French are asking I'm
going to call you up and get your advice.

H: Yes, the French are making certain requests, are
they?

H.M.Jr: They're making definite request of us..

H: Yes.

H.M.Jr: And Livesey has been here for an hour and a half;
he's got it all at his fingertips.

H: Yes.

H.M.Jr: And I'd appreciate it if between now and 12 you
could talk to him.....

H: All right I'll make it a point to.

H.M.Jr:and then around 12 o'clock - will you be in from 12 to 12:30.

H: Yes - yes.

H.M.Jr: By that time our lawyers will have gone over this thing and I'd like very much to call you up.

H: All right - I don't suppo - do you think Feis could be of any use.

H.M.Jr: Well Feis is up at Harvard.

H: I know he's up there; we could talk with him.

H.M.Jr: No, this has gotten down to an interpretation of the Johnson Act.

H: Oh yes I see.

H.M.Jr: And it's not economics that he does.

H: Oh yes well that's all right.

H.M.Jr: It's horse sense.

H: Yes, all right.

H.M.Jr: No, but.....

H: Do you think I should call in my lawyers on it?

H.M.Jr: I think it would be helpful.

H: They can'- they have to back yonder you know.

H.M.Jr: We put it up to the Solicitor over at the Attorney General.

H: Well I guess that's the place to put it up.

H.M.Jr: Well we've already done it and he's given us an informal opinion and they're typing it now.

H: Oh I see.

- 3 -

H.M.Jr: Yes, the Solicitor to the Attorney General is giving us this formal opinion.

H: Yes, all right then Henry I'll - I'll be glad.

H.M.Jr: But that's where we've gone.

H: Yes.

H.M.Jr: And I might say that the opinion is unfavorable.

H: Yes, I see. Well I thank you very much.

H.M.Jr: Thank you sir.

March 6, 1937.
11:08 a.m.

H.M.Jr: Hello

O: Dr. Burgess.

H.M.Jr: Hello.

Burgess: Hello sir

H.M.Jr: Burgess, we have six or eight people here and we're holding class.....

B: Think of that.

H.M.Jr: And.....

B: Am I loud speaking or am I.....

H.M.Jr: No, you're loud speaking so you can't even belch without our.....

B: (laughs)

H.M.Jr:without.....

B: That's pretty tough.

H.M.Jr: So the class is at your disposal; your boss is here too.

B: Well then I've got to watch my step then.

H.M.Jr: Extra.

B: Yes.

H.M.Jr: Now - what's what? I thought I could allow sixty minutes to decide what we do.

B: Well I think that's - that's fine.

H.M.Jr: All right. I've got all the time and everybody's interested in what you know.

B: That's good - that's good. Well they're two sure fire things - if you want to play it absolutely safe there is one or two things....

H.M.Jr: Please

B:that you can do.

H.M.Jr: Yes.

B: One of them is to put out some more of the 49-53 and give them to the note-holders at par - par for par exchange.

H.M.Jr: Oh my God - you have - I'd better get something for a hot water bottle for you.

B: (Laughs)

H.M.Jr: You know, for your feet.

B: The other thing you can do is to put out a new bond of 50-53 or 50-54. Now those are absolute sure fire - either one of them.

H.M.Jr: 50-54?

B: 50-53 or 50-54 you can do either one.

H.M.Jr: Ah-ha. Two and one half?

B: Two and a half, yes.

H.M.Jr: Ah-ha.

B: Ah - that, of course, would bring some buying from people who are reluctant to increase their amount of present holdings but always take some of the new bonds on the principle of distribution.

H.M.Jr: Ah-ha.

B: On the other hand it - it gives you a small outstanding issue of a little under 500 million.

H.M.Jr: Yes.

B: It increases the list of bonds outstanding.

H.M.Jr: Yes.

B: Which isn't exactly serious but it doesn't make a good issue to trade in.

H.M.Jr: Ah-ha.

-3-

B: I don't think it's quite as nice.

H.M.Jr: Ah-ha.

B: Now if you're feeling a little bit courageous and want to play the market a little closer and not make the rates worth so much you can put out the old bonds that pay par and a quarter.

H.M.Jr: Par and a quarter?

B: Yes.

