

March 6, 1937.
11:36 a.m.

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Dr. Feis: Henry, do I disturb you?

H.M.Jr: Yes.

F: Well shall I drop the 'phone?

H.M.Jr: No, no - I can talk as well now as any time.

F: Well I - is there anything I could be doing?

H.M.Jr: Well it's impossible - it would take me a half an hour to tell you what's happened to-day.

F: Shall I talk with Wayne?

H.M.Jr: No - I mean it's just no use. I mean - ah - if you feel any happier but Wayne - I'm devoting - I've got - Wayne's here - we've got to devote every second between now and the time the market closes on our refunding on Monday.

F: All right I guess.....

H.M.Jr: I mean I told everybody.....

F: I understand.

H.M.Jr: If you want to find out what's happened I suggest you talk to Livesey.

F: All right.

H.M.Jr: But the thing is moving so fast that if a fellow doesn't sit in on it it's hard to keep up.

F: Is it satisfactory or unsatisfactory?

H.M.Jr: Not very satisfactory, no.

F: Not very.

H.M.Jr: But while I've got you I just can tell you this and then I'll talk to you about it Monday.

F: Yes.

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H.M.Jr: Your friend Butterworth sends us a very important cable; asks for an answer and he sent it at one o'clock from London. I call him up to give him an answer and he's gone away on a week-end.

F: Hell.

H.M.Jr: As far as I'm concerned I can't use that kind of people.

F: Hell.

H.M.Jr: And he might as well devote himself to State Department matters.

F: Hell.

H.M.Jr: But we can't use those kind of people.

F: Hell.

H.M.Jr: But Herbert - ah -

F: I'm dreadfully sorry to hear that Henry.

H.M.Jr: Yes - ah - do you want me to switch you over to Livesey.

F: I - don't you trouble - I'll put in another call.

H.M.Jr: It can go right through my switchboard.

F: All right. Now on Butterworth..

H.M.Jr: What?

F: On Butterworth.

H.M.Jr: Oh that will keep to Monday.

F: Did you want to telephone him?

H.M.Jr: I put in a call and he's left town - he's gone away.

F: Couldn't they trace him?

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H.M.Jr: Well they said he'd be there but I don't know - he asked me a question which the British Treasury wanted an answer on and I was going to give him the answer....

F: Yes.

H.M.Jr:But he's gone somewhere. Now what's the use of telephoning to the British when he's out on some farm?

F: How did you handle Rueff's query about the Johnson Act?

H.M.Jr: Well that's what we're right on now and Oliphant and the Attorney General are going to have an answer by 12 o'clock.

F: All right, I won't hold you any longer.

H.M.Jr: I mean - Herbert, if you were here I'd go into it but I'm really - I've got.....

F: I'm pleased.

H.M.Jr:my financial.

F: I - I really think you're dead right.

H.M.Jr: O.K.

F: Right.

H.M.Jr: I look forward to seeing you Monday.

F: All right, will you switch me over.

H.M.Jr: Just a moment please.

F: Right.

H.M.Jr: Dr. Feis through my switchboard to Dr. Livesey please.

O: Right.

Saturday
March 6, 1937
11:47 a.m.

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HMJr: Hello
Treas.
Operator: Mr. Burgess

HMJr: Hello

B: Yes, sir

HMJr: Burgess -

B: Yes

HMJr: What do you people think down there? We talked first last time, now you talk.

B: Well, all my - all my associates think it ought to be par for par, and I expect most of the fellows down the street do.

HMJr: Yes

B: That is, I've talked various possibilities with them.

HMJr: Yes

B: And they say if you're out for more of the forty-nine fifty-threes it ought to be par for par, don't take a chance on offering at a premium.

HMJr: Do you mind telling me what kind of fellows you talked to recent- the last hour or so to give me a little idea.

B: Well, I've talked to - Dudley Mills -

HMJr: Yes

B: And to Devine -

HMJr: Would you talk to him?

B: What's that?

HMJr: Do you and he talk to each other?

B: Oh yes, we speak.

HMJr: Good.

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B: (Laughs) And to the Solomon fellow.

HMJr: Yes, what does Levy think?

B: He's afraid of anything at a premium, he'd like to put out - see us put out a new bond.

HMJr: Yes

B: Several of them would like to see that.

HMJr: Yes, well, that's out, we've all agreed on that.

B: Yes, yes - I talked yesterday with - with the First of Boston and with Garner over at the Guaranty.

HMJr: What does Pope think?

B: Pope's afraid of the market.

HMJr: Yes

B: He thinks a new bond would be all right. He thinks if we use the old bond it ought to be par for par.

HMJr: Let me ask you a question, a hypothetical question -

B: Yes

HMJr: . Supposing we had a really bad day -

B: Yes

HMJr: How much could these new two and a halves sell off?

B: Oh, they could sell off a half or three quarters of a point.

HMJr: Well, we figured if they went to twenty-four thirty-seconds that would still leave a gain - if we offered this bond - new bond - I mean the old bond at par and a half at double interest, see?

B: Yes

HMJr: There's thirty thirty-seconds in it.

B: At the present prices.

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HMJr: Yes - Then it would have to sell off to go to - it would have to go down to twenty-four thirty-seconds to go off a half a point.

B: That's right.

HMJr: I mean, to leave a half a point. There'd still - there'd still be a half a point.

B: That's right, yes.

HMJr: Well now, could you imagine going at twenty-four thirty-seconds?

B: Yes

HMJr: You do?

B: Yes, I can. The problem is the background of all this thing. This thing is now spot-minded and the new issues are not so good, and people are thinking in terms of a rising spiral of prices, secure and spot prices, and the rising interest rates.

HMJr: Well -

B: Of course it's possible to overdo that; I think the market had overdone it at the moment.

HMJr: Well, to give you the background on the foreign thing in strict confidence -

B: Yes

HMJr: We feel here that the French have got a fifty-fifty chance of making their bond issue go on Monday.

B: Yes, yes

HMJr: And that's - that's as hopeful - a fifty-fifty chance.

B: I see, yes - yes.

HMJr: See, no better?

B: Yes - that's not so good.

HMJr: What?

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- B: That's not so good.
- HMJr: What they're proposing, I don't know whether it's in the paper or not, is a ten-year four and a half per cent bond with a coupon payable in either francs, pounds, or dollars.
- B: Yes, yes - yes
- HMJr: See?
- B: Yes
- HMJr: And neither the English nor ourselves has agreed to it yet.
- B: Yes
- HMJr: And we won't most likely won't.
- B: Yes
- HMJr: I mean, they want to designate a New York bank as their paying agent and we think - I think I'm going to get an opinion that it's contrary to the Johnson Act.
- B: Yes
- HMJr: But I haven't told anybody that yet.
- B: By the way, the United Press called up a few minutes ago and said that they had heard that the Secretary of the Treasury was going to advise the New York banks to buy a new French bond, that it would not be contrary to the Johnson Act.
- HMJr: Yes, I got that over the United Press.
- B: (Laughs)
- HMJr: The United Press, the last couple of days have been doing - going out on the end of the limb a number of times.
- B: Yes
- HMJr: I'm having a press conference before I go home today.
- B: Yes

HMJr: I mean, I always do when I announce anything.

B: Yes, yes - yes

HMJr: And, so - - -

B: Well, I think the problem is just how safe you want to play this. Now, it's the difference between the program that we've just discussed, par and a half and paying double interest, the difference between that -

HMJr: A quarter of a point -

B: - and par and par is - is a million and a quarter dollars.

HMJr: A quarter of a point -

B: That's right, yes.

HMJr: Eight thirty-seconds.

B: Right

HMJr: Eight - well that's a quarter.

B: Yes - a million and a quarter dollars.

HMJr: Yes

B: It's just a question of whether you think things are doubtful enough so that you want to say that much for insurance or not, that's just all.

HMJr: Well, you know how I -

B: Yes

HMJr: I'll call you back in a couple of minutes.

B: Very good.

HMJr: A couple of minutes -

B: Very good.

(Short pause)

Saturday
March 6, 1937
11:55 a.m.

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George
Harrison: Hello

T.O.: Burgess -
W. R.
Burgess: Hello

H: Yes, Burgess -

B: Yes

H: The review that you gave makes a pretty strong case for par for par if you take the advice of all of the fellows you have been consulting.

B: Oh yes -

H: And -

B: I started out with quite the other idea. I started out with the idea that we should charge a premium.

H: Yes

B: And I haven't been able to get any sympathy from anybody on it.

H: Yes - but I'd like to ask you this. Suppose that the French thing is a mess on Monday.

B: Yes

H: That wouldn't in itself shift naturally, - or, except perhaps psychologically - have any very great shock to our bond market.

B: Not necessarily, no.

H: The only thing that concerns me is the general trend which, you emphasize, is the result perhaps of its extra special increase in prices and depreciation in the value of fixed investments, generally.

B: That's right, yes.

H: And the possibility that the Government bond market is now going to follow a trend that's belated, as a corporate bond market.

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- B: That's right, yes.
- H: But, I don't think that would be a certain shift.
- B: No, I think it would be slow, probably.
- H: And therefore, I think you'll get away with your exchange.
- B: I agree, I think you would.
- H: As a - distinct from a new cash offer, which is a very different thing.
- B: Yes, I agree.
- H: And it seems to me that thirty thirty-seconds is a pretty good bonus to give them.
- B: I think you'll get away with it. I think it's just a question of how much you want to play safe on it.
- H: Well, I'm wondering - for instance, Harris is here and he thinks that just a par and a half without double interest would do it. Now perhaps giving them the double interest is the element of safety.
- B: Well, it's - it's an element of safety certainly.
- H: Yes
- B: The dealers reported this morning that the - that the Continental Bank in Chicago sold - was selling twenty-three or four million dollars of bonds; that a bank out on the Coast had a lot to sell. They sold a little and then they stopped, but indicated they desired to sell. That a Baltimore bank was anxious to sell and just holding off on the market. There's a lot more selling around than there is buying.
- H: Yes
- B: The insurance companies have gone on strike a little bit about buying anything. They think that they can pick up things cheaper later. That is, there's less - there's less receptivity to buy and there's more concern about the market and a general desire to sell, than I've seen for a long time.
- H: Yes

-3-

- B: Now, I always discount those things some because the market goes in waves, and I think, with this booming stock market just the last few days and all the influences that have been bearing on the thing that that swaying is perhaps one of the temporary movements that have been overdone.
- H: Yes
- B: But you can never be quite sure of that.
- H: Well, if it - another thing, do you think there is some possibility of a bearish interpretation of the Secretary putting such a high price as one point six thirty-seconds on an exchange?
- B: Oh, I wouldn't think so, because after all he's offering a bond at par, he usually does that. Now there happens to be a bond available which is selling not very much above par, after all, just a reasonable figure. This isn't really any more premium than he's very often given, -
- H: For a new issue -
- Burgess: - bond operation -
- H: For a new issue -
- Burgess: Well, they have been new issues, as a matter of fact, we haven't had for a long time.
- H: Yes, yes -
- B: But it does mean of course that you are giving a bond instead of a - -
- H: Yes, what the hell are they going to do with the maturities if they don't put it in this?
- B: Well, a lot of them are having to reduce their holdings anyway, to adjust themselves to May first, and some of them are willing to wait.
- H: Well, they're not going to do that if they can get thirty thirty-seconds out of it?
- B: Oh no, I think they'll have to convert if there's anything like thirty - -
- H: Yes, well, that's my point.

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Burgess: That's right.

H: And we'd draw up in terms of a half to three quarters a safe margin. I hear you're going up eight thirty-seconds or six thirty-seconds over that.

B: That's right, yes.

H: And, the question last week was, whether it'd be a half or three quarters. And the Secretary said three quarters would be his measure of safety at that time. Now he's adding six thirty-seconds to the three quarters.

B: Yes - well, we've had three days of a weak bond market and three days of a booming stock market and you've had -

H: What's the stock market doing today?

B: It's higher by a fraction of a point.

H: Yes, yes - all right.

B: And you've got a French situation, which has been a change in the picture.

H: Well, would you feel very sick about a par and a half and double interest?

B: No, I wouldn't.

H: Well, would you guarantee it would go?

B: No - I think it would go.

H: (Laughs)

B: I think the chances are it would go. I'm more cheerful about it than anybody I've found here (Laughs) around me.

H: Yes, yes -

B: If that isn't a seller -

H: But isn't that usually so?

B: (Laughs) Yes

H: Yes

B: (Laughs) I'm just a bloomin' optimist on this.

H: Well, as compared with some others you are.

B: (Laughs) But, of course you've got to discount the New York market on a thing like this, because it's a thing where their profits are directly concerned. I would say the chances were nine out of ten that it would go all right.

H: Yes - Well, that allows for normal human errors.

B: Yes - yes

H: (Spoken to Secretary Morgenthau: Do you want to say anything else to him?)

HMJr: Well - Harrison asked you the questions I was going to ask you, which I always ask you; he said whether you'd say that whether we did par and a half double interest - whether you'd say you'd underwrite it.

B: No (Laughs)

HMJr: Well, I mean, will you say - well, you were saying you're ninety percent sure it'll go.

B: Yes, that's right. That's right, I think that'll just about -

HMJr: Well, do you think I ought to take a one per cent risk? - Or a ten per cent risk?

B: Well, I don't know what I'd do if I were you. (Laughs)

HMJr: That's the trouble, I don't either.

B: (Laughs) I'm inclined to think I'd play it a hundred percent safe.

HMJr: Yes

B: But it's a very close question.

HMJr: Yes

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B: And I want to give you just my feeling about it,
I think it's a very close question.

HMJr: Well, I think I'm going to go in the bathroom
and I'll come out and see what happens.

B: (Laughs)

HMJr: (Laughs) All right.

B: Very good.

HMJr: All right. (Laughs)

for 27
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U

GRAY

Paris

Dated March 6, 1937

Rec'd 11:55 a.m.

Secretary of State

Washington

319, March 6, 2 p.m. (SECTION ONE)

FROM COCHRAN.

There appears to be general agreement in the French press that the decisions taken by the Government yesterday have a good chance of success only providing that the political atmosphere is appropriate. In other words there seems to be general agreement that success could crown the efforts of the Administration if investors are convinced that Blum will not, once the present financial requirements of the Treasury are assured, proceed to apply the extreme policies of his party and that of the communists.

These views are stressed by practically all of the newspapers of opinions of the opposition and most of them express regret that the excellent technical measures agreed upon were not accompanied/adequate social assurances.

PETIT PARISIEN expresses the view that from the social economic point of view the measures decided upon give the general impression of a homogeneous and soundly constructed ensemble. This paper quotes Flandin as stating that

that the program is excellent but that the policy of the Government must also be changed and also states that this is the general view of the minority members of the Chamber.

Referring to this view LE MATIN stresses that it is hoped that the Government will realize this in the double interest of domestic and foreign peace.

ECHO DE PARIS points out that predictions of failure made by the opposition have come true and that the cause of the trouble was Blum's announced intention to modify the present social regime. It continues that whatever may be the value of the measures taken yesterday the entire problem remains unsolved and that confidence will only (END SECTION ONE)

WILSON

CSB

U

GRAY

London

Dated March 6, 1937

Rec'd 11:55 a.m.

Secretary of State

Washington

125, March 6, 3 p.m.

FOR TREASURY FROM BUTTERWORTH.

Comment on the French financial developments is in this morning's London press predominantly of a non-committal character: the measures taken are welcomed (the interest apart from loan is briefly passed over or ignored) but no predictions are hazarded as to their ultimate effect.

There is still in the City the confusion of cross currents but considerable importance is attached to how deftly the French authorities conduct the patriotic drum beating over week-end and the operations of Monday are looked to as of considerable significance. At the same time it must be reiterated that the general pessimism of past weeks has by no means been dissipated by yesterday's developments.

The City's concrete views seem to be limited to, (1) a belief that the French authorities will make every effort to obtain the active cooperation of French banking
and

U -2- #125, Mar. 6 3 p.m. from London

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and other financial institutions in an attempt to put over the loan; (2) a belief that a number of French hoarders of gold in France will turn in the metal for cash; (3) a belief that while some financial institutions will be willing to take their profits and repatriate some of their funds abroad at the present rate most individuals would in any case hold out for a rate close to the legal limit.

BINGHAM

HFD

RECEIVED
MAR 6 1934
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON

RECEIVED

Saturday
 March 6, 1937
 12:08 p.m.

HMJr: Hello
 Treas.
 Operator: Secretary Hull -

HMJr: Thank you. Hello - hello? - hello - hello?
 Cordell
 Hull: Hello

HMJr: Cordell?

H: Yes, sir.

HMJr: Henry -

H: Yes, sir.

HMJr: Now, if I may read you the question which the French put to us and then the answer which the Attorney General has worked out, as I understand it. -

H: Yes

HMJr: The question is this:

"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 as a proposed loan in cases where payment is requested in dollars?"

H: Exactly -

HMJr: End of quote. The answer to the foregoing question is as follows:

"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 Act, 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."

-2-

H: Yes - What - have they discussed the question of non-resident citizens, I mean, non-resident aliens?

HMJr: No - no

H: - sending coupons over there to get dollars?

HMJr: No, that hasn't been raised.

H: Yes

HMJr: Now, did you see cable number 120 from Butterworth?

H: Yes, I haven't had a chance to examine it closely.

HMJr: Well, no, there is one even more recent, 122?

H: No, I haven't seen that.

HMJr: May I read it, it's very short?

H: Yes

HMJr: And it sort of bears on this. This is from Butterworth and it says - "Waley - "it was written at one p.m. today.

H: Yes

HMJr: "Waley - " - he's the British Treasurer - "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."

H: Yes

HMJr: That's something that we didn't know about, American - quotations on the American exchange.

H: Yes, exactly -

HMJr: "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 question."

H: Yes

HMJr: I then put in a telephone call for Butterworth and found he'd left for a week-end.

H: Yes

HMJr: And which distressed me -

H: Yes

HMJr: - to think that Butterworth would leave London after sending a cable like this at 1 o'clock.

H: Yes

HMJr: And now he's gone -

H: He must have caught up - he must have become pro-English.

HMJr: Very

H: To: - in habits.

HMJr: Too pro-English, I think.

H: Yes

HMJr: But, you see, the French have been leading us to believe that the British agreed to all this.

H: Yes, I see.

HMJr: Well, they haven't.

H: Well, this looks - Henry, at first blush - now Moore and Hackworth are sitting here, and Livesey -

- HMJr: Yes
- H: But they haven't had a chance to express themselves much on this so far in our conversation. My first impression would be that just the creation, the establishment of an agency like that here with nothing more said about it, would create a definite impression that Americans might buy and sell, they might - that it was intended more or less for the convenience of holders over here who might in some way get around the Johnson Act and - of course, all of that would come within the - within the - as you said, would come within the prohibition of the spirit, if not the letter, of the Act.
- HMJr: Well, now -
- H: And I think the other would be of such minor consequence that it would be - well, in the first place, it would be misunderstood and misinterpreted by the public over here.
- HMJr: Yes
- H: And the benefits they'd get from it compared with the confusion that it would create - it looks to me like it sustains what you seem to imply. Now, wait just a second and let me ask -
- HMJr: Well, may I - may I - hello?
- H: Yes
- HMJr: Well, if they haven't had a chance - why couldn't your counsels and mine get together and then I could meet with them at three o'clock this afternoon?
- H: Well, that would be all right.
- HMJr: Because I don't - I've got to go to the White House to meet with those Governors at one.
- H: Yes
- HMJr: I can be back here at three, and by that time Oliphant and your people could look over what we've got here and if there's any -
- H: Well, now, I don't think it's necessary to -

H.M.Jr: I've got the thing here, it was just handed to me -

H: Yes

H.M.Jr: and in - Homer Cummings has added in longhand -
"The principal question is - involved is one of policy and I have no objections to the proposed answer as set forth above."

H: Yes.

H.M.Jr: Now, that's signed by Homer Cummings.

H: Well, that's along the line that I have just - you and I have both just spoken, isn't it?

H.M.Jr: Yes.

H: Yes, I see. Well, I don't think there is any occasion - I can check further with the lawyers here and if they have anything new to suggest or contrary, then we can communicate - get in touch with you on it.

H.M.Jr: All right, well then supposing I leave it this way. I will send you by hand immediately a photostat of what Homer Cummings sent me.

H: Yes, exactly.

H.M.Jr: if I don't hear from you - if your lawyers don't communicate with Oliphant between now and three o'clock....

H: Yes.

H.M.Jr:I'll take it they are in accord with what Homer Cummings has said.

H: Exactly.

H.M.Jr: How is that?

H: Exactly.

H.M.Jr: I'll have this

H: Yes

H.M.Jr:thing photostated.....

H: Yes.

H.M.Jr:and send it over to you.

H: Yes.

H.M.Jr: Now I want to ask some advice.

H: Yes.

H.M.Jr: United Press put out a story which was more or less along the lines of I'm going to approve this French loan, see?

H: Yes.

H.M.Jr: How much should I say to the American Press that we are going to turn the French down on this?

H: That you approve the loan you mean?

H.M.Jr: No that I - that I - that I do not - that I - ah - that I disapprove their trying to designate the American banks which will cash their French coupons.

H: Oh that your disapproval is established by this agency?

H.M.Jr: Yes.

H: Oh they're on to that, are they?

H.M.Jr: Well they're not quite on to that but they've gone so far - they put it this way - the United Press - that I've given the approval....

H: Yes.

H.M.Jr:to the French government of their idea of issuing this kind of a loan, you see?

H: Yes.

H.M.Jr: Ah - I mean let me just read you. It says here - United Press - where is this thing here

HMJr: "French political circles reported today that an agreement had been reached under which the American banks may invest in the forthcoming French defense loan without infringing the Johnson Act. The report, not officially confirmed, said the agreement was in the form of an understanding between the Secretary of the Treasury and Premier Leon Blum."

H: Yes, well you could just say there was no agreement on that subject; that the French government is looking after its own financial side. You have no agreement on that subject. Wouldn't that be all right?

H.M.Jr: Well it depends on how hard they press me.

H: Yes. Ah - I don't see.....

H.M.Jr: Well I'll try not to throw them down if I can help it.

H: Yes, the idea is not to throw any more cold water than you have to and at the same time keep in the clear.

H.M.Jr: That's right.

H: Yes.

H.M.Jr: That's right. Well now - so we understand each other -

H: Yes, exactly.

H.M.Jr:if your attorneys don't communicate with Oliphant between now and three.....

H: Yes.

H.M.Jr:I'm going to see the French this afternoon and tell them that we cannot do it.

H: Exactly.

H.M.Jr: But I will do nothing until three o'clock.

H: All right, thank you, Henry.

H.M.Jr: I thank you.

March 6, 1937.
12:40 p.m.

H.M.Jr: Hello

O: Mr. Burgess.

H.M.Jr: Hello.

B: Hello sir.

H.M.Jr: How do you feel, Burgess, now.

B: Well I'll be content with anything you've decided.

H.M.Jr: What?

B: Have you decided yet?

H.M.Jr: Yes, par for par.

B: I think that's wise.

H.M.Jr: Par for par.

B: I'm - I'm happier about that than I would be about the other. I think the other was dull.

H.M.Jr: Yes.

B: But I think this has - this looks better from the point of view of the market and it looks generous - it looks like a big proposition rather than tease - daring. And there's this additional thing to be said for it.

H.M.Jr: Yes.

B: That you're offering re-sellers just the same terms that you offered in December. Now money for money hasn't changed very much since December really. As a matter of fact short rates are higher than they were in December and, while the long rates have been just a fraction better, the money condition don't really justify much change since December.

H.M.Jr: Ah-ha.

B: So - so I think you're wise.

-2-

- H.M.Jr: Well, as Jimmy Walker says with a little paraphrase, "I hope they'll love me in March as they did in December."
- B: That's right. (laughs) Well I feel perfectly happy about this. And I'm sure it will work.
- H.M.Jr: Well God you ought to feel happy about this.
- B: (laughs)
- H.M.Jr: If this doesn't satisfy you then - then - then I would send you to the doctor.
- B: (laughs)
- H.M.Jr: Well I just - I know it's going to be very good but.....
- B: Yes - well I'm afraid of the other - that some of them would have said, "Well he's cutting it awful thin and he's doing things in a small way."
- H.M.Jr: Yes, well if you'll give me a single piece of good news this morning I'd - I'd have done the other.....
- B: That's right.
- H.M.Jr:but you couldn't tell me anything good.
- B: No - no - did anybody else tell you anything good?
- H.M.Jr: No.
- B: (laughs)
- H.M.Jr: No.
- B: Well that's the trouble.
- H.M.Jr: Yes. All right, we'll get out the wires and the worst that can happen is that I was an easy mark, that's all.
- B: That's right. That's right. Well, it's a lot better to be safe than sorry.
- H.M.Jr: The city boys took me for a ride.

-3-

B: (laughs)
H.M.Jr: Just a boy from the country.
B: All right, sir.
H.M.Jr: O.K.
B: We're right with you.
H.M.Jr: All right.

March 13, 1967.

TO: Mr. Magill
FROM: Mr. Gaston



I think I told you on Wednesday that Steve Early had asked me for some statement he could make to Polley and Harrison to stall off publicity on the Dalzell retirement plan and that I told him we had just then had received Latimer's outline and were going to work on it. When I saw Steve yesterday about another matter he said that Polley had told him that they wouldn't wait longer than Monday. I am attaching copies of memoranda I sent to Early last night and today. I am also attaching a report that appeared on the Dow Jones ticker last night.

Attachments.

TO:

Mrs. Klatz

246

For the Secretary,
here is a copy of
a letter which I
received yesterday
from Emmanual
Thompson.



From: MR. GRAVES

3/18

Amsterdam, Nederland, March 6.

Report re Europe from Commander Thompson.

Arrived at Havre with my three boys in tow Friday, February 26. As the ship got in late we spent the night in Havre, going up to Paris the next day. While at Havre we looked into the night life in the short time available, having a nice visit at the Cafe des Fleurs, the reported narcotic traffickers' rendezvous. Our friend August, supposed to be the number one supplier for the port was not present. We had a good talk with the Consul (Wiley, not the same one as at Antwerp). We also conferred with the divisional chief of the French Sureté. The Consul is O. K. and anxious to help. The Sureté man, Chauvonot, is also interested and willing to help. We went into the informer situation, and will be able to do business there.

At Paris I turned the boys over to Wait. We held a conference the first day, all of the narcotic men of Wait's staff being present. I presented the doctrine to the boys that what we wanted was information that would lead to seizures. Some of them seemed a little surprised that we should take such a severely practical viewpoint, but they got the idea and I think will get down to brass tacks in that direction as I intimated that a private score would be kept with regard to all agents, said score being chalked up on results. I think we will have some good informers lined up very quickly. Only about \$600 of Wait's first \$5,000 allotment for information has been spent so far. I told them we could get \$25,000 if necessary. Wait is a first-class man and glad to get any help we give him. He is also highly intelligent.

I have run down here for a few days to see Wiley, at Antwerp, the Consul at Amsterdam, the Minister at the Hague, and Eint-hoven, the Chief of narcotic enforcement in Holland, who is at Rotterdam. I have Scharff with me, to give him experience in contacting Europeans. Scharff is a good man and will produce results. Of course, he is a fish out of water right now, but is adaptable and intelligent.

Christides is fair material, but sadly lacking in experience. We have dispatched him to Greece and Turkey under temporary chaperonage of Violet.

Stuhldreher is a smart, snappy boy, also entirely inexperienced. However, he is tough (in spite of cherubic look) and a go-getter, I think. He is leaving for Germany with Beers to-day.

We called Birmingham up to Paris for a conference right away. He is inclined to be quite a bluffer, and lied so fast the first day it was

almost funny. We brought him down to brass tacks the second day. He admitted he had been lying, but said he now was ready to play ball. The Paris assembly of narcotics he talked so much about, I am afraid was more in his mind than anywhere else. However, he said he will tell us some real dope about it when he can find out exactly where the narcotics (65 pounds--to be concealed in a shoe shipment) really is. He says it is at Antwerp. We told him to find out something concrete. We can use him, but he is inclined to be temperamental and did not respond very heartily when we talked about the advisability of getting seizures instead of general information at \$300 a month.

Will send you another report in a few days.

Cheerio and best regards,

THOMPSON.

P.S. Sent you a cable about Mr. Bullitt's arrival in U. S., and the fact that he should be a help in getting better cooperation from State.

PP.S. Here is the lowdown on St. Pierre: Two subordinates in Foreign and Colonies offices had it cooked up to put through the decree. (It looked like the handiwork of Moraze of St. Pierre.) Bullitt saved the day by going straight to Premier Blum, who knew nothing about it. Also, Delbos had been kept practically out of the picture by his subordinates. It goes back to the visit of the Inspector General to St. Pierre about a year ago where the scheme was cooked up. This same Inspector General was behind the scheme of putting the decree over, while keeping the big chiefs out of the picture.

March 8, 1937

Present: Mr. Bell; Mr. Taylor; Mr. Lochhead; Mr. Gaston; Mr. Oliphant, Mr. Opper and Mr. George Harrison.

After the Secretary returned to his office from lunching and meeting with the President and the six Governors who are here on relief matters, the Secretary said, "They accused him of saying for the last few years that he would take care of every hungry man, every unemployed man. He would have to live up to it. He said nothing. They said that when any unemployed are laid off, they will go to work for the State. Whereupon the President said, We will have another meeting and Hopkins and the Secretary of the Treasury will look it over and see what appropriations and what money we have and recommend what money we can transfer from other agencies to Hopkins. I said, Mr. President, when you make your formal statement will you also add the Director of the Budget, because, after all, that is not my job. After all, I take the sums you need to raise and go out and raise them, and so I think you should include the Director of the Budget.

"Then the Governors had us for one hour afterwards and they were pretty ugly and tried to get Hopkins to say that pending that, he would not lay off any more people. Hopkins said, The only person who can say that is the President.

"I told him that you and I -- that it would take maybe one day or three days or a week, but we would go over the appropriations and would recommend to the President what additional funds we could transfer. They asked Hopkins, How much do you need? He said \$125,000,000. He hedged that by saying, 'I don't know whether that is the figure or not; that may be too high. I can't say.' I had all I could do to control myself from saying, 'How can you sit there, Mr. President, and say Dan and I will write the ticket.' But we will, Dan.

"We want to first get from Harry how much more money he needs. Knowing that figure we will say, We will go through some of Mr. Roosevelt's pet projects. And I know what they are and we will show the things that can be transferred, obligated or unobligated, and we will start with land."

Mr. Bell's comment was, "There isn't \$125,000,000 available anyhow."

March 6, 1937

This material was used by HM, Jr at the Conference with the Governors held at the White House today.

GOVERNMENT EMERGENCY EXPENDITURES

All Relief and Welfare

Federal Funds Only

Thousands of Dollars

	July-Dec. 1934	Jan.-June 1935	July-Dec. 1935	Jan.-June 1936	July-Dec. 1936
Illinois	\$51,242	\$55,173	\$56,891	\$76,266	\$72,000
Massachusetts	29,695	37,889	35,323*	51,799*	52,977*
Michigan	27,914	29,373	28,664	40,772	37,752
New York	100,834	110,266	135,024	185,814	179,031
Rhode Island	1,715	1,901	2,460	5,631	4,755
Wisconsin	20,401	24,028	17,998	32,518	32,385
New York City - Only	71,440	82,374	105,419	133,788	129,891

*Excluding Resettlement Administration.

Includes FERA, WPA, Social Security, and Resettlement Administration.

GOVERNMENT EMERGENCY EXPENDITURES

All Work and Welfare

Federal Funds Only

Thousands of Dollars

	July-Dec. 1934*	Jan.-June 1935*	July-Dec. 1935	Jan.-June 1936	July-Dec. 1936
Illinois	\$65,618	\$64,493	\$78,952	\$99,759	\$106,796
Massachusetts	38,204	43,964	53,103	67,216	68,806
Michigan	33,071	32,460	46,056	56,380	53,579
New York	117,613	125,816	177,496	235,937	226,770
Rhode Island	3,013	3,885	5,448	8,587	6,925
Wisconsin	27,913	29,264	38,207	41,289	50,970

Includes All Relief and Welfare, PWA, CCC, Other Federal Projects, and Misc. Admn. Expenses under the Works Program.

Excludes Regular Governmental Construction, RFC.

*Includes some small payments under agricultural programs.

TREASURY DEPARTMENT

253

INTER OFFICE COMMUNICATION

DATE March 6, 1937

TO The Secretary
FROM Miss Lonigan *EL*

Attached are three tables showing

Expenditures under all relief and emergency work programs for the whole United States.

Expenditures for relief and welfare only - for six industrial States.

Expenditures for relief, welfare, and emergency work - for six industrial States.

These tables cover the two and one half years from July 1934 through December 1936, by six-month periods. The first two periods precede the establishment of WPA, the last three periods include operations under the WPA Program. In all six States and the United States expenditures have been very much higher since WPA than before.

Federal expenditures on all work and welfare programs in the United States were over 50 percent higher in the year 1936 than in 1935.

Expenditures in the last six months of 1936 were about 75 percent higher than in the last six months of 1934, if allowance is made for differences in reporting separate programs. Expenditures in the last six months of 1934 included a half billion dollar fund for drought relief.

GOVERNMENT EMERGENCY EXPENDITURES

United States

Federal Funds Only

Thousands of Dollars

	July-Dec. 1934	Jan.-June 1935	July-Dec. 1935	Jan.-June 1936	July-Dec. 1936
FERA	\$710,005	\$856,439	\$503,542	\$25,300	\$2,716**
WPA	-	-	256,653	1,049,149	1,019,481
Social Security Grants	-	-	-	25,092	68,251
Resettlement	-	-	21,154	113,364	75,208
Total Relief and Welfare	\$710,005	\$856,439	\$781,349	\$1,212,905	\$1,165,656
PWA					
1933 Act	188,667*	123,577*	130,068*	76,820*	71,685*
1935 Act	-	-	28,137	105,118	93,077
1936 Revolving Fund	-	-	-	-	8*
CCC - 1935 and 1936 Acts	96,398*	101,154*	282,211	212,824	181,989
All Other Federal Projects	-	-	134,543	215,972	299,867
Regular Governmental Construction	3,387*	7,130*	19,763*	31,354*	79,849*
RFC	9,503*	6,293*	5,803*	5,710*	6,107*
Total Emergency Employment Programs	\$297,956	\$238,154	\$600,525	\$647,798	\$732,980
Misc. Admn. Expenses - Works Program	-	-	9,648	20,069	21,596
Grand Total - Work and Welfare ...	\$1,007,961	\$1,094,593	\$1,391,522	\$1,880,772	\$1,920,232

Source: FERA Obligations Incurred and Social Security Grants - direct from the agency
PWA under the 1933 Act and under the 1936 Revolving Fund, Regular Governmental Construction,
and RFC - U.S. Bureau of Labor Statistics
All Others - Treasury Department

*Pay rolls only. Excludes cost of overhead and materials.

**Current payments from earlier grants not included in July 1936 and later.

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FEDERAL RESERVE BANK
OF NEW YORK

259

OFFICE CORRESPONDENCE

DATE March 6, 1937.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITHFROM L. W. Knocks.BANK OF ENGLAND.

Mr. Bolton called me at 9:34 today to settle my mind, as he said. Things over there were not too bad at the moment. Markets had been extraordinarily nervous the whole morning with sterling in Paris closing at 107 $\frac{5}{16}$ and dollars in London at 4.87 $\frac{3}{4}$, with the market not being a good taker. Nobody seemed inclined to make up their mind. As far as francs were concerned there seemed to be a very substantial short position which was likely to keep the market fairly steady for the next three or four days. After that, their immediate future would depend upon whether the contemplated loan was a success. If so, it would save everybody a lot of trouble; if not, he did not know what would happen nor did he like to think of the future. The trouble at the moment was that the French Government's new policy had been so badly presented. Cariguel seemed more or less satisfied with the way things were as far as it was possible for him to be in a reasonable frame of mind at the moment.

Bolton then asked me whether I got any reactions here about the value of sterling. I replied that, in my opinion, the weakness of the sterling rate during the last few days had mainly been due to two reasons: first of all, the recollection of what happened in September, 1936, when the tripartite agreement was announced. At that time sterling dropped from about 5.08 to 4.90 and many people in the market seemed to have figured that a similar movement would take place if the franc were realigned. The other reason was a desire on the part of the consigners of some of the gold now on the way to New York to hedge

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 6, 1937.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

L. W. Knobe

BANK OF ENGLAND.

- 2 -

against the possibility of our Treasury lowering its gold price. Bolton replied that he also had heard of the latter and fully agreed with me as to the absurdness of the argument. I inquired whether it was not true that more and more people in England began to feel that after all sterling at or around the present level might not be overvalued in terms of the dollar. Bolton replied that that was undoubtedly so.

We talked about the volume of French money abroad and Bolton thought there was no doubt but that the volume was enormous as far as London was concerned, in sterling, in gold and in commodities. He was not willing, however, to venture a guess as to the total amount, but simply said that all the money that had come over to London from Paris in the last four months had gone into stocks or commodities. The total of French capital abroad, he thought, was \$400,000,000 apart from \$100,000,000 kept in London alone in gold. When all this started moving, he thought we were going to see some rather active times.

LWK:KMC

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 above-mentioned interview he would very much appreciate receiving an answer to the above questions.

BINGHAM.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 6, 1937, 1 p.m.

NO.: 318 FROM COCHRAN.

Very nervous unofficial exchange trading this morning; the market was thin; until operators see a more clear outlook they are hesitant to make deals. I was told by a market contact that the French control operated intermittently against sterling and a fair amount of pounds had to be yielded to bring the rate down from 108-1/8 to 107-3/4 and then to 107-1/4. Bids for forward franc.

I have spoken with some bankers, who feel that there is still considerable reserve toward the new program of the Government. It is their opinion that everything will depend upon the success of the loan which opens Monday at nine o'clock, ~~and~~^{the terms} of which have not yet been made public.

I had a telephone conversation with Jacobsson of the BIS. The importance of the loan was also stressed by him, and he thinks patriotic appeals will have to be depended upon considerably to make a success of it. Jacobsson expressed regret over the technical unpreparedness which has been disclosed by the French financial developments.

At ten o'clock tonight I proceed to Basel. On Monday morning at seven o'clock I will be back in Paris. My telephone number in Basel tomorrow will be at the Hotel Schweizerhof, No. 43830.

WILSON

EA:LWW

March 6, 1937.

"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?"

The answer to the foregoing question is as follows:

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 to Americans would violate the spirit if not, indeed, the letter of the Johnson Act, and, in consequence, no officer of the Government could undertake to approve this or any other measure calculated to encourage the purchase of the proposed bonds by Americans.

*The principal question in regard to the
policy of having no objection to the
proposed answer as set forth above.
JSC
Mdl/37*

March 6, 1937.

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The principal question involved is one of policy & I have no objection to the proposed measure as set forth above.
JSC
Mdl 4/37

March 6, 1937

My dear Mr. Secretary:

The Secretary has asked me to send you a photostat copy of the Attorney General's ruling on the question in connection with the proposed French loan.

Sincerely yours,

Private Secretary

The Honorable

The Secretary of State.

March 6, 1937

My dear Mr. Secretary:

The Secretary has asked me to send you a photostat copy of the Attorney General's ruling on the question in connection with the proposed French loan.

Sincerely yours,

Private Secretary

The Honorable

The Secretary of State.

March 8, 1937

HM, Jr called the President at 12 o'clock today.

He said, "On our financing, we worked on it and have decided that this 2 $\frac{1}{2}$ % which we brought out in December, we would give those people the right to convert into that. I am pricing it a little extra sweet because there is no sense in taking any risk with the bad situation abroad. I just didn't see why we should risk it.

"As to the French thing, I have heard the question and the answer given to us by the Department of Justice. I have read it to Hull and he said if he does not call me back within an hour, to go ahead. In this thing they are proposing to get out a loan on Monday, the coupon to be payable in either pounds, dollars or francs, wherever the holder would wish to cash the coupon, -- a 10 year 4 $\frac{1}{2}$ % bond and open end, so we do not know how many they will sell. This is the question they have put up: '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?' The President's reply was, "Yes, we would."

The Secretary then said, "The Attorney General says '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 to Americans would violate the spirit if not, indeed, the letter of the Johnson Act, and, in consequence, no officer of the Government could undertake to approve this or any other measure calculated to encourage the purchase of the proposed bonds by Americans'. The Attorney General has handed a postscript in his own handwriting as follows: 'The principal question involved is one of policy and I have no objection to the proposed answer as set forth above'.

What the President suggested was that as a nice gesture, we point out to the French that if the firm in Paris of Morgan Harjes & Co. is entirely separate from the New York firm of J. P. Morgan & Co. that the French

-2-

use the Morgan Harjes firm in Paris as a depository.

HM, Jr. said to the President, "They asked us a point-blank question. My thought is to just answer that. If they come back, then it would be enough to make your suggestion," and the President said, "You are right."

(Excluded excerpt from record of meeting with financing group on same date)

March 6, 1937
12:35 P.M.

H.M.Jr: 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. 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 - "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.

FROM: MR. GASTON'S OFFICE

TO: The Secretary

The boys are all stirred up about the French situation and would like a conference with you "even though you won't tell them anything".

H.E.G.



3-6-37

March 6, 1937.
3:30 p.m.

H.M.Jr: Hello

O: Are you going to talk to Mr. Cochran?

H.M.Jr: Five minutes.

O: Five minutes.

H.M.Jr: Five minutes, but don't lose - I'd rather pay for the circuit than lose it.

O: All right, I'll ask her.

H.M.Jr: See, if we're going to lose it then I'd rather hold it open.

O: I see, all right.

H.M.Jr: See, rather than lose it we'll hold it open.

O: Right.

H.M.Jr: Please.

3:35 P.M.

H.M.Jr: Tell - I'll talk to this gentleman - ah - what's his name?

O: Butterworth?

H.M.Jr: No, no, no, no - Cochran.

O: Cochran. Right.

H.M.Jr: Cochran.

3:48 p.m.

H.M.Jr: Hello.

O: Mr. Cochran.

H.M.Jr: All right.

O: Go ahead.

H.M.Jr: Hello

C: Hello

H.M.Jr: Cochran

C: Hello Mr. Morgenthau.

H.M.Jr: I'm going to dictate about 100 words to you. Have you got somebody you can repeat it to?

C: Ah - no I haven't. I can take it down though.

H.M.Jr: All right.
"While the Treasury cannot ..."

C: I - I don't hear.

H.M.Jr: "While the Treasury cannot ..."

C: "While the Treasury cannot...."

H.M.Jr: "...of course...."
I'll - I'll give you the sentence.
"While the Treasury cannot, of course, express either its approval or disapproval..."

C: I didn't get the verb - "cannot..."

H.M.Jr: "While the Treasury cannot of course express..."

C: "Cannot express..."

H.M.Jr: "...of course express - express..."

C: It's a bad connection - I can't understand the words very good.

H.M.Jr: Well I'll do it slowly.
"While the Treasury cannot - " - hello.

C: Hello.

H.M.Jr: I'll tell you what I'll do - I'll let Archie go into his room and read it to you and then after he's through I'll talk to you - how is that?

C: All right fine.

H.M.Jr: Archie will go into his room, read it to you and then when he's through I'll talk to you.

C: All right.

H.M.Jr: Just a minute.

O: Hello.

H.M.Jr: Mr. Lochhead will talk to Mr. Cochran from his own 'phone.

O: Right.

H.M.Jr: And then after he's through I'll talk to him.