H.M.Jr: Well now when you're talking that what are you talk - are you talking double interest or single interest?

B: No I'm just - without making any interest adjustment.

H.M.Jr: Oh - just the single interest.

B: That's right.

H.M.Jr: You mean interest on the new security but not - stop paying it on the old.

B: That's right.

H.M.Jr: Ah-ha.

B: Yes - yes. Or you could get exactly the same figure by offering the new bonds at par and a half and paying them interest on the note from March 15th to April 15th.

H.M.Jr: The new bond?

B: That is more of these 49-53's.

H.M.Jr: Now wait a minute - I've got me a little bit confused.

B: Yes.

H.M.Jr: Now we're talking about the 2 $\frac{1}{2}$ which is out - which....

B: That's right.

H.M.Jr:49-53.

B: Yes.

-4-

- H.M.Jr: And you're suggesting offering it to them at par with single interest?
- B: Par single interest - par and a quarter There's three choices on that.
- H.M.Jr: Let's just stick to the old 2 and one half's.
- B: Yes, we're sticking to the old two and one half's. Now there's three choices on that it seems to me.
- H.M.Jr: Yes.
- B: One is par for par.
- H.M.Jr: Yes.
- B: Single interest - ah - since we're giving the note-holders the best bonds at par.....
- H.M.Jr: Yes.
- B:for that exchange on March 15th. So that's the thing to do if you're feeling a little bit conservative and want to be absolutely safe even if the market has a crack on Monday for some reason. That would go very well. Now sticking to the same bond on the basis of to-day's market.....
- H.M.Jr: Will you talk a little louder.
- B:ah- you could on that same bond on to-day's market - ah - ask for a quarter of a point premium which would make them - those who made the exchange pay a quarter of a point premium.
- H.M.Jr: Ah-ha.
- B: Now that's what the market today in its quotations justifies.
- H.M.Jr: Yes.
- B: Now you can get exactly the same effect.....
- H.M.Jr: Yes.
- B:by offering it at a half point premium.....
- H.M.Jr: Yes.

-5-

B:and making an adjustment of interest.....

H.M.Jr: Yes.

B:but I think that's a little more confusing.

H.M.Jr: Yes.

B: So there are the three choices on that old bond.

H.M.Jr: Yes, I got it - I got that. Now - now what about a new bond?

B: Now the new bond - ah - could be a 50-53 or a 50-54.

H.M.Jr: Yes.

B: Simply a straight issue that you offer in exchange on March 15th.

H.M.Jr: Well if I was going to do it I'd much prefer to make it 50-54.

B: Yes - you're getting a greater spread.

H.M.Jr: Much prefer that - I mean.....

B: You can do that.

H.M.Jr: I mean as to the 50-53 - I mean if I was going to make it I'd like to make it 50-54 if I.....

B: Of course - it gives you longer stretch between the call dates.

H.M.Jr: Yes. Well now - which - what do you lean towards?

B: Well I - I rather lean towards giving them the old bond - par for par. Now I think you could take that quarter of a point but I think when you come down to cutting it into quarter points you're cutting it awful fine and, while that's a little bit generous, I rather lean to that this morning.

H.M.Jr: Ah-ha. Well now listen Burgess - right now what is the old two and one half selling for?

B: 101-6/8's.

-6-

H.M.Jr: Well it looks as though we'd be giving them a full point.

B: That's right - that's right.

H.M.Jr: Well you know what I said Wednesday.

B: Yes.

H.M.Jr: Well I don't feel any happier to-day than I did Wednesday - in fact I feel less happy.

B: Well I don't feel as happy as I did Wednesday.

H.M.Jr: Because I've got the inside on this French situation, see?

B: Yes.

H.M.Jr: And I don't see daylight.

B: No.

H.M.Jr: And they've got their loan on coming Satur - Monday.

B: Yes.

H.M.Jr: Their loan.

B: Well that's one of the reasons that I.....

H.M.Jr: The Germans have a loan Monday, don't they?

B: I don't know.

H.M.Jr: Yes they do. I think if you look it up you'll find they have a loan Monday. Not that it's important but the French is.

B: Yes.

H.M.Jr: But - ah - well now I tell you. You sit at your desk and give me a few minutes to digest the Burgess purplan.