O: All right.

H.M.Jr: Thank you.

Note: The following is what Mr. Lochhead read to Mr. Cochran:

"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.

"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."

H.M.Jr: Hello.

O: Mr. Cochran.

H.M.Jr: Yes, put him on.

O: Go ahead.

C: Hello

H.M.Jr: Hello

C: I got the message.

H.M.Jr: Yes - well what do you think about it?

C: It - it's probably right.

H.M.Jr: What's that?

C: It may be quite right.

H.M.Jr: Yes.

C: I had difficulty hearing you but let me tell you about Leith-Ross' visit this evening.

H.M.Jr: Yes, do that will you.

C: He told me he has been here and had luncheon with Auriol.

H.M.Jr: Yes.

C: Auriol told him that they were awaiting the reply from us.

H.M.Jr: Yes.

C: And experience the necessity of having this facility.

H.M.Jr: I didn't get that.

C: I say Auriol said that it was not sure the loan would be a success....

H.M.Jr: Yes.

C:unless it had the approval....

H.M.Jr: Yes.

C:of the American and British governments.....

H.M.Jr: Yes.

C:to permit the paying officers in their respective countries.

H.M.Jr: Ah-ha.

C: Leith-Ross told me that the British objected and he told me that if we approved that he would try to get Chamberlain to change his mind.

H.M.Jr: Ah-ha - yes but - ah - the message we have is that - that Chamberlain is opposed to this.

C: I didn't tell him that you were in touch with Chamberlain at all.

H.M.Jr: Yes, well - ah - I'm going to give the Counsellor of the French Embassy a copy of this also.

C: Yes.

H.M.Jr: He's outside now.

C: Yes.

H.M.Jr: And I'll give a copy of it also to the British here and in London.

C: Leith-Ross wanted to know if I would tell him tonight what you decide. Do you want me to do that or not?

H.M.Jr: What do you think? I think he better get it from his own office.

C: All right. I told him that I didn't think I would have time to 'phone him.

H.M.Jr: No, he better get it from his own office.

C: I would rather they got it directly from you.

H.M.Jr: I think so.

C: Yes.

H.M.Jr: I think so.

C: So I - I will get this message to Roueff now.

H.M.Jr: All right - can you still make the train?

C: Yes - yes - I have plenty of time.

H.M.Jr: All right.

C: And I read this back to Archie.....

H.M.Jr: Yes.

C:so I have it correct.

H.M.Jr: Yes. Well everybody in town who would have anything to say as to the policy involved - it's unanimous.

C: We're unanimous on this for policy reasons.

H.M.Jr: For policy reasons.

C: I can understand it entirely.

H.M.Jr: Yes.

C: And - all right - I'll get this to Roueff. Then I leave at 10 o'clock.....

H.M.Jr: All right.

C:and I'll be back here Monday morning.

H.M.Jr: All right, thank you.

C: All right, thank you. Good night.

March 6, 1937

3:50 p.m.

Present:

Mr. Jules Henry
Mr. Taylor
Mr. Lochhead
Mr. Bell
Mr. Gaston

HM, Jr: I am afraid we are going to spoil your afternoon. I don't know what they say diplomatically, but I am giving you this "verbal" memorandum, so as to save you the trouble. It's a verbal communication.

(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.

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.)

Mr. Henry: All right, Sir. I will give that to the Ambassador.

But does that mean that you would have objection to the payment of the coupons of that loan by American banks? The objection is upon making the appointment of an agent, but does it mean also that if there is no agent appointed -- any bank etc act as agent for the French Government -- would this mean that you would have objection to the coupons of the bonds being paid by American banks?

-2-

HM, Jr: I don't get your question.

Mr. Henry: Because, as the Ambassador explained to you this morning, the holders of those bonds of the new loan will be by the French Government payable in pounds or dollars in American or English banks.

HM, Jr: Mr. Henry: Here is the actual question which I was asked. This is from our man in Paris. This is the question that Rueff asked Cochran:

"Would there be any objection on the part of the American authorities to the French Government naming some firm or bank in New York, such as J. P. Morgan & Co., as agent in the United States to pay coupons of the coming loan in cases where payments in dollars is requested?"

Mr. Henry: That's much more specific.

HM, Jr: I have a precise question, and having a precise question I give a precise answer.

Mr. Henry: Well, I am going to take that to the Ambassador.

HM, Jr: That is a precise question from Mr. Rueff and I am giving a precise answer.

Mr. Henry: Exactly. Since the Ambassador was here this morning, he telephoned to Paris and Mr. Auriol told him he was not in such a hurry to have an answer this afternoon and that it would be satisfactory for him to have it by Monday, so the Ambassador intends -- I am sure, Mr. Appert, the French Financial Attache, will be here on Monday, and if the Ambassador would wish to discuss this with you on Monday

HM, Jr: I am always at your service.

March 6, 1937.
4 P.M.

H.M.Jr: What?

Harry Hopkins: I'm still over at the White House.

H.M.Jr: Yes.

H: The boss has gone for a ride and won't be back till 6 o'clock.

H.M.Jr: Yes.

H: Now I've had a private talk with Herbert.....

H.M.Jr: Yes.

H:and here's his position in a nutshell. Ah - he wants to talk this really over with the President again.....

H.M.Jr: Yes.

H:and he wants me to give him an assurance that until he can get a chance to talk to the President about this that this number won't get down below two two.

H.M.Jr: Ah-ha.

H: Now it won't get below two two anytime during the month of March anyhow.

H.M.Jr: Yes.

H: Now how far do you think I ought to go with him on that assurance? Can I effectively make an appointment for these - another appointment with these fellows for the President or doesn't the President want to see him again?

H.M.Jr: Now you're asking me two questions - should you make another appointment to have them see the President?

H: Yes.

H.M.Jr: That's question No. 1?

H: Yes.

H.M.Jr: Ah - my answer is no.

H: What about an appointment - with Lehman as the spokesman?

H.M.Jr: Well I don't see how he can refuse that.

H: No, I don't think he should either.

H.M.Jr: No I don't either.

H: Now what about the second one?

H.M.Jr: What's that?

H: Namely, that I tell Lehman that until this appointment which couldn't be until after the President gets back from Warm Springs which will be around the 22d of March that the number will not get below two two

H.M.Jr: Well, Harry, that something entirely between you and the President - I - I never

H: You talk - you give me some advice now. The President's away and I can't get him.

H.M.Jr: Yes but I mean that.....

H: I don't want - you tell me what you'd do if you were in my place. That's what I want now - old topper.

H.M.Jr: Well I don't know where you originally got your authority on the two two.

H: I haven't got any orig - well as a matter of fact Henry the schedule now is according to the testimony in the House, you see - in the hearings.

H.M.Jr: I couldn't give you any advice.

H: (Hearty laughter)

H.M.Jr: What?

H: All right.

H.M.Jr: No - I - I

- 3 -

H: I know - - I know - I don't want to....

H.M.Jr: No I just because its - I never had - I've never been on it - I don't know what your needs are.

H: Allright - allright, Henry - I'll let you know later.

H.M.Jr: Thank you.

H: Goodbye.

March 8, 1937

4:10 p. m.

Present:

Mr. Mallet
Mr. Taylor
Mr. Lochhead
Mr. Gaston
Mr. Bell

HM, Jr: This is just a family meeting. They have trying to buck me up -- not on this, but on unemployment relief.

I am giving you a "verbal" reply, but to save you the trouble of getting out your pencil and paper.....

Mr. Mallet: Thank you. Very kind indeed.

(HM, Jr. gave Mr. Mallet a copy of the message handed to Mr. Henry a few minutes previous, which is copies into the transcript of the meeting between HM, Jr and Mr. Henry.)

Mr. Mallet: This is the message you have sent to the French?

HM, Jr: I have just given to Mr. Henry the identical same message. That's an answer to a specific question. And that's my answer.

Mr. Mallet: Yes.

HM, Jr: You know the question which was asked us?

Mr. Mallet: This is the question whether an American banking firm could act as paying agent.

HM, Jr: Yes, and that's the answer.

Mr. Mallet: The answer, in effect, is that the Johnson Act not possible.

-2-

HM,Jr: And incidentally, this came over the ticker:
D.J.1:10. Paris - It is possible that the issue of the new French loan originally scheduled for Monday may be postponed until Wednesday following a conference between Finance Minister Vincent Auriol * * * (Ticker in full is attached.)

HM,Jr: They asked me, could they appoint J. P. Morgan and Company as their agent, and that's my answer and I gave it to the French Embassy here a couple of minutes ago.

Mr. Mallet: We will send it out to London. Have you heard what they were doing?

Mr. Lochhead: The Bank of England cabled that the sterling-dollar rate was very quiet today; needed no support; in fact, worked up a little bit. The French exchange was extremely nervous and fluctuated fairly actively, but very little business done and, as far as we could find out, there was no official support. In other words, it was a nervous, small market, but it looked after itself.

HM,Jr: You know everything we have done. You know everything and that is the answer and that, as we say, is all we will do until Monday -- I hope.

Mr. Mallet: You will just wait and see what happens on Monday.

HM,Jr: You could buy out the whole United States Treasury right now for 99 cents.

Mr. Mallet: All right, I will be very glad.

HM,Jr: Accepted!

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4.23

MAR 6 1937

THE BANK OF FRANCE BEGINNING MONDAY WILL PURCHASE AT CURRENT RATES ALL GOLD OFFERED BY FOREIGNERS FROM STOCKS HELD ABROAD WHICH ARE IMMUNE TO LEGAL DECLARATION OR REQUISITION-LIKE THE OPEN MARKET PRICE FOR GOLD IN LONDON THE PRICE IN PARIS WILL BE FIXED ACCORDING TO THE DOLLAR RATE IN PARIS

-0-

MAR 6 1937

1010

FRENCH LOAN MAY BE POSTPONED

PARIS - IT IS POSSIBLE THAT THE ISSUE OF THE NEW FRENCH LOAN ORIGINALLY SCHEDULED FOR MONDAY MAY BE POSTPONED UNTIL WEDNESDAY - FOLLOWING A CONFERENCE BETWEEN FINANCE MINISTER VINCENT AURIOL JACQUES RUEFF DIRECTOR GENERAL OF THE FINANCE MINISTRY AND M ALLIX DEAN OF THE FACULTY OF LAW REGARDING THE LEGAL ASPECT OF THE ISSUE THE CHAMBER OF DEPUTIES MAY BE CALLED ON TO SANCTION THE ISSUE WITH AN EXCHANGE GUARANTEE BY A VOTE ON TUESDAY

-0-

March 6, 1937.
4:22 p.m.

O: She will put him right on.
(Aside - Butterworth calling)
(long pause)

H.M.Jr: Hello

O: Mr. Butterworth. Go ahead.

H.M.Jr: Hello

B: Hello

H.M.Jr: Butterworth?

B: Yes, how do you do Mr. Secretary.

H.M.Jr: Where are you?

B: Very well thank you and you sir?

H.M.Jr: I'm all right but where are you?

B: I'm in England and here on the job.

H.M.Jr: Well we tried to get you to give you an answer to your cable 122 and they said you'd left for the week-end.

B: Oh no, I made arrangements - I thought you were going to (click sound) and I'd arranged - but in any case Frederick Phillips has just gotten in touch with me....

H.M.Jr: Yes.

B:and he has requested me to get information from you as soon as possible about the following matter.

H.M.Jr: Yes.

B: The British Treasury has been told that Monsieur Bonnet has obtained from you your consent to allow the French loan to be to the American market.

H.M.Jr: Yes.

B: And other points in it paying in
New York.

H.M.Jr: Yes.

B: Provided the British Treasury will likewise agree to similar arrangements here.

H.M.Jr: Yes.

B: I understand that the French have made these statements to the British Treasurer.

H.M.Jr: Yes.

B: And the latter is unwilling to accept it without a direct confirmation....

H.M.Jr: Yes.

B:until their attitude was made known in my conversation.

H.M.Jr: Well now I handed to the British - not being able to - their telling me that you were away - I handed them a statement but Mr. Lochhead is here and if you have a pencil and paper he will read to you the statement, you see?

B: Who will read it?

H.M.Jr: Archie Lochhead.

B: Yes.

H.M.Jr: He'll go to his room and he'll read it - hello hello

B: Yes.

H.M.Jr: He'll read it to you.....

B: ...And I'll take it down.

H.M.Jr: And you take it down and you charge this call to the Treasury.

B: Right.

H.M.Jr: You charge this call to the Treasury.

B: All right, sir.

H.M.Jr: But Lochhead will give you - ah - what we - we just handed this at four o'clock to the French.

B: You handed it who to?

H.M.Jr: To the French here.

B: To the French here.

H.M.Jr: At four o'clock.

B: At four o'clock.

H.M.Jr: And also to Mr. Mallet, the Counsellor of the British Embassy here.

B: Yes.

H.M.Jr: We gave each of them a copy.

B: Yes.

H.M.Jr: But Archie Lochhead will read to you what we gave them.

B: Right.

H.M.Jr: And we - we haven't given - well you'll see - I mean we've turned the French down - that's what we've done.

B: Yes.

H.M.Jr: What? I say we've turned them down - hello.

B: Well I'm sure the British will be very glad to hear that.

H.M.Jr: Well I'll transfer you to Lochhead and he will read it to you and you take it down. Now before I transfer you is there anything else?

B: No, that's all sir I think. I think these people are pretty wise here but - for the reasons that they gave me in their telegram I don't think they want to go very much further here.

H.M.Jr: Well all right - now I'll transfer you to Lochhead and he'll read it. It's about 100 words.

B: Right.

H.M.Jr: Just a minute.

- 4 -

O: Hello

H.M.Jr: Transfer Mr. - this to Lochhead in his room.

O: Right.

Note: The following is what Mr. Lochhead read to Mr. Butterworth:

"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 agency in New York for the purpose of making such payments in dollars.

"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."

10.25
MAR 6 1937FOREIGN EXCHANGE MARKET

LONDON - DESPITE WIDE FLUCTUATIONS IN RATES BUSINESS IN FOREIGN EXCHANGE MARKET THIS MORNING WAS NOT UNDULY ACTIVE - FRENCH FRANCS OPENED WEAK AT 107 93 BUT QUICKLY RECOVERED TO 107 25 AND LATER FLUCTUATED BETWEEN 107 AND 107 43

THE FRENCH CONTROL OPERATED INTERMITTENTLY THROUGHOUT THE MORNING IN SUPPORT OF SPOT FRANCS WHILE CLOSING BEAR COMMITMENTS PRIOR TO THE WEEKEND WERE HELD RESPONSIBLE FOR THE CONTRACTION IN DISCOUNTS - AT THE OPENING THREE MONTHS FORWARD FRANCS WERE QUOTED AT 262 CENTIMES DISCOUNT AND ONE MONTH FRANCS AT 150 CENTIMES DISCOUNT CLOSING AT 281 AND 156 CENTIMES DISCOUNT RESPECTIVELY

THE MARKET GENERALLY WAS INCLINED TO MARK TIME PENDING MONDAY-S INAUGURATION OF FREE GOLD DEALINGS IN PARIS THE OUTCOME OF WHICH IS BEING AWAITED WITH KEEN INTEREST

AMERICAN DOLLARS OPENED AT 4 8755 AND GRADUALLY WEAKENED AS THE MORNING PROGRESSED CLOSING AT 4 8722 - IT IS NOT BELIEVED THAT ANY LONDON CONTROL SUPPORTED THIS MARKET

March 6, 1937
(DJ 10:30 a. m.)

Morgenthau Confers with Bonnet and Harrison

Washn. - American cooperations insofar as it is possible with French monetary moves over the weekend was indicated today when Secretary 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 Secretary Morgenthau continued the conference with Mr. Harrison and Treasury officials.

10.54
FRANCS WEAK

NEW WEAKNESS HAS DEVELOPED IN FRENCH FRANCS WITH RATES SAGGING TO NEW LOW LEVELS- MARKET IS NOW QUOTED AT 4 51 TO 4 52 CENTS COMPARED WITH LAST NIGHT-S CLOSE OF 4 55 CENTS-

MAR 6 1937

10.59
MAR 6 1937

ADD FRANCS WEAK

BUSINESS IS SMALL BUT OFFERINGS ARE UNDERSTOOD TO BE COMING FROM FRENCH AS WELL AS LOCAL SOURCES- FORWARD FRANCS ARE STRONG WITH 10 POINTS DISCOUNT BEING BID FOR 90 DAYS AGAINST 11 YESTERDAY

STERLING IS WELL BID AT 4 87 7-8 UP 1-16 CENTS- THE MARKET DIFFERS AS TO WHETHER OFFICIAL CONTROLS ARE INTERVENING IN THE EXCHANGE MARKET THIS MORNING-

11.01
MAR 6 1937

ADD FRANCS WEAK

WHILE SOME BELIEVE THAT THE DECLINE IN THE FRANC IS BEING CUSHIONED BY THE CONTROL OTHERS STATE THERE IS NO INDICATION OF OFFICIAL INTERVENTION

-0-

BRITISH FINANCIAL REPRESENTATIVE CONFERS
WITH MORGENTHAU
WASHN-

MAR 6 1937

41 A M

ADD BRITISH FINANCIAL REPRESENTATIVE
CONFERS WITH MORGENTHAU

WASHN- V A L MALLET COUNSELOR OF THE
BRITISH EMBASSY ALSO CONFERRED WITH SECY
MORGENTHAU ON MONETARY MATTERS THIS MORNING

MR MALLET WHO WAS GREAT BRITAIN-S REPRESENTATIVE DURING THE NEGOTIATION OF THE TRI-PARTITE AGREEMENT SAW SECY MORGENTHAU AT APPROXIMATELY THE SAME TIME AS THE FRENCH AMBASSADOR MAKING THE CONFERENCE THIS MORNING A THREE PARTY AFFAIR RESEMBLING THOSE AT THE TIME THAT THE MONETARY AGREEMENT WAS REACHED

DR FREDERICK LIVESEY ASST ECONOMIC ADVISER TO THE STATE DEPT WAYNE TAYLOR ASST SECY OF THE TREASURY AND ARCHIE LOCHHEAD MANAGER OF THE STABILIZATION FUND WERE ALSO PRESENT

-0-

PARIS.--FRENCH POLITICAL CIRCLES REPORTED TODAY THAT AN AGREEMENT HAD BEEN REACHED UNDER WHICH AMERICAN BANKS MAY INVEST IN THE FORTH-COMING 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

AND FRENCH LOANS, PARIS

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.

EXPERTS HERE 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

Handwritten: [unclear]

NEW YORK.--NEW YORK BANKERS TODAY WERE INCLINED TO SCOFF AT REPORTS THAT THE U.S. TREASURY AND THE FRENCH GOVERNMENT HAD ENTERED INTO AN AGREEMENT UNDER WHICH AMERICAN INVESTORS COULD TAKE UP PART OF THE NEW FRENCH DEFENSE LOAN.

PARIS REPORTS SAID THAT UNDER THE AGREEMENT BANKS WOULD NOT BE PERMITTED DIRECTLY TO TAKE UP THE LOAN, BUT THEY COULD ADVISE CLIENTS TO DO SO. THIS METHOD, IT WAS SAID, WOULD STEER AROUND THE JOHNSON ACT. BANKERS POINTED OUT THAT THE JOHNSON ACT DID NOT APPLY TO SUCH SITUATION; THAT ANY AMERICAN COULD IF HE DESIRED PURCHASE AS MANY FOREIGN BONDS AS HE DESIRED. THE JOHNSON ACT APPLIES ONLY TO UNDERWRITING OF FOREIGN GOVERNMENT ISSUES IN THIS COUNTRY IN CASES WHERE THE GOVERNMENTS HAVE DEFAULTED ON DEBTS.

BONDS OF FOREIGN GOVERNMENTS ARE TRADED IN AMERICAN MARKETS AND IN OVER THE COUNTER TRADES DAILY. BANKERS SAID THERE WOULD BE NOTHING TO PREVENT ADDITION OF THE DEFENSE LOAN TO THE LIST.

3/6--R1226P

SENATOR LEVY EXPRESSED IN THE SENATE THIS NOON THAT THE U. S. IS
"ILLEGAL" ANY FUNDS SUBSCRIBED IN THIS COUNTRY TO A FOREIGN
CONTRARY TO THE JOHNSON ACT.

379--CS1234F

SEN. LEVY, SENATE

SEN. LEVY WOULD INSIST "AT THE PROPER TIME" THAT CONGRESS
TAKES SUCH ACTION AND THAT THE FUNDS SEIZED BE APPLIED TO THE
DEBT WHICH ARE OWED THE UNITED STATES BY FOREIGN NATIONS OWING

TO LOANS.
"FRANCE IS NOT ALONE IN THIS," HE SAID IN REFERENCE TO THE PROPOSED
FRENCH DEFENSE LOAN. HE INDICATED IN PRIVATE CONVERSATION LATER THAT
HE EXPECTED SIMILAR EFFORTS BY BOTH BRITAIN AND ITALY.

374--CS1234F

SEN. LEVY, SENATE

"IF FOREIGN CITIZENS HONESTLY BUY UNITED STATES BONDS I WOULD INSIST
THAT THEY MAKE PAYMENTS ON THEM," THE ILLINOIS SENATOR SAID AT THE
END OF THE SENATE THAT HE RECENTLY WARNED AGAINST ATTEMPTS TO EVADE THE
PROHIBITION OF FLOATING IN THIS COUNTRY OF LOANS FOR NATIONS
WHICH HAVE DEFAULTED ON DEBTS TO THE UNITED STATES.

"BUT IN THE PRESENT TRANSACTIONS REGARDING THE FRENCH LOAN, IF THEY
SEEM TO OBTAIN INDIRECTLY FUNDS IN VIOLATION OF THE LAW, I WILL INSIST
THAT IT IS A CONSPIRACY AND THAT ANY MONEY PAID IN THE UNITED STATES
TO A FOREIGN AGENT WOULD BE ILLEGAL.

"I WOULD INSIST THAT THE GOVERNMENT PROMPTLY SEIZE AS ILLEGAL ALL
FUNDS INVOLVED IN ANY CONSPIRACY AGAINST THE GOVERNMENT AND APPLY
THESE FUNDS TO THE DEBT OF THE DEBTOR NATION INVOLVED."

374--CS1234F

French Situation

SECRETARY MORGENTHAU CONFERRED TODAY WITH AMBASSADOR GEORGES BONNET OF FRANCE AND GEORGE L. HARRISON OF THE NEW YORK FEDERAL RESERVE BANK, PRESUMABLY ON THE FRENCH FISCAL SITUATION..

3/6--R1144A

ADD MORGENTHAU CONFERENCE

IMMEDIATELY AFTER THEIR TALK, MORGENTHAU WENT INTO PRIVATE CONFERENCE WITH V. A. L. MALLET, COUNSELLOR OF THE BRITISH EMBASSY. NO OFFICIAL WOULD MAKE ANY COMMENT UPON THE DISCUSSIONS.

HOWEVER, IT WAS BELIEVED IN INFORMED QUARTERS THAT THE TALKS CENTERED ABOUT FRENCH FISCAL DEVELOPMENTS, ESPECIALLY THE RESTRICTIONS OF THE JOHNSON ACT WHICH BARS NATIONS IN ARREARS ON WAR DEBTS FROM AMERICAN MONEY MARKETS.

3/6--R1148A

French Situation

SECRETARY MORGENTHAU CONFERRED TODAY WITH PRESIDENT ROOSEVELT IMMEDIATELY AFTER DISCUSSING A PENDING FRENCH LOAN AND OPERATIONS OF THE TRI-PARTITE MONETARY AGREEMENT WITH OFFICIAL REPRESENTATIVES OF THE FRENCH AND BRITISH GOVERNMENTS.

3/6--CS105P

ADD MORGENTHAU, ROOSEVELT

MORGENTHAU REFUSED AT A SPECIAL PRESS CONFERENCE TO DISCUSS WHAT TRANSPIRED AT HIS MEETINGS HELD PRIVATELY TODAY WITH DIPLOMATIC EMISSARIES OF THE TWO OTHER PARTIES TO THE THREE-NATION FISCAL AGREEMENT NEGOTIATED LAST SEPTEMBER.

HOWEVER, HE INDICATED THAT BOTH THE LOAN WHICH FRANCE IS EXPECTED TO FLOAT ON MONDAY AND THE OPERATIONS OF THE TRI-NATION UNDERSTANDING WERE CAREFULLY REVIEWED.

MORGENTHAU WAS ASKED WHAT HE TALKED OVER WITH AMBASSADOR BONNET AND V. A. L. MALLET, COUNSELLOR OF THE BRITISH EMBASSY.

"I AM SORRY I CAN'T DISCUSS THAT AND I AM NOT GOING TO TRY TO PARRY," HE SAID. "I'M NOT GOING TO SAY ANYTHING ON THAT."

3/6--CS108P

ADD MORGENTHAU CONFERENCE

TREASURY OFFICIALS POINTED OUT THEY HAD NO INFORMATION ON TERMS OF THE PROPOSED FRENCH LOAN. THEY SAID THAT SO FAR NO AMERICAN BANK HAS MADE FORMAL REQUEST TO THE TREASURY FOR PERMISSION TO PARTICIPATE IN THE LOAN.

THEY REFRAINED FROM STATING WHETHER AMERICAN INVESTORS COULD OR COULD NOT BE ALLOWED TO PARTICIPATE IN THE LOAN WITHIN THE TERMS OF THE JOHNSON ACT WHICH FORBIDS LENDING MONEY TO NATIONS IN ARREARS ON WAR DEBTS.

IT WAS BELIEVED THAT ATTORNEY GENERAL CUMMINGS HAD EITHER PREPARED RECENTLY OR WAS PREPARING AN OPINION ON THE TERMS OF THE ACT FOR MORGENTHAU'S GUIDANCE.

SOME TREASURY OFFICIALS SAID PRIVATELY THEY BELIEVED THAT AMERICAN BANKS WITH INVESTMENTS ABROAD COULD USE THOSE MONEYS FOR PURCHASE OF SUCH OFFERINGS AS THAT WHICH WILL BE FLOATED BY FRANCE.

MORGENTHAU REFUSED TO STATE WHETHER THIS WAS ALLOWABLE.

"I CAN'T GIVE ANY LEGAL OPINION ON THE JOHNSON ACT," HE SAID.

HE AMPLIFIED HIS OPINION OF THE FRENCH SITUATION TO SAY:

"ANYBODY WHO READS THE PAPERS CAN SEE THAT THE FRANC IS HAVING ITS OWN TROUBLES AND NATURALLY I AM DOING ALL I CAN TO PROTECT OUR OWN INTERESTS AND THE TRI-PARTITE AGREEMENT.

"THE TRI-PARTITE AGREEMENT WORKED YESTERDAY AND WORKED TODAY AND SO FAR AS I KNOW IT WILL WORK MONDAY.

"THE DISCUSSIONS WE HAD TODAY CONSISTED PRIMARILY OF AN EXCHANGE OF INFORMATION."

LMS

GRAY

Paris

Dated March 7, 1937

Rec'd 7:34 a. m.

Secretary of State,
Washington.

RUSH.

320, March 7, 11 a. m.

In the absence of Cochran at Basel for the day I have confirmed this morning at the Presidency of the Council that it has been decided to postpone for two or three days the issuance of the defense loan in view of the advisability of obtaining new legislation modifying the monetary law of October 1936, particularly as regards the option of guarantee in foreign currency. I am informed that the Ministry of Finance was of the opinion that from the strictly legal point of view of no new legislation was required but in order to satisfy doubts and criticisms which had been expressed and which might have had an unfortunate effect on the loan it was considered advisable to obtain new legislation. The bill will be introduced Tuesday and passed it is hoped by both houses that day. If this is done the loan will be issued Wednesday.

Please advise Treasury.

WILSON

RR

①
Hess
2/27/37

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 8, 1937.

TO Mr. Magill

FROM Mr. Haas

Subject: Proposed bill to amend "An Act to establish a retirement system for employees of carriers subject to the Interstate Commerce Act, and for other purposes." and "A bill to levy an excise tax upon carriers and certain other employers and an income tax upon their employees, and for other purposes."

The proposed bill provides for benefits which are in no case less than those of the present Railroad Retirement Act and in most cases materially larger than the benefits of the Social Security Act. The bill also provides for substantial death benefits and withdrawal benefits which are not included in the present Act, and would require the Government to assume the additional burden of paying pensions to all persons on the pension or gratuity roll of any carrier on March 1, 1937.

The bill reduces the tax rates of the present tax Act from 7 percent of payroll to the equivalent of a level percentage of 6.60 percent. The present tax Act would be repealed and all taxes collected thereunder would be refunded, and all taxes payable would cease to be payable. Taxes paid or payable under the present Act covering the period from March 1, 1936, to December 31, 1936, have been roughly estimated to be about \$110 million.

Mr. Murray W. Latimer, chairman of the Railroad Retirement Board, has submitted a memorandum presenting the results of actuarial estimates which indicate that the proposed bill, if enacted into law, would cost the Government slightly less than it would cost if railroad employees were included under the provisions of the Social Security Act. The cost of the proposed bill was estimated to be 7.11 percent of the railroad payroll, whereas the tax rates imposed are equivalent to a level percentage of only 6.60. These figures indicate an annual cost to the Government of .51 percent of the railroad payroll in excess of the taxes imposed on the carriers and their employees. However, it was also estimated that the cost of including railroad employees under the Social Security Act would exceed the Social Security taxes by an annual amount equivalent to .33 percent of the railroad payroll. On the basis of these estimates, therefore, the cost to the Government

of the proposed bill would be less than the cost of including railroad employees under the Social Security Act by an amount equal to .02 percent of the railroad payroll, or about \$440,000 annually.

It was not possible during the limited time available to check the actuarial estimates prepared by the Railroad Retirement Board. However, the assumptions upon which the estimates were based are subject to considerable criticism. (A separate memorandum containing an actuarial analysis of these assumptions is attached hereto.) In any event the actuarial estimates are far from convincing and should not, in my opinion, be given any important weight as justification for the proposed bill.

Disregarding legal problems, the purposes of the proposed bill could be accomplished, without requiring the Government to underwrite benefit payments in excess of those provided under the Social Security Act, by taking legislative steps as follows:

1. Repeal the present Railroad Retirement Act and the tax act which was approved on the same date.
2. Amend the Social Security Act to include the railroads.
3. Enact new legislation which would authorize a Railroad Retirement Board to administer a uniform retirement system providing total benefits, including Social Security benefits, not less than those provided by the present Railroad Retirement Act, and which would authorize the Treasury to act as trustee of the fund required to finance the supplementary benefits. The Railroad Retirement Board would determine the supplementary contributions required from the carriers and their employees to support the supplementary benefits on a reserve basis. The new act should authorize the Treasury to guarantee an interest rate of 3 percent per annum on the supplementary trust fund.

The above plan would satisfy all of the conditions insisted upon by the railroad employees and, on the basis of the Railroad Retirement Board's actuarial estimates, would cost the carriers .02 percent of their annual payroll less than the cost of the proposed bill. Although this plan may be unconstitutional, it should be noted in this connection that the constitutionality of the proposed bill depends upon the carriers' agreement not to contest unless the tax rates are increased from the equivalent of a level 6.60 percent. To hold by such an agreement could easily result in an increased cost to the Government of more than \$75 million annually.

Attachment.

a
Rise
Jan

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 8, 1937.

TO Mr. Haas
FROM Mr. Reagh

Subject: Discussion of actuarial estimates of the cost of a proposed bill to amend the present Railroad Retirement Act, as presented in a memorandum prepared by the Railroad Retirement Board.

The assumptions forming the basis for the actuarial estimates of the Railroad Retirement Board seem to me faulty in the following respects.

- A. The Board estimated that if railroad employees were included under the Social Security Act it would cost the Government about \$11 million dollars per year (.53 percent of the railroad payroll) more than the carriers and their employees would pay in taxes under Title VIII. The reasons given for this differential were (1) the high average age of railroad employees, and (2) the high average age of entrance into the railroad service. The latter reason is unsound because the cost of Social Security benefits is independent of the age of entrance into the service of any given employer. The cost depends only upon the age of entrance into the insured group. In fact, since Social Security annuity benefits would be payable at the high rate of 6 percent on the first \$3,000 earned by employees before entering the railroad service, in addition to benefits of the railroad retirement system, the proposed law would substantially increase the cost to the Government. The withdrawal of employees from the railroad service and their entrance into the Social Security insured group at relatively high ages would also result in double benefits which would increase the cost to the Government. Consider the following examples.

1. An employee works from age 25 to age 35 at \$1,500 per year, under the Social Security Act, and then enters the railroad service, receiving \$1,200 per year until retired at age 65. He has earned two annuities, as follows:

Social Security	\$300
Railroad	200
Total	\$1,200

If the employee had served his entire period of service with the railroad, his annuity would have been only \$1,157, and if he had served the entire period under the Social Security Act his annuity would be only \$720.

2. An employee works for the railroads from age 25 to age 55 at \$1,800 per year and then withdraws and works in a position covered by the Social Security Act at \$2,000 per year until retired at age 65. Under the proposed bill he would receive two annuities, as follows:

Railroad	\$900
Social Security	<u>350</u>
Total	\$1,250

If all of his service had been for the railroads his annuity would be only \$1,213, and if all of his service had been under the Social Security Act his annuity would be only \$745.

- B. The cost of the proposed bill was estimated upon the assumption of an average retirement age of 69. If the cost of Social Security benefits to railroad employees was also based upon this high retirement age and average annual earnings of about \$1,750 (60 percent above average earnings of all employees covered by the Social Security Act) it is difficult to see how the cost of Social Security benefits could possibly have been found to exceed the average cost for the entire group, i.e., the cost expressed as a percentage of the railroad payroll. Using an average retirement age of 68, average earnings of only \$1,400, and an average entry age of 25 years, we found the Social Security tax rates to be substantially higher than required to support the system (assuming a constant number in the insured group).
- C. The total cost of the proposed bill would appear to be at least as great as the cost of the present Railroad Retirement Act (estimated by the Railroad Retirement Board to be 10 percent of payroll, later revised to about 8.5 percent of payroll on the assumption of an average retirement age of 67.5 years) because the proposed bill increases the cost in the following respects.
1. The addition of withdrawal and death benefits estimated by the Railroad Retirement Board to cost 1.64 percent of the railroad payroll, of which not less than 1.50 percent is additional cost.

2. The additional liability assumed in respect to present pensioners other than those included under the existing Railroad Retirement Act. The cost of this liability expressed as a percentage of the annual railroad payroll is not less than .25 percent.
3. Refund of about \$110 million of taxes paid or payable during the calendar year 1936 - cost as a percentage of the railroad payroll about .15 percent.
4. Reduction of tax rates from 7 percent to equivalent of 6.60 percent - cost .40 percent of payroll.
5. Removal of provision in present law limiting total service credit after January 1, 1937, to thirty years - cost not determined.
6. Additional cost because of extra benefits payable to employees who would receive annuities under the Social Security Act and also the Railroad Retirement Act - cost indeterminate.

The changes listed above would increase the total cost of benefits payable to railroad employees by an annual amount not less than 2.5 percent of the railroad payroll, making the total cost about 11 percent of payroll. However, some of the changes made have the effect of reducing the costs. These changes are as follows:

- (a) Tightening of the disability provisions - saving in cost not determined.
- (b) The increase in payroll lowers the interest cost of the unfunded reserve liability as a percentage of payroll - reduction in cost about .25 percent of annual payroll.
- (c) Elimination of prior service credit - reduction in cost not determined.
- (d) The elimination of the compulsory retirement age of 70 years and the removal of the provision reducing the annuity by 1/15th for each year of service after attainment of age 65. This change has the most important bearing on the cost, although it does not

d

seem reasonably conservative to me to assume that this change would raise the average retirement age from 65 years to 69 years (averages assumed by the Board in making cost estimates of present and proposed laws).

The changes above, exclusive of (d), could scarcely reduce the cost more than 1 percent of payroll. The changes affecting the average age of retirement must account for a reduction in cost of about 3 percent of payroll. That is, without the changes described under (d) the cost of the proposed bill would be more than 10 percent of payroll, whereas with the changes the cost is reduced to about 7.11 percent, a reduction of almost thirty percent. It is certainly far from conservative to assume an average retirement age of 69 for persons eligible to retire at either their own option or at the option of the employer at age 65.

TO:

Mrs. Klatz

306

(Herewith Commauded
Parke's report regarding
the Hawaiian situation
which I think the
Secretary would like
to see at his
convenience.

From: MR. GRAVES

3/9



HEADQUARTERS

CONFIDENTIAL

MEMORANDUM, U. S. COAST GUARD
AND REFER TO NO. IOF 601

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

8 March, 1937

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MEMORANDUM FOR MR. GRAVES:

Subject: Organization and Progress of the Plan of Coordination of Treasury Department Agencies at Honolulu, T. H.

1. The orders of the Secretary of the Treasury of September 16, 1936, designated the Coast Guard as the agency to coordinate the efforts of the Treasury organizations concerned in the suppression of smuggling into the Territory of Hawaii. The existing situation indicated special emphasis on efforts to terminate narcotic smuggling.

2. Commander Parker, Coast Guard; Customs Agent Bruen and Customs Inspector Eifler left San Francisco on October 9, 1936, for Honolulu. Commander Parker's mission was to organize the Hawaiian Section, San Francisco Division, Coast Guard, for the better coordination of activities of units of the Coast Guard, and to act as Coordinator of the Treasury Department Agencies concerned. Mr. Bruen was to be stationed permanently at Honolulu as the local representative of the Customs Agency Service, no permanent assignment having been made previously, and Mr. Eifler was to succeed Mr. Oliveira, Chief Inspector of Customs at Honolulu, whose incapacity and possible dishonesty had been reported upon.

3. The first coordination conference was held on October 16th, the day of the arrival of the officers assigned. The purpose of the coordination system and its success in the control of alcohol smuggling were explained. The program of procedure was divided into two parts:

- (a) Preventive - Involving the fullest development of trails of vessels suspected of having narcotics on board, improvement in the examination of baggage, reorganization of the Customs force on the wharves, stimulus to the Appraiser's force to additional vigilance with respect to contraband while engaged in appraisal, etcetera. In this respect, Customs, Customs Agency, Coast Guard, and Narcotics were principally concerned.
- (b) Investigational - Efforts directed at the accumulation of evidence to support convictions of the importers and larger dealers in narcotics. The identity of all these is established. The investigative program will necessarily involve considerable time. To prevent too great a dissipation of effort, one particular offender was to be concentrated upon (Eddie Chin Wan) because of his present activity, his vulnerability, and the prospects of success.

As others appeared in relationship with him, evidence against them would be accumulated and they would be included in the investigative program. Customs Agency and Narcotics are here the principal agencies concerned.

4. Recommendations were made by the Coordinator and the Agency heads for additional personnel and equipment. There were furnished the following:

- 2 - 75-foot patrol boats having a top speed of about 25 statute miles per hour, and crews of four men each.

(The assignment of the C.G.C. ROGER B. TANEY was a replacement of the ITASCA. The TANEY is of greater speed than the ITASCA and better suited to trailing).

- 1 - Grumman Amphibian plane as part of equipment of the TANEY.
- 2 - Commissioned officers for duty as Section Commander and Assistant.
- 2 - Warrant officers, one for Communications and radio intelligence duty, the other to coordinate pay and disbursements of personnel of all Coast Guard units of the Section.
- 3 - Yeomen for writing, accounting and filing connected with the Section Office.
- 2 - Radiomen for Communications and Intelligence.

Establishment of a Section Office on the seventh floor of the Aloha Tower on the waterfront and of means of radio communication therefrom with all Coast Guard units within the Territory, including major cutter, patrol boats and amphibian plane. Equipment for radio intelligence (direction finders).

CUSTOMS

- 16 - Additional Inspectors and Guards to assure adequate inspection of baggage and surveillance of ships, cargoes and personnel.

NARCOTICS

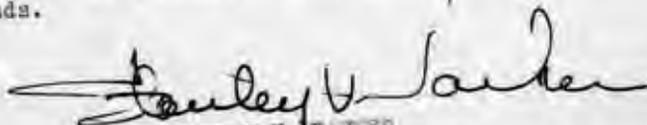
- 2 - Additional employees, one a Chinese interpreter.

5. It is a fact that upon the initiation of the campaign there was no such thing as a sampan suspect list. This is now rapidly developing as a

result of observation of movements and positions of sampans and other information. The trailing of vessels in and out of port, in some instances for distances as great as 160 miles, has been highly developed. Guarding of vessels in port has been much improved. Inspection of baggage is rapid and thorough. The "outside" Customs force is on its toes. The "racket" of local Oriental-goods merchants resorting to the practice of having Oriental passengers bring in merchandise for sale as free baggage has been discouraged. From an average figure of something over two tons per Oriental passenger, baggage has declined in amount to less than one-half ton per person and will probably further decline with resulting increase in collection of duties and in wharfage fees due to the Territory by the appearance of this merchandise as cargo. Patrols of significant regions on the coast of Oahu (the island on which Honolulu is situated) have been inaugurated and information giving a clearer picture of methods of operation of the smugglers is accumulating. Good cooperation with local Territorial and city officials, and with honest citizens is developing.

6. The investigational program necessarily involves time and patience. Although the principal offenders are known, the trail of evidence seldom leads from small pedlar to "big shot". Evidence to support conviction must be painstakingly accumulated. Confidence is felt that it will be. Entrapment (not in the legal sense), wire supervision (which has encountered obstacles), attempted corruption of personnel, and many other elements will contribute. It is believed that within a year from the inauguration of the campaign (October, 1936) substantial progress in this phase of the work will have been made.

7. Price is a convenient barometer of supply of narcotics. It is however, subject to peculiar dislocations and artificial influences. The publicity given the campaign and the fear of the traffickers that some magic system would be installed to apprehend them, resulted in driving the price from \$110 per 5-tael (6 2/3 ounces) tin in the summer of 1936 to \$305 in October. The shipping strike complicated the situation. A decline in price began in November, 1936. A price of \$255 was recently said to have prevailed. Rumors of \$180 were current although whether this related to 4-tael (flat) tins or 5-tael tins is not clear. The two prices would be consistent. This rumor coincided approximately with the termination of the marine strike and may be significant. There is no evidence to sustain the belief that the Territory is a principal source of supply for the Pacific Coast. If a price of \$255 prevailed in the Territory and one of \$180 on the Coast, a movement of contraband from the Coast via coastwise (American) vessels might well result. Some effect on price, either to raise or lower it, may follow particular technique involved in the investigative program. There is no substantial evidence of cocaine, morphine or heroin being available in quantity in the Islands.



STANLEY V. PARKER
Commander, U. S. Coast Guard.

GROUP MEETING

March 8, 1937
9:30 a.m.

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

H.M.Jr: Did anybody telephone you (Bell) from the White House?

Bell: From the White House?

H.M.Jr: Yes.

Bell: No, sir.

H.M.Jr: Didn't they call you? You may get some orders from there today.

Bell: (Laughs)

H.M.Jr: I think we better have press today at - going out of here at 3:30, allowing plenty of time, don't you (Gaston) think 5:00?

Gaston: Yes, it couldn't very well be any earlier than that.

H.M.Jr: No. What I am doing - this is what I wanted to do this morning, and that is explain up on the Hill what we have done or haven't done on this French thing, on account of the articles in the New York Tribune. I thought we'd have people like Borah and Johnson. The President said, "No, don't have Borah there." He says, "Let's lay a trap for him." He says, "Just tell the Democratic boys what you have done."