B: (Laughs) Don't call it that. (laughs)

H.M.Jr: And I don't want to tie you on the wire. I'll call you back in five or ten minutes - how's that?

-7-

B: All right - all right - we'll be getting some later quotations.

H.M. Jr: How's that. Thank you.

B: Very good.

March 6, 1937.
11:28 a.m.

H.M.Jr: Hello.

O: Dr. Burgess - go ahead.

H.M.Jr: Burgess.

B: Yes sir.

H.M.Jr: The unanimous opinion here is not to fool around with a new issue.

B: Yes.

H.M.Jr: We're all unanimous on that.

B: Yes.

H.M.Jr: So I thought that would help your thinking.

B: Yes sir, that's a help - yes.

H.M.Jr: So then it gets down to pricing the old bonds.

B: Yes.

H.M.Jr: See?

B: Yes.

H.M.Jr: And I think that - ah - then - of course as I told you - oh a couple of weeks ago as far as I'm concerned I'd little bit rather get the premium than pay the double interest and have - I think it looks a little bit better to the fellow who reads the newspaper.

B: Well perhaps so although it makes the exchange look a little less good to the fellow who looks at it kind of hastily.

H.M.Jr: Yes but the fellow that's going to - the fellow that's going to buy this thing is more apt to be a student, isn't he?

B: Oh yes, he'll figure it out. It doesn't make much difference which way you do it as far as the buyer goes.

-2-

H.M.Jr: Ah-ha.

B: Yes, you can figure it out in terms of the dollar. If you do the par for par of course there's no profit either way for you except that you do save paying the interest from March to April on that - that note - that is you save the difference between two and a half and three and haven't lost anything.

H.M.Jr: Yes but let's say that that bond on Monday should go....

B: What was that?

H.M.Jr: Let's say the hundred at two and one half should go back to 101 12 - 101 14.....

B: Yes.

H.M.Jr: ...and it looks awful - as though.....

B: It looks kind of generous, yes.

H.M.Jr: Yes, now the fellow - the fellow who owns these things he's going to call up his bank and say, "What's there in it? Should I or shouldn't I?" And they're going to say - well, you know. Well, we figured if we gave double interest, say, and charged them par and a half there's thirty thirty-seconds in it."

B: That's right.

H.M.Jr: Isn't that pretty good?

B: On that's all right, but supposing they go down to par 23 or -4 as they may.

H.M.Jr: Well -

B: They're quoted now over the counter as 101-5/7ths; they've gone off two thirty-seconds to-day and your whole government market is a little shaky.

H.M.Jr: Yes.

B: That's just one possibility I mean you've got to consider.

-3-

H.M.Jr: You don't like the double interest, do you?

B: No I don't like it very well. It looks sort of messy and involved. It isn't just simple straight-forward stuff. Oh I don't object to it very seriously though.

HMJr: We did it once haven't we since I've been here?

B: Oh yes we've done it lots of times.

H.M.Jr: But since I've been in the Treasury I think only once.

B: Well I've forgotten.

H.M.Jr: Well - ah - supposing we've cleared up one thing - we don't want a new bond.

B: All right, fine - we'll work on this.

H.M.Jr: Supposing we work on this.

B: We've got half an hour more of the market.

H.M.Jr: Yes. Supposing we work on this - how's that?

B: Very good. I've got my two fellows here and we'll hold a little conference while you hold one.

H.M.Jr: Righto. You check with us there's no new bonds.

B: Yes sir, we think that's right.

H.M.Jr: All right, well then.....

B: Now Madison has a little qualification. He'd rather say it was a new bond but Miller and I think we can stick to the old bond.

H.M.Jr: Just a minute, George Harrison wants to talk to you.

B: Yes.

H.M.Jr: Oh wait a minute.

-4-

Harrison: Hello Burgess?

B: Yes George.

H: What would you say as between these two? Par and a half at double interest or par and a quarter?

B: Oh I.....

H: Do you think the quarter looks too snippy?

B: I think the quarter looks awful snippy.

H: Yes.

B: I think I'd say for the par and a half and double interest, between those two.

H: All right - well that's what I wanted to ask you. Go ahead and get your heads together.

B: Yes, O.K.