Bell: Does that include Johnson?

H.M.Jr: Hiram.

Bell: That's what I mean. He isn't a Democrat.

H.M.Jr: No, I'd like for you (Oliphant) to go up with me; we will leave at 3:15. And I've got the stuff for the story.

- 2 -

And the other thing - I think I'd like to tell what Dan and I are doing. I just talked to Hopkins. I had this meeting with the President and these six Governors on Saturday and, of course, they wanted more money. The President laughed and said Hopkins and I should see them. The President said we should prepare for him a set of figures showing what money there is available that he could transfer for relief from now until the first of July, and so I worked out this thought: That we go a step further and show just how much money we have spent for regular and emergency funds for the four years ending June 30 in the country - roads, CCC, harbors, rivers, reclamation, all that stuff - and then break it down by states; then start the first of July and show how much money there is available in the budget, and break that down by states.

Then the President can do one of two things. He can either - the whole cry was "Relief comes first." He says there is no argument about that. Then the President has this thing. And I told these Governors as far as I was concerned I wouldn't recommend one dollar above the seven and one-half billion that it stands now; that that was enough money to run this country, and that if it wasn't enough to take care of the unemployed and hungry we should take some of the money out of the seven and a half billion and transfer it.

So if the President has on his desk the total amount of money he - he keeps talking about five hundred million public works, but that is only about a sixth of it, I guess. And if we have spent, as Dan says, a billion and a half for highways in the last four years, maybe we have spent enough for highways. The President has the whole thing before him.

And my thought is this, to say "Now look here Lehman, I have spent so much the last four years and for the next fiscal year New York State will receive from the Federal Government - I don't know, several hundred million dollars. Now you keep telling me relief is first. All right. There are the projects; New York gets three, four, five hundred million dollars this coming year. You, Governor Lehman, tell me which one of those things I should stop and I will stop it and transfer it to relief. But you tell me which one to stop. Now you keep saying - and out of

- 3 -

that - and this is the amount of money that the State of New York contributed. The only thing they contributed is on roads."

Bell: Some other small items, but roads the principal one.

H.M.Jr: Now I mentioned to Mr. Hopkins - he thinks it is swell. He says, "I will have the companion piece. I will show that what they told Roosevelt is wrong. They had over two million people. They've got a million less people that the states are taking care of today than they did twelve months ago. The states have cut their rolls by over a million."

Bell: That's always been the case.

H.M.Jr: And he says, "And I will show that the State of Wisconsin hasn't spent a dollar in the last year and a half." And LaFollette is yelling the loudest. Now he says, "If Dannie Bell will fix his piece, I'll have a companion piece. We will fit the two things together."

Bell: All right.

H.M.Jr: And he said, "Out of that the President can get somewhere." He says, "I've got the first; I'll show that the states have cut their rolls in relief vitally, and I'll show what each state has put in, and - particularly in Wisconsin - which states have not kept faith with us." Now we get the two pictures, we fit them together. And he - and incidentally, he didn't agree to anything.

Bell: (Nods yes.)

H.M.Jr: But he says that for the month of March the rolls will not fall below two billion two, but I thought with those two pictures, which we have never really had for the four years - public proposals for the next fiscal year, and then Harry having his - and then the President can say to Lehman, "Now you get X hundreds of millions of dollars for the fiscal year - for the first of July. You are talking about relief. What should I do less for the State of New York? I won't do any more. That is the outside figure. What should I do less?"

Bell: O.K.

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H.M.Jr: Isn't that the way to handle it?

Bell: Right.

H.M.Jr: Anybody want to add anything? Anybody think I am wrong?

Oliphant: Have another column showing the number of people attributed to each of these projects.

H.M.Jr: Yes, we have that by months. We have it by months - the total number of people getting checks from the Federal Government; it is broken down.

Bell: Hopkins has that. We don't have that on our records, but it is readily available.

H.M.Jr: Did you (Oliphant) hear what Hopkins asked me? Hopkins called me up while he was over there - would I please, on a personal basis, advise him whether he should tell them that he would or wouldn't stop cutting his relief rolls at this time. "Now, just as one man to another, you tell me." I said, "Harry, I'm sorry." "Now come on, Henry." I said, "No, Harry, I've said right along that is your problem. We give you the checks. We give you \$675,000,000. It is your sole responsibility whether you should or shouldn't put on men or lay them off." "Oh, come on." I said, "No, I'm sorry."

Oliphant: (Laughs)

H.M.Jr: I thought that was particularly amusing. Several people here heard it. Herbert was in the room and heard it.

But I think this is a very important thing and nothing will happen on it until the President gets back. But Harry is tickled to death.

Now with those two things I think that - I know it will be helpful to me. Won't it be to you (Bell)?

Bell: Yes.

H.M.Jr: What?

Bell: Yes, I think we can get a pretty good picture on it.

H.M.Jr: If Lehman says we should stop deepening the river, or cut out a couple of CCC camps - let him say something definite. Let him save some money. What?

Bell: (Nods yes.)

H.M.Jr: Mac, I saw Peoples yesterday.

McReynolds: He's in my office now.

H.M.Jr: Good. And I spoke to LaGuardia and LaGuardia is coming down, gets in at 1:00. So have something for me this afternoon. The only thing, I said, "Now listen, LaGuardia, what is the minimum you will take this thing?" "Well, I'll take five years at least." We said, "Is that the minimum?" "Well, in a pinch, I'll take three." And I told him we were going to lease it to him for a dollar a year.

McReynolds: It's all right, we've got precedents on that.

H.M.Jr: Oh, yes, there's lots of precedents.

McReynolds: Wenchel is in there with Peoples now. Peoples has three precedents, Herman. Peoples has three precedents.

Oliphant: I want to see the precedents.

McReynolds: At a dollar a year.

Oliphant: I want to see the precedents. I want to see that the Secretary has the authority to give away the use of the occupation of real estate.

H.M.Jr: I haven't. I'm going to do it for a dollar a year.

Oliphant: Are you?

H.M.Jr: And incidentally, the thing which I can't make sense out of is that Mayor LaGuardia says the idea originated with the Health Bureau.

McReynolds: It did.

H.M.Jr: Yes.

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McReynolds: Yes, the doctors in the Health Bureau - the man at the head of their health outfit - the quarantine man in New York, is the one that started it, because they have had that on their hands for some years and there is some maintenance charge, and they make no use of that.

H.M.Jr: But why doesn't Parran want it?

McReynolds: He says he has no use for it.

H.M.Jr: But why is Parran trying to block it now?

McReynolds: Is Parran trying to block it now?

H.M.Jr: Sure, that's what I understand.

McReynolds: I don't think so.

H.M.Jr: Sure he is.

McReynolds: I haven't heard that.

H.M.Jr: I think you'll find that. All right, by 1:00 you'll have something for me any way - if it's legal.

Oliphant: What time will he be in about?

H.M.Jr: Around 1:00. That gives you lots of time.

Incidentally, I made the statement that if my legal work was as poor as Mr. Vincent Auriol's work, I'd have to resign. Mr. Vincent Auriol doesn't have his home work done. It is unbelievable.

Well then you're all fine?

McReynolds: (Nods yes.) And I'm feeling better. I ate food yesterday for the first time in a week.

H.M.Jr: All right. With the help of God and the lawyers, we'll get a lease for it. I'm not so smert - I'm so tickled that I thought of the lease.

Oliphant: Every reason that that should be done.

H.M.Jr: This is what I told McReynolds and Peoples. Believe me, for months they fussed around with a power house in New York City, and they got a hot potato

- 7 -

and they called me in, and - just like that! Everybody says, "LaGuardia let you down." He never let me down. Remember when Coast Guard wanted a lease for fifty years on a place there on Floyd Bennett field? He played ball.

Oliphant: There is every reason why the property should be put to that use.

H.M.Jr: Well, if Mac can keep his food down, that's that. How about you Dan?

Bell: I have a matter I'd like to talk to you about afterwards on Red Cross - just a minute.

H.M.Jr: Archie?

Lochhead: Nothing.

Haas: Nothing, Mr. Secretary.

Taylor: Consortium.

H.M.Jr: Have you got a letter?

Taylor: Yes.

H.M.Jr: Has General Counsel seen it?

Taylor: No.

H.M.Jr: Will you let him see it?

Taylor: Ah-ha.

H.M.Jr: And when you are ready - I'll tell you what I'd like to have, see? I'd like to have a letter prepared, and I'd like Bell to look at it, Lochhead to look at it, and General Counsel; and when they are all ready, I am ready.

Oliphant: What's that?

Taylor: Consortium.

H.M.Jr: What's happened is strictly in the office. It is very confidential. Hull writes a two-page letter, which I haven't read, to the President on certain

things in connection with China. The President marks "Extra, extra confidential - how should I handle this matter?" So, in other words - I mean we want to do it very quietly. So after those people have seen it - I'll make you (Taylor) chairman - will you ring the bell and let me know when you are ready?

Taylor: (Nods yes.)

H.M.Jr: Herbert?

Gaston: I suppose you noticed the extent to which Mr. Early was able to control Mr. Pelley's publicity. They had a banner line and a copyrighted story in the Scripps Howard papers on Saturday about the railroad retirement plan.

H.M.Jr: I completely missed it. Would you send it in to Magill?

Gaston: Yes, I'll be glad to give it to him.

Magill: We met with Latimer this morning.

H.M.Jr: Incidentally, that memorandum which you gave me - I'd like to have a duplicate of it; the one which I took over to the President - that memorandum plus the attached thing. The President took it, see? He got it. But that's the only copy I had. That's your memorandum plus something which was attached.

Magill: Have you any suggestions on this conference this morning with Latimer?

H.M.Jr: No, except that I wouldn't lift a finger until you are entirely satisfied where we go, etc.

Haas: In connection with that, I think that all their actuarial computations should be checked. Now Reagh has worked on it and he is criticizing their assumptions, which he thinks are subject to error. But checking the actuarial computations is something which we should do before.

H.M.Jr: That will stall it, if you (Magill) want to.

Magill: Well, what should we do - stall it or not?

H.M.Jr: Use your own bean.

Magill: All right.

H.M.Jr: Whatever you do, I'll back you up.

McReynolds: I'd feel a lot safer if Reagh would check, because if anybody goes out on a limb, he will always tell you.

H.M.Jr: Well Magill is carrying his ball and I'll back him up. You (Magill) think of the things you want checked.

Magill: Well, I do. The only reason that we have been hurrying on this thing is on account of this railroad executives' meeting this morning, but the beans have already been spilled on that any way, as far as I can see. We've got all this publicity. We might as well take our time in checking it.

H.M.Jr: I wouldn't let - I mean I wouldn't move one bit faster than what you can do thoroughly - a workmanlike job. Now they tried to rush me on this sugar tax; I refused to be rushed. The message went up. It would have been far better if they had given us a little time. And what has happened? The message goes up, it's put in the hopper, and they've forgotten about it. It would have been far better if they had given us a little time and hadn't rushed us. What?

Taylor: (Nods yes.)

H.M.Jr: I mean - incidentally, did the State Department do its home work, or didn't they, in connection with the Cuban treaty?

Taylor: I think they did, because when I went over to Agriculture there, when Sumner Welles and Wallace were there, we raised this question about the Cuban treaty and the question of the time element, and as I recall, the first of September, first of August - about in there - why, the thing has to be rediscussed anyhow. But that wasn't quite as clear in the message as it might have been. But Sumner Welles apparently knew that they were going to have a renegotiation if they sent it through in that form.

H.M.Jr:

Well, I'd say in passing that I am very proud of my Treasury group for the way they helped me Friday and Saturday on this French thing. And certainly - I mean I had to carry the ball; the President was too busy to be bothered with it. I carried it alone in the Treasury. And looking over it, we didn't make one single mistake. And after all, we are traveling supposedly in the fastest company in the world, and there wasn't one single mistake.

And to think that the French Cabinet would meet - come out, announce that on Sunday night - every "Big Wig" that they have make a radio speech in front of the loan, and then find out that after the announcement of the Cabinet that they are going to float a loan, they haven't got the legal right to do it. It is just unbelievable. Plus - which the papers haven't caught on to - that their decree of October 1st says that they should seize the gold of the citizens of France at the old gold price and that they can't do what had been announced: That the people of France can turn in their gold and get the new price. That they should make two such major mistakes is unbelievable. And, if I may add, a mistake - I wouldn't even wait to get fired; I'd resign. It's just unbelievable.

Oliphant: You'd be on your way out of town.

H.M.Jr: What?

Oliphant: You'd be on your way out of town.

Bell: Be railroaded.

H.M.Jr: It's just unbelievable.

Mrs. Klotz, see that Mr. Oliphant gets a copy of the notes that Mr. Mallet had last night. I'm having it photostated, and let Archie have one.

Mrs. Klotz: Lochhead, Gaston

H.M.Jr: No, not Gaston; just Oliphant and Lochhead and Taylor.

Taylor: Well, I gave it to Archie this morning. I read it to him.

H.M.Jr: Well, then just Oliphant.

Lochhead: I was just going to say I'd rather not have it on paper.

H.M.Jr: Herman?

Oliphant: Well, you've got - may I see you a minute about the Swiss case?

H.M.Jr: Sure, we'll take turns, if you don't mind.

Just in the room here, the thing that the English said to me - "Please, Mr. Morgenthau, please don't weaken on what you have told them, so the French can come around." "Please," says Mr. Chamberlain. "Please," says the British Counsel. And the French Counsel says to the British Counsel, "Well, I can see where the United States Government has legal grounds to turn us down, but where does the British get off?"

Oliphant: It worked perfect.

H.M.Jr: "Where does the British get off?"

Oliphant: Perfect.

H.M.Jr: "Dirty so and sos," - what do they call them, "Liméys"?

Gaston: Liméys is right.

H.M.Jr: Liméys is right.

Oliphant: One other matter, if you have a minute for it. This neutrality legislation worries me a little bit. I'm afraid to say, if next November a war would break out in Europe, just what our position would be under this, and I think we'd be embarrassed. Did you have a chance to read that?

H.M.Jr: No.

Oliphant: I hope that neutrality legislation doesn't get so far

H.M.Jr: I gave it to Mrs. Klotz with a note "Please ask Herman Oliphant to explain this to me." I only got to look at it last night.

Mrs. Klotz: I haven't shown you anything for four days.

- Taylor: I've got the memorandum and you said you didn't want to talk about it until today.
- H.M.Jr: There is a limit to what everybody can do, and we worked last night - I'm up to date on my mail now. The thing - I've made notes and it will flow back to you this morning. But after all, I think to do our own financing and tell the French - I think is about all any human being can do. Plus relief. I mean we have three things, any one of which could have been a major blunder.
- Oliphant: Well, I was agreed it should go over this week, but I should think that five minutes
- Taylor: It is important; I don't think there is any question about it.
- H.M.Jr: I'm not exaggerating; I think that Senator Nye called us about five times, didn't he - I don't know how many times - called up Mac. He had a home-town boy getting \$1200, and this boy - the Senator told me he was at the Japanese Embassy calling me, and he says, "This boy is living in our house. Can't you get him a"
- Oliphant: Living in whose house?
- H.M.Jr: Sen. Nye's house. And he says, "He grew up with my family; I can't just get rid of him." So I call up my friend and political strategist, the V.P., and say, "Jack, what would you do?" He says, "That dirty so and so - tell you what you do. Give him a 30-day appointment and tell him to come around again on the twenty-ninth day."
- Gaston: Elementary my dear Watson.
- H.M.Jr: So he gave him a 29-day appointment, which I think is marvelous.
- Lochhead: I should think now he ought to be able to endorse another cigarette.
- Magill: I've got a little one here that you can relax your mind on. On this processing tax, is there any objection - sugar tax, is there any objection to our doing a little home work on the subject of the administrating features of that - particularly what

we would do if it were declared unconstitutional again.

H.M.Jr: I think it is highly proper that you do all work, so we'll do both - work constitutional and unconstitutional.

Magill: That's what we have started to do.

H.M.Jr: Fine.

Magill: The Department of Agriculture has already decided that the bill is constitutional, until we find out. Shall we talk to Agriculture or not?

H.M.Jr: Anything you think you want to do.

Magill: I think we'll let them alone.

McReynolds: As long as you take enough time on it.

H.M.Jr: Well, you've got to decide. It is not my problem. Use your horse sense and it is O.K. with me. What else?

Magill: That's all.

H.M.Jr: Now who wants to see me? Oliphant wants to see me and Bell wants to see me. Well, Bell asked first.

McReynolds: Didn't Harold have time to tell you about that opium seizure in New York?

H.M.Jr: No, I called him and I called Harold at 6:15 and

Gaston: Harry Durning called me but he didn't give me as much of it as there was in the news stories out of New York.

H.M.Jr: Harold has no details.

March 8, 1937

My dear Mr. President:

I desire to transmit to you, herewith, the report of a conference on railroad retirement legislation held this morning between Mr. Murray Latimer of the Railroad Retirement Board, Mr. Magill, Mr. George Haas and Mr. Russell Reagh of the Treasury.

Faithfully,

The President,

The White House

RM/egh
Attachment

TREASURY DEPARTMENT

324

INTER OFFICE COMMUNICATION

DATE March 8, 1937

TO Secretary Morgenthau
FROM Mr. Magill

Subject: Conference on Railroad Retirement legislation attended by:
Mr. Latimer, Mr. Bell, Mr. Haas, Mr. Reagh and myself.

Mr. Reagh informs us that he has serious questions regarding several of the fundamental assumptions on the basis of which the actuarial computations were made by the Railroad Retirement Board. There is at least a good possibility that Mr. Reagh's study will show that the proposed tax is much more inadequate than the Board thinks it is to meet the retirement allowances which have been agreed upon. Mr. Russell Reagh states that it will take about two weeks for him to make a satisfactory check.

Mr. Latimer informed us that the Railroad Brotherhoods have already approved the new plan and the railroad executives are expected to approve it on March 9th or March 10th. The agreed program is for the executives to advise the President to this effect. The two new Bills will then be introduced in Congress by Congressman Robert Crosser (Ohio) and Senator Wagner. Mr. Latimer says that the President stated that he would write to the Chairmen of the Committees to which the Bills would be referred.

Mr. Bell and I think that the President should be advised that it will take us two weeks to check the computations and that, if possible, the introduction of the Bills, or at least the President's letter, should be held up until we have a chance to complete our study. Mr. Latimer stated that Mr. George Harrison of the Railroad Brotherhoods, was in charge of securing the introduction of the Bills.

Rm

TREASURY DEPARTMENT

325

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, March 8, 1937.
3/6/37

Press Service
No. 9-73

Secretary of the Treasury Morgenthau announced today the offering of an additional issue of 2-1/2 percent Treasury bonds of 1949-53, in exchange for 3 percent Treasury notes of Series B-1937, maturing April 15, 1937. Exchanges will be made par for par, with an adjustment of accrued interest as of March 15 on the bonds issued and the notes exchanged. \$502,361,000 of the notes of Series B-1937 will mature on April 15, 1937. The 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.

The Treasury bonds now offered in exchange will be an addition to and will form a part of the series of 2-1/2 percent Treasury bonds of 1949-53, issued pursuant to Department Circular No. 572, dated December 7, 1936. They are identical in all respects with such bonds, with which they will be freely interchangeable. The bonds are dated December 15, 1936, and bear interest from that date at the rate of 2-1/2 percent per annum payable semiannually. They will mature December 15, 1953, but may be redeemed at the option of the United States on and after December 15, 1949.

Subscriptions will be received at the Federal Reserve Banks and branches, and at the Treasury Department, Washington, and should be accompanied by a like face amount of Treasury notes of Series B-1937, maturing April 15, 1937, with coupon due April 15, 1937, attached. Following acceptance of the notes, the subscriber will be credited with accrued interest from October 15, 1936, to March 15, 1937, on the Treasury notes accepted, will be charged with accrued

interest from December 15, 1936, to March 15, 1937, on the bonds to be issued, and the difference (about \$6.26 for each \$1,000 face amount) will be paid to him.

The right is reserved to close the books as to any or all subscriptions at any time without notice, and, subject to the reservations set forth in the official circular, all subscriptions will be allotted in full.

The present offering will be the only opportunity presented for the holders of Treasury notes maturing April 15 to exchange their notes for other interest-bearing obligations of the United States.

Special Treasury bills aggregating \$300,000,000, which mature immediately after March 15, and about \$165,000,000 interest on the public debt, which becomes due on March 15, will be paid from quarterly tax receipts.

The text of the official circular follows:

UNITED STATES OF AMERICA

2-1/2 PERCENT TREASURY BONDS OF 1949-53

Dated and bearing interest from December 15, 1936 Due December 15, 1953

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND AFTER DECEMBER 15, 1949.

Interest payable June 15 and December 15

ADDITIONAL ISSUE

1937
Department Circular No. 574

Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, March 8, 1937.

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par and accrued interest from December 15, 1936, from the people of the United States for 2-1/2 percent bonds of the United States, designated Treasury Bonds of 1949-53, in payment of which only Treasury Notes of Series B-1937, maturing April 15, 1937, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series B-1937 tendered and accepted.

II. DESCRIPTION OF BONDS

1. The bonds now offered will be an addition to and will form a part of the series of 2-1/2 percent Treasury Bonds of 1949-53 issued pursuant to Department Circular No. 572, dated December 7, 1936, will be freely interchangeable therewith, are identical in all respects therewith, and are described in the following quotation from Department Circular No. 572:

"1. The bonds will be dated December 15, 1936, and will bear interest from that date at the rate of 2-1/2 percent per annum, payable semiannually on June 15 and December 15 in each year until the principal amount becomes payable. They will mature December 15, 1953, but may be redeemed at the option of the United States on and after December 15.

1949, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

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

"3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

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

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

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve Banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

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

IV. PAYMENT

1. Payment at par and accrued interest for bonds allotted must be made or completed on or before March 15, 1937, or on later allotment, and may be made only through surrender of an equal face amount of Treasury Notes of Series B-1937, which will be accepted at par and should accompany the subscription. Coupons dated April 15, 1937, must be attached to the notes when surrendered, and subscribers will be credited with accrued interest thereon from October 15, 1936, to March 15, 1937, (\$12.445055 per \$1,000); they will be charged with accrued interest on the bonds from December 15, 1936, to March 15, 1937, (\$6.181319 per \$1,000); and the net adjustment (\$6.263736 per \$1,000) will be paid to them following acceptance of the notes.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

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

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

March 8, 1937

This message from the Chancellor was read to me over the 'phone yesterday by Mr. Taylor at 2:15, and delivered to me by Mr. Mallet at 6:45 . At 7 o'clock I read it to the President. He had no comments.

following from Chancellor of the Exchequer. We understand French Government are asking Mr Morgenthau to reconsider his objections to appointment of paying agents in New York for new French loan. We have already refused a corresponding request for paying arrangements in London. We think that type of loan proposed with exchange guarantee in terms of dollars and sterling is itself open to objection and liable to cause embarrassment now or later to all parties but we cannot make our view on this point effective in present case though it has been accepted by other countries in the past in somewhat similar circumstances.

Suggested payment of coupons in London is a separate point. On this we propose to maintain our refusal which accords with Mr Morgenthau's view as we know it. Only circumstance in which Chancellor would be ready to consider matter afresh would be if on reconsideration Mr Morgenthau should feel his attitude and ours should be modified.

3
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March 8, 1937

My dear Mr. Secretary:

Secretary Morgenthau has asked me to transmit to you the inclosed photostat copy of message from the Chancellor of the Exchequer which was delivered to the Secretary by Mr. Mallet at 6:45 o'clock last evening.

Sincerely yours,

Private Secretary

The Honorable
The Secretary of State.

March 8, 1937

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Storm Rising In Congress On Paris Loan

**Borah Says Spurring of
American Bond Buying
in France Would Be
'Miserable' Law Evasion**

**McReynolds Joins
Senator in Attack**

**House Foreign Affairs
Chairman Warns of 'Bad
Faith' by U.S. Purchasers**

From the Herald Tribune Bureau

WASHINGTON, March 7.—The mere suggestion that a formula was being sought during the current Anglo-Franco-American conversations to enable American banks and investors to absorb some of the impending French defense loan aroused fighting indignation today among members of both the Senate and House.

Understanding that an effort was being made to have the American government, in one way or another, encourage American investors to make purchases in France of the bonds, which will be barred from sale here by the Johnson act's prohibition against notations of defaulting war debtors' securities in this country, Senator William E. Borah, Republican, of Idaho, assailed the reported scheme as "a miserable evasion of the law."

Although he, Senator Hiram Johnson, Republican, of California, sponsor of the act which has closed the American money market to France in its present crisis, and others undoubtedly would carry to the floor in the Senate and House their denunciation of any arrangement which would let some of this

country's money go into the French bond issue, Senator Borah was inclined to believe that Congress would be at a loss to deal with the situation.

McReynolds Opposed

"If the government connives in such an evasion of the law," he said, "I don't see how Congress could do anything about it."

Senator Johnson was not in Washington today, but Representative Sam D. McReynolds, of Tennessee, Administration stalwart and chairman of the House Foreign Affairs Committee, who steered the Johnson act through that chamber, was instantly opposed to the suggestion.

"It would be bad faith on the part of any of our citizens to do indirectly what they can't do directly," he said. "The French owe us money on the war debts and they haven't offered to pay us any. The purpose of the act was to stop all such American loans until the defaulting nations did pay."

The "informative" conferences among the British, French and American spokesmen, which failed to produce any conclusion yesterday, according to implications of Treasury officials' discussion of them, are expected to continue this week.

Conversations to Go On

In the resumption of conversations with Georges Bonnet, French Ambassador, it is hoped in Congressional circles that Henry Morgenthau jr., Secretary of the Treasury, will maintain a position against any involvement in the notation of the French loan.

In addition to seeking information on the extent to which France might find access to the reserves of American investors in floating its loan, it is understood, Ambassador Bonnet discussed the problem of continued tri-partite co-operation in the stabilization of currencies. He received the promise of Secretary Morgenthau that this co-operation, backed by the Treasury's \$2,000,000,000 stabilization fund, would be continued, a reassurance which he was able to send to his government at a time when threats to the franc would add to the complexities already involving its financing program.

March 8, 1937

HM, Jr. spoke to the President this morning and said, "Things in Paris are sort of quiet. On account of the Tribune heading, I have asked Robinson's office whether he would not call in the Committee on Foreign Affairs and give me a chance to go up this morning and tell them what I have done to save us from having an attack on the Hill." The President said that Borah and Johnson should not be included. The President also said he wanted to lay a trap for Borah; in other words, to leave out all the Republican senators on that Committee.

The Secretary said to the President, "I wish you would call Bell and tell him he has got to go away for two weeks. The man is very, very sick. He has a weak lung and he has got to go away and if you will call him he will not feel that he is shirking his work if he goes."

REPORT OF SECRETARY MORGENTHAU'S
PRESS CONFERENCE, MARCH 8, 1937:

- H.M.Jr.: Where's the UP man?
- Klein: Here I am. Don't tell me they made a mistake.
- H.M.Jr.: Well, look at this thing (UP dispatch). The cable was sent at 8:00 p.m. Friday night--sent from Paris at 8:00 p.m. (Klein agreed to make correction in time of dispatch when the Secretary pointed out a discrepancy.) I suppose you are all interested in our financing.
- Q. More interested in the French situation, Mr. Secretary.
- A. Mr. Bell tells me that we'll have a formal announcement that we'll close the books Wednesday night. When will our formal announcement be made?
- Mr. Bell: On the closing?
- H.M.Jr.: Yes.
- Mr. Bell: It will be ready in a few minutes.
- Q. Do you have any idea of the percentage of conversion?
- H.M.Jr.: No, we just know when we'll close the books and you'll have a regular release for tomorrow morning's papers.
- Q. Mr. Secretary, France is of primary concern to us today.

- A. What country?
- Q. France--across the seas. Of course, we've seen the Senator's statement; one thing I can't tell from the statement I have is whether that will effectively bar Americans from sending money over there for investment in French funds.
- A. I'm sorry that some of you--some of you who are here now weren't there then, but Senator Robinson when he gave out his statement and when he got through said "That's all," and he had no comments and I have no comments to add to his statement--none.
- Q. Mr. Secretary, can you tell us the meaning of the French "such as J. P. Morgan"--there was no question, but for our background information - .
- A. I've nothing to add.
- Q. Can you just tell us, without quotes, that term "such as" is a French expression, but it would be J. P. Morgan?
- A. I don't know--I mean I can't.
- Q. It's a translation.
- A. Yes, it's a translation.
- Q. Mr. Secretary, may I ask this?
- A. If you're asking for background, it wouldn't mean necessarily that it would be J. P. Morgan; I'd better

just keep to what I said--I'm going to stand on this
(Robinson's statement.)

Q. Can you tell us anything about the Johnson Act--an
interpretation of it?

A. I'm very sorry--I can not.

Q. Did you ask for this conference on the Hill?

A. I asked for this conference; this morning at nine
o'clock I called up Senator Robinson's office and
asked him whether I could come up and see him and these
other gentlemen who were present to explain to him just
what I had been doing during the last two or three days.

Q. Mr. Secretary, maybe this is a reasonable question:
Could you tell us whether this is the only request you've
received from the French?

A. I'm sorry, I can't answer that.

Q. Can you tell us why, this being an administrative matter,
why they took it up?

A. I think it's quite obvious, with a democratic form of
government, the legislative branch is entitled to know
what is going on.

Q. Does the Treasury contemplate recommending to Congress
any relaxation of the Johnson Act?

A. I have no such plans.

- 4 -

- Q. Did you have any indications that they wanted to see you about the thing, Mr. Secretary?
- A. None whatsoever. I just felt--this is a policy which I have followed ever since I've been here, that whenever there have been important international financial matters pending, I've asked for an opportunity to go up and explain it to the leaders of the Senate and the House and I've done it a number of times. I've done it a number of times. I don't know how many times I've gone up and I've always followed the practice when I do go up of never making a statement; I've let the Senators and Congressmen make it.
- Q. There are several Congressional authorities who have said in connection with this situation that they saw no reason why, if an American had several thousand dollars in France, they couldn't buy Paris defense bonds. Do you see anything that would prohibit such purchases?
- A. I'm sorry, I can't answer that.
- Q. Can I ask it this way? Do you consider the Johnson Act as containing any loopholes?
- A. I'm sorry--not that way.
- Q. Mr. Secretary, may I ask it this way?

- 5 -

- A. Bob, are you looking over or under your glasses?
- Thornburgh: Right on the end of my nose.
- A. All right, Bob.
- Q. A question of the spirit of the law or absolute letter of the law.
- A. I'm sorry, I'll just stick by the statement that Senator Robinson made.
- Q. Mr. Secretary, from the statement, could it be implied that if the French had told you anything else you'd have told the Senate about everything discussed? On the Hill the natural implication was that everything asked was told.
- A. I'd rather not answer.
- Q. It says here it was the only question submitted.
- A. All I can say here is I have informed the gentlemen I met with of everything I have done since Friday morning that relates to the international situation.
- Q. Mr. Secretary, don't you usually go up on the Hill in connection with proposed legislation?
- A. I do that also.
- Q. I mean, that's the only time you go up there?
- A. Oh, no. As you men know, I've gone time and again to report on European situations in which I was responsible for--I've gone up a number of times. Sometimes

the gentlemen have come down here. When silver was booming rapidly I had a number of conferences to inform them what policy I was following in regard to the purchase of silver.

- Q. Mr. Secretary, Saturday, for background, you told us that not knowing the terms of the French loan it would be impossible for you to say whether it would or would not be legal for Americans in France to buy their securities; does that still stand?
- A. I'm just going to stick by Senator Robinson's statement.
- Q. Do you have any further conferences scheduled with Ambassador Bonnet?
- A. Not today.
- Q. I don't mean today; I mean in the immediate future, Mr. Secretary.
- A. We're on a 24-hour basis.
- Q. Did you see the Ambassador today, Mr. Secretary?
- A. Yes.
- Q. Would you care to discuss what transpired?
- A. I'm sorry.
- Q. Was the Counselor there?
- A. No.
- Q. I mean, any of the British Embassy.
- A. No.

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- Q. Will they be here later this afternoon?
- A. Yes.
- Q. Mr. Secretary, will you look at the last paragraph of that typewritten page--was that part of your reply or Senator Robinson's statement? (Klein hands him sheet of paper.)
- A. That was part of my statement.
- Q. I mean, your statement to the Ambassador here, Mr. Secretary?
- A. Yes, it was.
- Q. I took this over the telephone in shorthand and I didn't know; that's all part of the same thing. (Klein)
- A. Just a minute--I've got a bum copy.
- Q. Do you cast aspersions on my typing, Mr. Secretary? (Klein)
- A. I don't on your typing but on your carbon paper. Without comparing it word for word, that's the same.
- Q. You mean, the part that "Secretary Morgenthau appreciates---"
- A. That's all part of the statement.
- Q. Mr. Secretary, as I understand, there was a great perturbation--I think that's the word--on the Hill as a result....
- A. That's a two-dollar word!
- Q. I'll take a raincheck on it. -----of what these dispatches from Paris were saying on what our attitude was

or at least attempting to say so, and is there any possibility that you went up on the Hill to ward off that?

A. I'll go 50-50 on the responsibility of what you fellows will write, but not on what the fellows on the other side of the water will write.

Q. I think you misunderstood my question.

A. No, I didn't. Some of the dispatches which have come over from the other side I don't think any of you fellows would put your name to.

Q. What do you think inspires those stories, Mr. Secretary?

A. I haven't the slightest ideal

Q. Mr. Secretary, I haven't seen the statement, but I understand that this makes no mention of your contact with the British.

A. They are not floating any loan.

Q. I thought you had some talk with the British on Saturday and were going to again today.

A. We have talks sometimes a couple of times a day and again not for a week, and it's part of the tripartite agreement that we keep each other informed on what we're doing.

Q. Mr. Secretary, isn't one of the troubles if this loan

- 9 -

goes over in the successful way you hope, isn't it your idea that it will syphon a lot of gold out of this country and it will require some action of the tripartite agreement to keep the thing stable?

A. I'll stick right to Senator Robinson's statement.

Q. Did anybody else participate in the conference with Ambassador Bonnet?

A. He brought down Appert, the French financial attache.

Q. Did you talk about hot money while you were up there on the Hill?

A. We never mentioned it.

Q. Can you tell us something about it now?

A. No, you've got a perfectly good statement from Senator Robinson.

Q. Does Thursday's statement still stand--that the Treasury is willing to cooperate with the French in the spirit and wording of the existing law?

A. I say so right there (pointing to statement.)

Q. Mr. Secretary, this is off of that subject --.

A. Good boy--welcome to our city.

Q. The Home Loan Bank System is planning a bond issue sometime around the 1st of April. Is there any chance the Treasury will take it up?

- 10 -

- A. How about that, Professor Bell?
- Mr. Bell: Let's hope that won't be necessary and they'll float it in the market.
- Q. If you had a surplus of cash - - .
- H.M.Jr.: I really don't know.
- Mr. Bell: That's too far off.
- Q. I'm not clear on one other point: Does this change the tripartite (pronounced teet) agreement in any way--the developments since Friday?
- A. All I can say, in so far as the tripartite (pronounced tite)--well, I don't want to be too French--the tripartite (ite) agreement is still tight--it is still in force. Nothing has happened in any way to change it.
- Q. No other countries have come in?
- A. No.
- Q. Do you expect any others?
- A. No, we don't expect any others.
- Q. I wish you'd answer my question (Lins.)
- A. Clarence, you embarrass me.
- Q. They brought it back again--I wasn't going to say a word. Mr. Secretary, if an American sent over money to buy a French bond issue, of course, the Treasury

- 11 -

would get a record of it. What would be done about it? Who would turn it over for prosecution? What's the procedure?

A. I'm sorry, I can't answer that.

Q. How about turning it over to J. Edgar Hoover, Mr. Secretary? Is there anything to prevent the RFC or the Federal Reserve from buying a portion of the bond in the Johnson Act?

A. No, nor Mr. Wallace either.

Q. You say no, there's nothing in the Johnson Act - - .

A. You're joking, aren't you?

Q. No, I'm not.

A. Well, I'll take it as a joke.

Q. Is there any authority under which you are aware that the RFC, Agriculture Department or any other lending agency of the government could invest in French securities?

A. Listen, fellows, don't start making jokes around here.

Q. Mr. Secretary, I ask an honest question on this.

A. The other one wasn't.

Q. I object to the slander--I ask you purely for information.

Is there any way in which the American Government has a way of checking--say I've got a thousand dollars and I

- 12 -

want to buy part of this loan and I send my money abroad to a friend for example, and say buy me a thousand dollars worth of these French defense bonds.

A. Girl friend?

Q. Yes, sir, girl friend--I'm French myself. But is there any way you can check such a transaction?

A. The answer is no.

Q. Could you say, for background, whether this question submitted by the French Government involved the shipment of funds abroad?

A. I'm sorry--I don't understand. Neither does Clarence?

Q. What I meant is this: Does this question submitted by the French Government --.

A. Listen, the only lady present might sit down and be comfortable.

Q. I don't need to. (Doris Fleeson)

A. You've been so good up to now I'm worried; I don't know when she's going to bubble over.

Q. I'm so inexperienced with money. I want to finish that question--involve either the shipment of funds abroad or use of credits which any American institutions might have available with a foreign correspondent.

A. Frankly, I don't get it; say it again slowly.

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- Q. Well, could we say, for background, or for our information, whether this question of the French Government submitted to you for answer related to or implied the shipment abroad of American funds or the use of credits which an American institution might have available with a foreign correspondent.
- A. Well, now, what Senator Robinson said in his statement was he stated the French question and my answer and, obviously, what you're asking wasn't in that statement.
- Q. Wasn't?
- A. As he stated.
- Q. That's what I thought and I wanted to clear up that point. I just wanted to be sure--he asked whether you could check shipments of money over there and you said no; is that correct?
- A. What I said is that the question he asked me wasn't included in what Senator Robinson said the French Government asked me. He asked could I check if he sent a thousand dollars abroad and my answer was, as far as I know, we have no way of checking. He isn't speaking for me but as the leader of the Senate.
- Q. Mr. Secretary, supposing I have an account with the National City Bank of New York for instance, which I ain't, and in connection with that I'd have credit

- 14 -

with their Paris branch. Now should I instruct the National City, through the Paris branch, to buy these new bonds--would that be a violation of the Johnson Act, would you think?

A. That's a question which you'd have to settle and the lawyer you would retain would have to settle--whether you are breaking the law or not.

Q. I know, but from your standpoint.

A. But I don't have the enforcement of that, but if you bought that or this other gentleman sent this thousand dollars over, he asked me could I find it--the chances are I could not.

Q. What do you mean by fine--check it?

A. Check it, but not the question of whether he did or didn't break the Federal law and that isn't my job.

Q. But you have no control over American funds held abroad, have you?

A. When it gets to big movements--but this gentleman asked me if he sent a thousand dollars over to invest-- we have no machinery to catch a thousand dollars, but if they are going to send five hundred thousand dollars or a million dollars, we can catch that; he might put

- 15 -

ten one-thousand dollar bills in the mail and that's this whole question of exchange control, which takes almost the United States Army and the Post Office to catch it; unless we open every single letter, we have no way of telling whether he's sending ten one-hundred dollar bills in a letter and if he leaves it there we have no way of knowing, but whether he breaks the law that's the question he has to decide and the district attorneys have to decide--if they think he's broken the law they've got to decide so and whether they'll prosecute. The whole question of exchange control-- unless you go into mails, cables, telephones, boats and have them searched and have a whole army, I mean, it's impossible almost to enforce exchange control.

Q. Who'd be the agency that would notify the enforcement officer of any large movement?

A. Any large movement we know, because the banks voluntarily report each week the total movements of funds in and out, on a voluntary basis, and I might say they do it extremely well, cooperate one hundred percent.

Q. If you noticed a large movement, would you notify the enforcement official?

- 16 -

- A. If I thought it was contrary to existing law.
- Q. May I ask in that discussion on the small movement, did that question come up in your discussion on Capitol Hill about the exchange control of small movements?
- A. It did not. I really don't think I can add much more to what I've said, lady and gentlemen.
- Q. Any appointments, Mr. Secretary?
- A. We never give out appointments; you'll have to take a chance.

AA 355

U

GRAY

London

Dated March 8, 1937

Rec'd 10:30 a.m.

Secretary of State

Washington

RUSH

127, March 8, 1 p.m.

FOR TREASURY FROM BUTTERTWORTH.

British Treasury has confidentially informed me that the French have again approached them in the matter of the appointment of a paying agent in London for the contemplated French loan and that a departmental meeting ^(is?) in being held on the matter. The British are annoyed that the French should have consulted them about this loan on Friday and then gone ahead and announced it anyway and are now asking again for facilities on the basis that the announcement has been made. Yet for obvious reasons the British desire the loan to be a success and to contribute to an improvement in France and they are of course most anxious to avoid assuming any responsibility for its failure.

Since there is no existing legislation to prevent the French from appointing, say, a French bank in London as its paying agent it may well be that they will do so. In this general connection an excerpt from "Wilmot Lewis'

TIMES

U -2- #127, Mar. 8, 1 p.m. from London

TIMES article may be of interest.

"In general, feeling appears to be that Great Britain must be more intimately concerned in the complex problems of the prospective French issue since she is about to float her own rearmament loan and there is no British equivalent of the Johnson act. Curiously, however, nobody has suggested any possible connection between these French and British financial programs and the flow of what the President called "hot money" to the United States".

BINGHAM

CSB

PARAPHRASE OF TELEGRAM RECEIVED

Section One

357

FROM: American Embassy, Paris

DATE: March 8, 1937, 10 a.m.

NO.: 321 FROM COCHRAN

This morning I returned from Basel, where I visited yesterday with Central Bank officials who were attending the March meeting of directors of the BIS. Today there will be a routine session, and I shall report tomorrow if there are any unusual developments therein.

The question of arrangements for choosing the future chairman of the Board was considered at the informal meeting on Sunday. It is certain that Niemeyer will be elected as chairman. Opposition to him is not being voiced by the

Italians, but they are holding out for the passing of a resolution to the effect that after a chairman has served a three-year term he must be succeeded by another Board member of another country. The resolution mentions that Governor Rooth of the Bank of Sweden, formerly a director of the BIS, should at an early date be returned to the Board.

Very confidentially Trip informed me that the only revision of statutes to be considered at the May meeting of special shareholders will ^{be} the division of the functions of Chairman of the Board and President of the BIS. The Bank's capital structure will not be revised, nor will there be revision of its accounting unit, the old gold Swiss franc. The year's earnings warrant the payment of the usual six percent dividend on the basis of such an accounting unit, and the dividend will be paid. It is Trip's opinion that the bank's capital or dividend should not be changed.

EA:LWW

WILSON

SECTION TWO Telegram No. 321 of March 8, 1937, from
the American Embassy, Paris.

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until circumstances require such change. Trip said he is sure that if there were reduction of the BIS dividend now because of the possibility that it may not be able to recover some of its investments, Schacht, in whose country BIS investments are particularly important, would be quick to follow this lead by an actual default. I have had a letter from Fraser telling me that Vice President Weldon of the First National Bank, New York, will probably be in Basel at the annual general meeting on May 3 to vote the American shares.

During our conversation I mentioned to Trip that I was unhappy to read in the February 10 issue of the NEW YORK TIMES an article by Streit reporting that at the February meeting of the BIS the United States had been criticized by Central Bank officials for the manner in which the United States was to compel gold transactions within the six-party agreement. I mentioned that this story had appeared just when I was returning from a trip to Washington for the principal purpose of presenting club member and BIS views on the technical cooperation in question, and particularly after the initiative had been taken by Washington in improving operations between club members, and in expediting sympathetic consideration for such questions as had ~~been~~ to be referred to the Treasury for action on them. I was told by Trip that he had not seen Streit,

and

- 2 -

and that he had said nothing to Striet along the lines of his article. Trip said that quite the contrary he had found technical cooperation from the United States entirely satisfactory in so far as the Bank of the Netherlands was concerned, as well as the Dutch fund. On Sunday Streit was not in Basel, but Trip promised to give him a statement as to his own satisfaction whenever he might get to see him.

WILSON.

EA:LWW

PARAPHRASE OF SECTION THREE OF TELEGRAM NO. 321
of March 8, 1937, from the American Embassy, Paris.

I saw Bachmann and told him something of the January developments at Washington regarding club transactions; he thought we should have a meeting of technical experts of the club to codify the rules of the club. However, I pointed out that it will be better to progress slowly, and to work out problems as they arise to the general satisfaction of and in conformity with the laws and regulations of member countries. Generalizations in practice, I suggested, could be made when such transactions might be found acceptable to the countries concerned over a period of time. When I saw Trip he agreed with me that it is best to try few innovations or general decisions on the club pending the outcome of the crisis in France.

The problem of French financial policy was the principal topic of informal discussion at Basel. Most of the views expressed were definitely pessimistic in regard thereto. The difficulties in France, Trip said, come fundamentally from the political situation, and belated technical measures would not be sufficient to solve them. He expressed the opinion that gold would not be drawn back into France by the coming loan, that instead it might lead to withdrawals from domestic savings banks and the selling of French rentes to get funds to invest in the new loan.

The head of the Belgian Société Générale, Galopin, told me that less than one-half billion of the nine-billion-
franc

- 2 -

franc deposits in his bank represent French flight capital. Galopin does not expect that the new French policies will draw much of that back to France. The Société Générale head was quite pessimistic regarding the French problem, which is said is political.

END SECTION THREE.

WILSON.

EA:LWW

PARAPHRASE OF SECTIONS FOUR AND FIVE OF TELEGRAM NO. 321
of March 8, 1937, from the American Embassy, Paris. 352

He said that technical financial means would not solve it. The French economic situation, furthermore, is such that it requires not only a "pause" but an actual reversal of policies. Galopin's bank controls a plant in France wherein, because of the forty-hour week, pensions, paid vacations, and so on, production costs have risen 68 percent. Thus he said that the benefits of devaluation have been lost because of the high costs. The French, in order to keep prices down, would have to open customs frontiers, which would cause a shut-down of domestic plants if manufactured goods are concerned. Such procedure would be politically impossible if agricultural products were involved because of farmers' objections and also objections of the Radical Socialists. Not enough foreign exchange would be brought in by the Paris Exposition, he said, to make an important change in the monetary situation in France. Brussels Exposition visitors, he said, were excursionists from nearby countries who did not stay for more than one or two days, and each person ^{'s spending} averaged only about ten marks. In Belgium, Galopin said, prices are making too rapid a rise.

I spoke to Bachmann who doubts whether the French policies will succeed because of the lack of confidence of the people and because ^{they need a} Poincaré. Bachmann insists that the fluctuations of the French franc will not be followed by

the

- 3 -

Swiss franc.

I had a conversation with Schacht. He told me that now I was witnessing the latest French developments I would understand the motive which kept him from devaluing the German currency following the Tripartite Arrangement, until the situation should be clarified. He expressed the hope, as I did, that the French would be able to hold the level of their currency, and he spoke kindly of Premier Blum.

In Germany, Schacht said, feeling was not so good after LaGuardia's latest outburst, and especially after the statement on the secret Reich debt which was made by the Securities and Exchange Commission. Germany, he admitted, had withheld certain unpublished data from the Commission since certain amounts spent by them on armaments would have been revealed. It was Schacht's opinion that the SEC might properly have stated that all of the requested information had not been furnished to the Commission, but alleging in an official statement of a secret debt was objectionable to him. Incidentally, he said, the debt mentioned did not constitute the only one in this category. ~~England's rearmament~~ He was profiting, he said, from the rearmament by Great Britain. He hoped that now Germany would stop arming and let him take full advantage of the opportunity to seize the British export markets for heavy machinery, and so on. The British themselves, he said

- 4 -

said were important purchasers, and they even were trying to get ^{certain German} goods already contracted to other parties by paying a premium for them.

According to Schacht, at present no important changes were taking place in the situation in Germany, and he said the much proclaimed German restrictions had not yet come. They will just have to slow up their expenditures, he said, if there is a tightening of the situation.

I saw Sir Otto Niemeyer, who was very much pleased with his visit to our country, and particularly with the outlook for ~~the~~ cooperation with Reuben Clark's Foreign Bondholders Protective Council. He expressed the hope that on the Polish default ~~xxxxxxxx~~ the American and British associations might see alike. I had a call, incidentally, last Friday from Baranski of the Bank of Poland.

END SECTIONS FOUR AND FIVE.

WILSON.

EA:LWW

RECEIVED
 MAY 1 1934
 FEDERAL BUREAU OF INVESTIGATION
 U. S. DEPARTMENT OF JUSTICE
 WASHINGTON, D. C.

PARAPHRASE OF SECTION SIX OF TELEGRAM NO. 321 of
March 8, 1937, from the American Embassy, Paris.

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He said that Poland's inability to please both the United States and the British made him unhappy. Great Britain, he explained, demanded that in view of the favorable trade balance with Great Britain, full payment should be made on British coupons of Polish loans. On the other hand, the United States did not recognize this as a basis for preference, and equality of treatment was demanded by the United States. According to Sir Otto Niemeyer, Poland is in a position actually to pay both the United States and the British in full, and pressure to do so should be brought to bear on Poland. For the first time Sir Otto seemed to be rather hopeless regarding the French situation. He did not think that one penny of British funds would be drawn to France through the national defense loan.

I saw Azzolini of the Bank of Italy, and told him that I was glad to see that he had managed to hold on to gold in a considerable amount. The stock of the Bank of Italy, he said, would have shown up larger if they had not had to spend 1,200,000,000 lire for importations of wheat to cover the deficit in the past season's harvest. The sale of foreign securities and a ~~small~~ small amount of gold had provided the exchange. It is Azzolini's opinion that France would have to have a Poincaré and a Moreau to come out of the present difficulty successfully. He said that in Blum and Labeyrie they certainly have neither. Pro-

fessor

- 2 -

Rist he said is good only as an adviser. Rist's name he said does not command as much respect now following his change of mind on vital policies as it did/when he was ^{in 1926} with Moreau in the Bank of France.

END SECTION SIX.

WILSON.

EA:LWW

PARAPHRASE OF SECTION SEVEN OF TELEGRAM NO. 321 OF MARCH 8, 1937, FROM THE AMERICAN EMBASSY, PARIS.

In view of the present European political situation which he considers worse than at this time last year, Azzolini could understand the lack of American enthusiasm for official participation in the B.I.S. Azzolini, while insisting that he personally does not share the opinion, said that many people in Italy and other countries feel that the British program of constructing an armed force outmatching all Europe means that Great Britain will precipitate a crushing conflict when she has reached her maximum strength. They feel that when once the armament is complete it will be used before expensive replacement is required, since so much is to be spent for aviation and since such equipment quickly becomes out of date.

The French decision to announce a franc-pound-dollar exchange option in their bond issue and their request for privilege of listing the bonds on the London Exchange and of naming the Bank of England their paying agent in London has made Governor Norman angry. Governor Norman said that if the French wanted to issue a domestic loan, that was their own business. If they wished to issue a foreign loan on the British market, they should take the matter up as such through him in the appropriate fashion; in his opinion to announce independently a domestic loan with an exchange option clause which sought to give it the advantages

-2-

of a foreign loan was wrong in principle irrespective of the interest rate and price of the loan, and he did not want the British market muddled up with such a transaction particularly just at the time when preparations are being made for heavy borrowing from the British. (End of Section six)

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INVESTMENT DIVISION
U.S. DEPARTMENT OF THE TREASURY

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EA:DJW

PARAPHRASE OF SECTION EIGHT OF TELEGRAM NO. 331 of
March 8, 1937, from the American Embassy, Paris.

369

The subject of the visit of Leith-Ross on Saturday and Sunday to Paris en route to the raw material meeting which opens in Geneva today was brought up by Norman. Governor Norman was wholly familiar with the fact that Leith-Ross had lunched at the French Ministry of Finance on Saturday and that Auriol had stressed to him the importance which he attached to the British and Americans permitting France to appoint paying agents in Great Britain and the United States respectively. According to Norman, the fiscal arrangements in which he had joined as far as the British were concerned were meant to be final and should hold. Norman felt that Leith-Ross was wandering from his duties as an economic adviser in taking it upon himself to enter into conversations with the French Treasury on a purely financial matter and to try, as the Governor expressed it, to save France during a two day stop-over in Paris. I gathered the impression from my conversation with Norman yesterday evening that during the day Leith-Ross had continued in contact with the French on the above matter. Governor Norman thought some Frenchmen might bring gold back to Paris to turn in and take their profit into francs but he thought they would not retain their francs.

I should add here that Tripp let me know confidentially that the French Treasury had requested the B.I.S. to act as paying agent for the new loan on foreign markets, but ^{he had} ~~Tripp~~ replied that the B.I.S. would be obliged in turn to ask its correspondent banks in any countries concerned to do the actual cashing as it had no paying windows. Therefore, the French request was withdrawn.

According to Cobbold who handles the Bank of England foreign business and is in close touch with British equalization fund, the setting up of a committee to run the French stabilization fund was all window dressing. To begin with, management by a committee would be unduly unwieldy in a business which requires quick decisions. In addition, the technique of handling such a fund is now pretty well known and the Bank of France has in Cariguel a technician who is quite competent to do the necessary if a free hand is given him. (End of Section 8)

PARAPHRASE OF SECTION NINE OF TELEGRAM NO. 321, MARCH 8,
FROM AMERICAN EMBASSY, PARIS.

A gross error had of course been made by the French in holding a fixed rate against sterling over many weeks but this had been Labeyrie's instruction and contrary to Cariguel's judgment. I was told by one of my other friends at Basel that Labeyrie's decision on this point had resulted from advice which Zuesnay gave him.

Jacobsson and others at Basel were particularly distressed over the lack of technical preparedness which had been exhibited in the Bank of France and the French Treasury. This they attributed to the incompetency of Auriol and Labeyrie individually, to the shelving of such experienced men as Baumgartner and Lacour Gayet, and to the elimination of bankers from the board of the Bank of France. Basel observers were even more strongly convinced of the lack of technical preparation on the part of the responsible French officials after the news reached Basel late yesterday evening that the Treasury is now obliged to postpone the loan issue until certain technical points about the exchange option are clarified by legislation.

According to Jacobsson, the success of the French loan will require: (one) a tremendous appeal to French patriotism; (two) an exhibition of technical efficiency to assure the people that the management of their finances is safe and sound; (three) assurance and demonstration that

-2-

expenses are to be cut, that the new funds will not be exploded into a bottomless pit, and that the budget is to be brought towards balance. As to poine one, Rist and Baudoin are looked to help provide the technical efficiency not evident heretofore. (End of Section eight)

RECEIVED
MAY 3 1944
INFORMAL REPLY
MAY 3 1944

EA:DJW

PARAPHRASE OF SECTION TEN OF TELEGRAM NO. 321

With reference to the second point, Many of my Basel friends doubt the efficacy of an appeal to French patriotism when the following conditions prevail -

(a) It does not seem that there is immediate danger of foreign aggression against the French nation - even though it is hinted by Blum and his supporters that a fall of his Government would lead to internal strife and social troubles that would give an opportunity to Germany for which she has been waiting.

(b) A rearmament program has already been launched by Great Britain which will make Germany hesitate to move westward, in the opinion of the French people.

(c) A Socialist Premier is still in authority whose alliance with Communism and labor makes a Frenchman's fear for his capital outweigh his inclination to rally around the flag of his country.

The point was emphasized by my contact that the Communist and labor supporters of Blum have not yet come out in hearty support of his new program, and are making capital nervous by their complaints.

As for the third point, Basel observers/^{will}remain skeptical as to the real economics in the French budget until developments show that much of the public works and other social programs dear to the Left and labor have been effectively checked.

It

- 2 -

It is recognized by everyone that Blum had in the Tripartite Agreement an argument on which to reverse his policies. It was hoped that he would not only continue to declare his adherence to this Agreement, but that his general policies would be reframed, as well as his strictly financial policies, in such a manner as to make it possible to hold up her part of the Tripartite Arrangement.

END MESSAGE.

WILSON.

EA:LWW

March 8, 1937

Cochran telephoned and said that the French had received a note from the British in which the British had taken the same stand as we had in refusing to permit a bank in London to act as paying agent. Cochran brought up that he had been asked by Rist to approach the Secretary to reconsider the refusal he had given to Bonnet on Saturday. HM, Jr. told Cochran that his position on Saturday had been very carefully considered and that there was no chance of altering the decision made at that time. He also told Cochran that there had been quite a lot of publicity given to the efforts of the French Government to obtain Treasury approval to appoint a bank in New York to act as paying agent and also other rumors that he, HM, Jr, had found a way of helping the French Government without coming into conflict with the Johnson Act. The reaction here, HM, Jr. told Cochran, was very unfavorable to any such procedure and showed that the decision made by the Treasury on Saturday was the proper one.

March 8, 1937

11:45

HM, Jr. called Secretary Hull and told him of his conversation with Cochran this morning.

HM, Jr. then said to Hull, "If you don't mind my making a suggestion, it would be very helpful to us. The President promoted Cochran some time ago, or rather you did. As I understand it, the classification that he is in now would permit him to be Counselor in Paris or Counselor at Large. If he had a little more rank it would help us as he is doing so much work for us. I think he is in Class I now. I hope you do not mind my bringing this up." Hull said he was delighted to have HM, Jr. call him about this.

French Situation

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PARIS.--THE BANK OF FRANCE, FOLLOWING AN AGREEMENT WITH THE GOVERNMENT OF PREMIER BLUM, LIFTED ALL RESTRICTIONS ON GOLD TRANSACTIONS TODAY, PENDING APPROVAL OF PARLIAMENT IN THE FORM OF AN APPROBATION DECREE TOMORROW.

THE BANK FIXED A PRICE OF ONE KILOGRAM OF FINE GOLD TO 24,509.537 FRANCS.

SOME CONFUSION EXISTED WHEN BANKS FIRST OPENED THIS MORNING AS NO ONE IN AUTHORITY COULD OR WOULD SPECIFY WHETHER THE GOLD FREEDOM WAS ESTABLISHED IN ACCORDANCE WITH GOVERNMENTAL DECREES OR WHETHER IT WOULD HAVE TO AWAIT PARLIAMENTARY APPROVAL TOMORROW.

THE BANK OF FRANCE RULING, PUBLISHED AT 11:30 A.M. ENDED THE CONFUSION.

THE TEMPORARY GOLD PRICE REPRESENTS 21.78 FRANCS TO THE DOLLAR. THE GOVERNMENT STRESSED THAT THE PRICE WAS ONLY PROVISIONAL FOR TODAY.

A PERMANENT PRICE WILL BE FIXED AFTER THE PASSAGE OF NECESSARY LEGISLATION IN PARLIAMENT, PROBABLY TOMORROW.

3/8--R850A

PARIS.--PREMIER BLUM RUSHED COMPLETION OF A SERIES OF BILLS TODAY THAT WILL AUTHORIZE HIS GOVERNMENT TO ISSUE A BILLION DOLLAR NATIONAL DEFENSE WAR LOAN.

THE BILLS WILL GO SIMULTANEOUSLY TO THE CHAMBER OF DEPUTIES AND THE SENATE TOMORROW, WITH A GOVERNMENTAL REQUEST FOR IMMEDIATE ACTION. IT WAS EXPECTED THAT THE LOAN WOULD BE ON THE MARKET BY THURSDAY SINCE LITTLE OPPOSITION WAS FORESEEN.

NEITHER THE TERMS NOR THE ACTUAL AMOUNT WAS MADE PUBLIC BUT THE TREASURY'S REQUIREMENTS WERE ESTIMATED ROUGHLY AT \$500,000,000 IMMEDIATELY AND \$1,000,000,000 FOR THE ENTIRE YEAR. IT SEEMED LIKELY THAT THE TOP LIMIT WOULD NOT BE FIXED WHICH IS THE USUAL PRACTICE WITH FRENCH LOANS.

IT WAS REPORTED IN FRENCH POLITICAL CIRCLES, WITHOUT OFFICIAL CONFIRMATION, THAT THE U.S. GOVERNMENT WOULD NOT OPPOSE AMERICAN BANKS ADVISING THEIR CLIENTS TO SUBSCRIBE FOR THE NATIONAL DEFENSE BONDS SINCE THEY WILL BE REPAID IN DOLLARS AND POUNDS STERLING, BUT THAT IT WOULD NOT PERMIT THE BANKS TO BUY DIRECTLY.

3/8--R853A

ADD LOAN, PARIS

IT WAS REPORTED IN BOURSE CIRCLES TODAY THAT THE NEW DEFENSE LOAN WILL BE ISSUED AT 95 AND PAY 4 PER CENT, OR BE ISSUED AT 98 AND PAY 4-1/2 PER CENT.

3/8--R917A

French Markets

PARIS.--FRENCH STOCKS AND GOVERNMENT BONDS STRENGTHENED ON THE BOURSE TODAY AS FIRMNESS CAME INTO THE RECENTLY WEAK FRENCH FRANC.

THE FRANC OPENED 22.06 TO THE DOLLAR (4.533 CENTS PER FRANC) AND 107.65 TO THE POUND STERLING. LATER ON THE BOURSE THE DOLLAR WAS QUOTED AT 21.95 FRANCS (4.555 CENTS PER FRANC) AND STERLING WAS QUOTED AT 107.05 FRANCS.

RENTES WERE IN DEMAND AND GAINED ABOUT A POINT. INTERNATIONAL ISSUES, HOWEVER, EASED WITH SUEZ CANAL ISSUE OFF 1,100 FRANCS.

IT WAS REPORTED IN BOURSE CIRCLES THAT THE NEW DEFENSE LOAN WILL BE EITHER A 4 PER CENT LOAN TO BE ISSUED AT 95 OR A 4 1/2 PER CENT LOAN TO BE ISSUED AT 98.

3/8--R922A

ADD BOURSE, PARIS

IN SUBSEQUENT TRADING FRENCH STOCKS AND GOVERNMENT ISSUES ADVANCED EVEN FURTHER. THE POUND CLOSED AT 107.02 FRANCS AND THE DOLLAR AT 21.94 FRANCS (4.55 CENTS).

3/8--R1041A

Mr. Reynolds on French Loan

CHAIRMAN MCREYNOLDS OF THE HOUSE FOREIGN AFFAIRS COMMITTEE, TODAY CRITICIZED THE FRENCH GOVERNMENT'S PROPOSAL TO SEEK AMERICAN FUNDS IN ITS HUGE DEFENSE LOAN PROGRAM WHILE ITS WAR DEBTS TO THE UNITED STATES REMAIN UNPAID.

3/8--TP1005A

ADD LOAN PROTEST-MCREYNOLDS

"I DO NOT APPROVE OF ANY SUCH THING," MCREYNOLDS SAID. "THEY ARE TRYING TO DO INDIRECTLY WHAT THEY CANNOT DO BECAUSE OF THE JOHNSON ACT FORBIDDING FLOATATION OF SECURITIES OF NATIONS DEFAULTING THEIR WAR DEBTS IN THIS COUNTRY.

"THE AMERICAN PUBLIC SHOULD NOT GIVE ANY ENCOURAGEMENT TO THE FRENCH PROPOSAL."

MCREYNOLDS WAS ONE OF THE CHIEF SPONSORS OF THE JOHNSON ACT WHEN IT PASSED THE HOUSE. HIS PERMANENT NEUTRALITY BILL FORBIDDING LOANS AND CREDITS TO BELLIGERENT NATIONS, WILL BE BROUGHT UP FOR ACTION ON THE HOUSE FLOOR FRIDAY.

THE MCREYNOLDS MEASURE CONTAINS MORE DISCRETIONARY POWERS FOR THE PRESIDENT THAN THE PITTMAN BILL ALREADY PASSED BY THE SENATE. A RULE TO GIVE IT RIGHT OF WAY ON THE HOUSE FLOOR WILL BE SOUGHT FROM THE RULES COMMITTEE WEDNESDAY, MCREYNOLDS SAID.

3/8--R1013A

ADD LOAN PROTEST

MEANWHILE, TREASURY OFFICIALS INDICATED THERE WAS SOME DOUBT AS TO WHETHER THE JOHNSON ACT BARS AMERICAN PARTICIPATION IN THE PROJECTED FRENCH BOND ISSUE.

OFFICIALS DENIED PARIS REPORTS THAT SECRETARY MORGENTHAU HAD INDICATED TO THE NEW FRENCH AMBASSADOR, GEORGES BONNET, THAT AMERICAN BANKS WOULD NOT BE PREVENTED BY THE JOHNSON ACT FROM SUBSCRIBING TO THE FRENCH LOAN.

3/8--R1110A

ADD LOAN PROTEST

SENATOR FREDERICK STEIWER SAID HE DOUBTED THERE WAS ANY WAY TO PREVENT AMERICANS WITH DOLLARS IN PARIS SUBSCRIBING TO THE FRENCH LOAN.

SENATOR KING SAID HE DIDN'T SEE ANY OBJECTION TO SUCH PURCHASES BY AMERICANS IN FRANCE AND SENATOR AUSTIN AGREED THAT CONGRESS PROBABLY WOULD NOT OBJECT.

3/8--R1137A

ADD LOAN PROTEST

SENATOR BORAH SAID HE CONSIDERED THE PROPOSAL AS REPORTED FROM PARIS TO BE "CONTRARY TO THE SPIRIT IF NOT THE LETTER OF THE JOHNSON ACT." HE SAID THAT THE PROPOSITION WOULD REQUIRE STUDY WHICH HE INTENDED TO GIVE IT.

3/8--R1150A

ADD LOAN PROTEST

REP. DOW W. HARTER, MEMBER OF THE HOUSE MILITARY AFFAIRS COMMITTEE, SAID:

"ANYTHING THAT MEANS THE BREAK-DOWN OF THE JOHNSON ACT IS CONTRARY TO THE SPIRIT OF THE PEOPLE. WE HAD ENOUGH OF EUROPEAN ENTANGLEMENTS DURING THE WORLD WAR AND UNTIL THOSE NATIONS SHOW A DISPOSITION TO PAY THEIR WAR DEBTS WE SHOULD NOT LEND THEM FURTHER FUNDS."

REP. PATRICK J. BOLAND:

"I DON'T AGREE WITH THEIR IDEAS. THEY FELL DOWN ON THEIR WAR DEBTS. UNTIL THEY PAY THEM, WE SHOULD NOT LEND THEM A PENNY."

3/8--R1207P

ADD FRENCH LOAN PROTEST

SECRETARY MORGENTHAU MADE AN APPOINTMENT WITH MAJORITY LEADER ROBINSON AND OTHER HOUSE AND SENATE LEADERS FOR EARLY THIS AFTERNOON, PRESUMABLY TO DISCUSS THE FRENCH LOAN SITUATION.

3/8--CS119P

12.37
MORGENTHAU TO MEET WITH CONGRESS LEADERS
ON FRENCH LOAN

WASHN -

MAR 8 1937

ADD MORGENTHAU

WASHN - SECY MORGENTHAU WILL CONFER THIS
AFTERNOON WITH SENATE MAJORITY LEADER ROBIN-
SON SPEAKER BANKHEAD AND REPV MC REYNOLDS
CHAIRMAN OF THE HOUSE FOREIGN RELATIONS
COMMITTEE ON THE PROPOSED FRENCH LOAN AND THE
ATTITUDE OF THIS GOVERNMENT TOWARD IT

THE MEETING IS AT THE SUGGESTION OF SECY
MORGENTHAU WHO WISHES TO EXPLAIN THE ATTITUDE
OF THE TREASURY - WHETHER HE WILL HAVE ANY
RECOMMENDATIONS TO LAY BEFORE THE CONGRESSION-
AL LEADERS OFFICIALS REFUSED TO SAY

1.03
REPORTS HAVE BEEN CIRCULATED THAT THE
TREASURY BELIEVES AMERICAN BANKS COULD
PURCHASE THE FRENCH BONDS WITH CREDITS IN
PARIS WITHOUT INFRINGING THE JOHNSON ACT AND
THESE REPORTS HAVE LED TO CRITICISM IN
CONGRESS BY REPV MC REYNOLDS AND OTHERS - SECY
MORGENTHAU HAS GIVEN NO DEFINITE ASSURANCES
TO FRENCH REPRESENTATIVES ON THE LEGALITY OF
AMERICAN PARTICIPATION AND HAD NOT BEEN
ASKED UP TO THE CLOSE OF BUSINESS SATURDAY
BY ANY AMERICAN INVESTOR WHETHER THE FRENCH
LOAN WAS ELIGIBLE FOR PURCHASE BY AMERICANS

-0-

MAR 8 1937 2.10

PITTMAN DOUBTFUL OF APPLICATION OF JOHNSON
ACT TO FRENCH LOANS

WASHN- SEN PITTMAN OF NEVADA CHAIRMAN
OF FOREIGN RELATIONS COMMITTEE SAID THAT
THERE WERE LEGAL QUESTIONS REGARDING THE
APPLICATION OF THE JOHNSON ACT TO THE PROPOSED
FRENCH DEFENSE LOAN

THE SENATOR SAID THAT THERE WAS SOME DOUBT
AS TO THE APPLICATION OF THE ACT IN THE CASE OF
A SALE OF BONDS BY FRANCE PAYABLE IN DOLLARS
AND POUNDS WHERE CITIZENS MAY INVEST IN FRANCE-
THE SENATOR PLANS TO GIVE STUDY TO THE LEGAL
QUESTIONS INVOLVED IN THE MATTER

2.09

BORAH ATTACKS AMERICAN PARTICIPATION IN
FRENCH LOAN

WASHN- SENATOR BORAH ON THE FLOOR OF THE
SENATE ATTACKED AMERICAN PARTICIPATION REAL OR
PROPOSED IN THE FORTHCOMING FRENCH LOAN ALLEGING
THAT SUCH PARTICIPATION WOULD VIOLATE THE
SPIRIT OF THE JOHNSON ACT

-0-

MAR 8 1937

Borah

SENATOR BORAH WARNED AMERICAN AND FRENCH BANKERS TODAY AGAINST FOLLOWING A "DANGEROUS ROAD" IN ANY POSSIBLE ATTEMPT TO EVADE PROVISIONS OF THE JOHNSON ACT PROHIBITING LOANS TO NATIONS WHICH HAVE FAILED TO PAY WAR DEBTS TO THE U.S.

BREAKING INTO SENATE DEBATE JUST BEFORE A SCHEDULED PRIVATE CONFERENCE BETWEEN SECRETARY MORGENTHAU AND SENATE MAJORITY LEADER ROBINSON, REPORTEDLY ON THE SAME SUBJECT, THE IDAHO SENATOR SAID:

"SUCH A PROPOSAL AS IS REPORTED MIGHT OPEN A WAY FOR THE UNITED STATES TO CONTRIBUTE FUNDS FOR THE BUILDING UP OF LARGE ARMAMENTS IN EUROPE."

3/8--R212P

ADD BORAH, SENATE

BORAH REFERRED TO PARIS DISPATCHES SAYING THAT INDIVIDUALS WITH U.S. CURRENCY IN PARIS COULD SUBSCRIBE TO THE IMPENDING FRENCH DEFENSE LOAN WITH ASSURANCE THEY WOULD BE REPAID IN AMERICAN DOLLARS."

HE SAID HE DID NOT BELIEVE THE SECRETARY OF TREASURY WOULD PARTICIPATE IN A "CONSPIRACY" TO VIOLATE THE JOHNSON ACT AND THAT ANY PERSONS WHO DID WOULD TAKE A "RISK."

BORAH SAID THAT THE PROBLEM OF FRANCE WAS "HOW TO AVOID THE JOHNSON ACT."

HE SAID THAT THE PROPOSAL OF FRANCE TO ACCEPT U.S. CURRENCY APPARENTLY INDICATED BELIEF OF "CERTAIN BANKERS" THAT THE ACT COULD BE AVOIDED.

"THEY ARE TAKING SOME RISK IN THAT CONNECTION," BORAH WARNED, READING THE TERMS OF THE JOHNSON ACT.

HE SAID THAT A QUESTION OF CONSPIRING TO VIOLATE A LAW MIGHT BE INVOLVED.

"I THINK IT IS A DANGEROUS ROAD THAT THEY ARE FOLLOWING," BORAH SAID.

"AND I AM INTERESTED BECAUSE IT MIGHT OPEN THE WAY FOR U.S. MONEY TO BE USED TO BUILD UP THE VAST ARMAMENTS OF EUROPE. OF ALL THINGS, THIS COUNTRY MUST NOT CONTRIBUTE TO BUILDING UP THOSE ARMS.

"FURTHERMORE IT IS HINTED THAT THE SECRETARY OF TREASURY WAS WILLING THAT SUCH TRANSACTIONS SHOULD BE CARRIED ON.

"I DO NOT BELIEVE THE SECRETARY WOULD BE A PARTY TO ANY SUCH ACTION."

3/8--R220P

MAR 8 10 27

530

MORGENTHAU PREDICTS SENATORS WILL HAVE
SOMETHING TO SAY AFTER CONFERENCE

WASHN- SECY OF TREASURY MORGENTHAU ENTERING
THE CONFERENCE ROOM WITH HOUSE AND SENATE
LEADERS THIS AFTERNOON FORECAST THAT THE CONFER-
EES MAY HAVE SOMETHING TO SAY ON THE FRENCH LOAN
SITUATION AFTER THE MEETING

THE SECRETARY WOULD GIVE NO INTIMATION AS
TO THE NATURE OF HIS REMARKS TO THE LEADERS
BEYOND STATING THAT HE HAD REQUESTED THE
CONFERENCE

-0-

THE CONFERENCE, SCHEDULED FOR 3:30 P.M., WILL BE HELD AT THE CAPITOL. CONFEREES INCLUDE ROBINSON, SPEAKER BANKHEAD, CHAIRMAN PITTMAN OF THE SENATE FOREIGN RELATIONS COMMITTEE, AND CHAIRMAN MCREYNOLDS OF THE HOUSE FOREIGN AFFAIRS COMMITTEE, AS WELL AS THE SECRETARY OF THE TREASURY.

TREASURY OFFICIALS DECLINED TO DISCUSS THE NATURE OF THE CONFERENCE BUT INDICATED IT MIGHT HAVE SOME CONNECTION WITH SATURDAY'S CONFERENCE AT THE TREASURY BETWEEN MORGENTHAU, FRENCH AMBASSADOR GEORGES BONNET, V. A. L. MALLETT, COUNSELLOR TO THE BRITISH EMBASSY, GEORGE L. HARRISON, PRESIDENT OF THE NEW YORK FEDERAL RESERVE BANK, AND FREDERICK LIVESEY, ASSISTANT ECONOMIC ADVISOR TO THE TREASURY AND OTHER STATE OFFICIALS.

3/8--R342P

SECRETARY MORGENTHAU, AT A PRESS CONFERENCE, ELABORATED ON A STATEMENT MADE BY MAJORITY LEADER ROBINSON IN REGARD TO A PROPOSED FRENCH LOAN.

IN REPLY TO A QUESTION HE SAID THE TREASURY HAD NO PLANS TO ASK CONGRESS TO RELAX THE JOHNSON ACT.

MORGENTHAU ADMITTED THAT IT WOULD BE DIFFICULT TO TRACE ANY MOVEMENT OF SMALL SUMS ABROAD FOR THE PURCHASE OF THE FRENCH SECURITIES. HOWEVER, HE ADDED, THE TREASURY WOULD KNOW OF ANY LARGE MOVEMENT OF FUNDS FROM THIS COUNTRY BECAUSE THE BANKS VOLUNTARILY REPORT TOTAL MOVEMENTS EACH WEEK.

ASKED IF HE CONSIDERED THE SENDING OF SUCH FUNDS ABOARD VIOLATION OF THE JOHNSON ACT, MORGENTHAU DECLINED TO REPLY. SUBSEQUENTLY HE ADDED THAT IF HE THOUGHT A MOVEMENT OF FUNDS ABROAD WAS IN VIOLATION OF EXISTING LAW HE WOULD REPORT IT TO THE ATTORNEY GENERAL'S OFFICE.

MORGENTHAU REVEALED THAT HE MET WITH AMBASSADOR BONNET TODAY AND THAT HE WAS MEETING WITH V. A. L. MALLETT, COUNSELOR TO THE BRITISH EMBASSY, LATER IN THE DAY.

MAR 8 1937

8.02

BANK OF FRANCE FIXES GOLD PRICE

PARIS - THE BANK OF FRANCE FIXED A PRICE
OF ONE KILOGRAM OF FINE GOLD TO 24 509 AND

537-1000 FRANCS $45917 = 34.74804$ (459117) $45917 \times 25 = 459179$ 4776.

THE BANK OF FRANCE FOLLOWING AN AGREEMENT
WITH THE GOVERNMENT OF PREMIER BLUM LIFTED
ALL RESTRICTIONS ON GOLD TRANSACTIONS TODAY
PENDING APPROVAL OF PARLIAMENT IN THE FORM
OF AN APPROBATION DECREE TOMORROW

THE TEMPORARY GOLD PRICE REPRESENTS 21 45914
78-100 FRANCS TO THE DOLLAR - THE GOVERNMENT
STRESSED THAT THE PRICE WAS ONLY PROVISIONAL
FOR TODAY - A PERMANENT PRICE WILL BE FIXED
AFTER THE PASSAGE OF NECESSARY LEGISLATION
IN PARLIAMENT PROBABLY TOMORROW

THE GOLD RATE FLUCTUATED FOUR TIMES WITH-
IN AN HOUR REACHING 24 487 FRANCS FOR ONE
KILOGRAMM OF FINE GOLD AT 11 45 AM $45917/6 = 3471649$ (45917 + 235) 45917 7776.

-0-

8.04

ADD BANK OF FRANCE

PARIS-UP- PREMIER BLUM RUSHED COMPLETION OF A SERIES OF BILLS TODAY THAT WILL AUTHORIZE HIS GOVERNMENT TO ISSUE THE NATIONAL DEFENSE WAR LOAN - THE BILLS WILL GO SIMULTANEOUSLY TO THE CHAMBER OF DEPUTIES AND THE SENATE TOMORROW WITH A GOVERNMENTAL REQUEST FOR IMMEDIATE ACTION - IT WAS EXPECTED THAT THE LOAN WOULD BE ON THE MARKET BY THURSDAY SINCE LITTLE OPPOSITION WAS FORESEEN

THE BILLS PROVIDE THAT UNITED STATES CURRENCY WILL BE ACCEPTED FOR THE WAR LOAN SUBSCRIPTIONS AND THAT LOANS SUBSCRIBED WITH AMERICAN DOLLARS WILL BE REPAYED WITH AMERICAN DOLLARS WHEN DUE - BRITISH POUNDS ALSO WILL BE ACCEPTED - NEITHER THE TERMS NOR THE ACTUAL AMOUNTED WAS MADE PUBLIC

MAR 6 1937

-0-

9.00

IN LONDON FRENCH FRANCS OPENED AT 107 68
FRANCS TO THE POUND BUT GRADUALLY RECOVERED TO
106 96 WHICH IS ROUGHLY EQUIVALENT TO THE RATE
AT WHICH THE BANK OF FRANCE FIXED THE GOLD
BUYING PRICE TODAY - TURNOVER WAS COMPARATIVE-
LY SMALL WITH NO INTERVENTION OF CONTROLS
BEYOND THE FIXING OF THE GOLD PRICE WHICH IN
ITSELF ACTS AS A CONTROL - DISCOUNT ON
THREE MONTHS FORWARD PARIS WAS 2 1-8 FRANCS
AND LATER WAS 2 5-16 FRANCS - DISCOUNT ON
ONE MONTH PARIS WAS 1 1-2 FRANCS

MAR 6 1937

PARIS BOURSE WAS CHEERFUL AND FIRM EXCEPT
FOR INTERNATIONAL ISSUES WHICH WERE WEAK -
RENTES ADVANCED ONE POINT DOMESTIC STOCKS
RISING CORRESPONDINGLY - THE MARKET VIEWS
THE IRAN FAVORABLY

6.10 5 PM
DUTCH BANK RAISES GOLD BUYING PRICE

MAR 8 1937

AMSTERDAM- THERE IS A KEEN DEMAND FOR
GOLD IN AMSTERDAM AND THE BANK OF NETHERLANDS
HAS RAISED ITS BUYING PRICE FOR GOLD TO 2 017
GUILDERS PER KILO AN ADVANCE OF 2 GUILDERS
THE CENTRAL BANK ACTING THROUGH BULLION
BROKERS

M MAR 8 1937 2:45

ADD DUTCH BANK RAISES GOLD BUYING PRICE

AMSTERDAM - THERE IS SOME HESITATION NOTI-
CEABLE IN THE EXCHANGE MARKET HERE REGARDING
THE FRENCH DEVELOPMENTS AND THE POSSIBILITY
IS BEING DISCOUNTED THAT THE FRENCH AUTHORI-
TIES ARE NOT YET PREPARED TO FIX THE FRANC AT
THE LOWER LIMIT PROVIDED IN THE DEVALUATION
LAW - FORWARD FRANCS ARE IN GOOD DEMAND
THE AMSTERDAM BOURSE WAS REACTIONARY
OWING PARTLY TO FRENCH SELLING - RUBBER
ISSUES HOWEVER CONTINUED STRONG

MAR 8 1937
~~MAR 8 1937~~

FOREIGN EXCHANGE

959
PARIS- THE OFFICIAL FOREIGN EXCHANGE MARKET WAS ACTIVE WITH STERLING 107 05 AND DOLLARS 21 93 CONTROL BUYING FAIR AMOUNTS OF STERLING AND OCCASIONALLY DOLLARS- STERLING PREM-IUS WERE 100 AND 195 CENTIMES

AFTER STERLING OPENED AT 107 45 AND THE DOLLAR AT 22 05 THE NEW BANK OF FRANCE FIXED THE BUYING PRICE FOR GOLD AT 24 643 FRANCS PER KILOGRAM EQUIVALENT TO 106 85 FOR STERLING AND 21 90 FOR THE DOLLAR- HALF AN HOUR LATER THIS WAS MODIFIED TO 24 531 EQUIVALENT TO 106 40 FOR STERLING AND 21 80 FOR THE DOLLAR

INDIVIDUAL HOARDERS APPEARED AT HEADQUARTERS OF THE BANK OF FRANCE OFFERING GOLD COINS IN SMALL QUANTITIES- THE BANK-S GOLD PRICE IS CONSIDERED TENTATIVE AND LIABLE TO MODIFICATION AFTER ANNOUNCEMENT OF LOAN TERMS ON WHICH EXTREME SECRECY IS MAINTAINED

FEDERAL RESERVE BANK
OF NEW YORK

333

OFFICE CORRESPONDENCE

DATE March 8, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF FRANCE.

FROM L. W. Knoke

Mr. Cariguel called at 12:44 to apologize for not having given us a gold price on Saturday. He explained that he had been so frightfully busy that he had not had time to attend to the matter and now felt rather perturbed. I assured him that no harm had been done.

With reference to today's market, he said that things were much better; that they were able to buy over £2,000,000; at the time he spoke the market was still seller of sterling and dollars. I asked whether he cared to express any opinion as to ^{the} probable course developments might take in France but he replied he had no feeling other than to hope that something good ought to come of it.

LWK:KMC

March 8, 1937.
1 p.m.

Burgess: Yes.

H.M.Jr: What 's happening?

B: Well the market's kind of sour - its drifted off a little further.

H.M.Jr: Ah-ha.

B: And there's not much activity. Its pretty quiet.

H.M.Jr: How low are you going to let those two and a half's go?

B: Well I think we ought to start buying when they get down to a half, don't you?

H.M.Jr: Half? No, I'd buy before that.

B: Well they're - they're now about 27-30 - 27-29 along in there.

H.M.Jr: Oh I'd buy a little in there.

B: Well, all right why don't we start buying about - put in something at 26.

H.M.Jr: All right, why not say - ah - how much?

B: Oh a quarter of a million.

H.M.Jr: Quarter of a million down every thirty seconds?

B: Yes, something like that.

H.M.Jr: Quarter of a million down every thirty seconds.

B: Until it gets to - ah....

H.M.Jr: Until it gets to.....

B: Until it gets lower still and then I'll buy a half each thirty seconds.

H.M.Jr: That's all right. Tell you what - let's say a quarter of a million every thirty seconds down to twenty?

B: Yes about.

H.M.Jr: And at twenty buy a half a million.

B: Yes.

H.M.Jr: Yes.

B: Yes, I think so - they're a good investment at these prices.

H.M.Jr: Yes.

B: Yes.

H.M.Jr: Begin at twenty-six - a quarter of a million down every thirty-seconds to twenty and at twenty you buy a half of million.

B: Then buy a half, yes.

H.M.Jr: Yes.

B: All right. Well that's fine.

H.M.Jr: We won't get much.

B: No I don't think we will. I think this is partly that there's some speculative holders of these rights who want to get covered up.

H.M.Jr: All right.

B: When that gets out of the way I think it will settle down.

H.M.Jr: All right. I'm not worried.

B: No I'm not. I would be if we didn't have the extra margin that we have.

H.M.Jr: Well that's awful hard to keep me from smiling.

B: Oh yes.

H.M.Jr: (laughs)

B: Oh yes.

H:M.Jr: No I mean Archie and Harris are here and I mean -
I - I - the great trouble is I lean too heavily
on my intuition.

B: Well that's it exactly. I had the same feeling.
I couldn't explain it out loud but you just have a
hunch that this thing isn't husky.

H.M.Jr: Yes, well it's all right. Thank you.

B: All right.

March 8, 1937.
1:10 p.m.

H.M.Jr: Hello

Burgess: Hello sir.

H.M.Jr: Well Burgess I hear up to two minutes ago we hadn't spent any money.

B: No and the showing of bids seem to be enough.

H.M.Jr: Yes.

B: Now.....

H.M.Jr: Just takes a little backbone.

B: You can 't take that too seriously yet.

H.M.Jr: No.

B: But it looks to me as though it might turn a little hair. It has to work along down to a point where you put in the bids and then it gets position..

H.M.Jr: Well I'm glad I had the courage to put the bids in.

B: Atta boy, yes, that was fine.

H.M.Jr: And - ah - I think it's like all these things - it just needs a little leadership.

B: Well I - I think it will reach the point where that is just right.

H.M.Jr: Yes.

B: We can't tell yet - we don't know just what will happen.

H.M.Jr: Ah-ha.

B: I think that - ah - there's going to be stewing around until this thing's closed, of course.

H.M.Jr: Well we'll watch it.

B: But - ah - I think it will be all right.

H.M.Jr: All right.

B: Very good.

H.M.Jr: Thank you.

Monday
March 8, 1937
2:20 p. m.

Mayor
LaGuardia: - I don't know if we have any per-
mission to do that, but we carry our own.

HMJr: Now, let me do this, where could Admiral Peoples
and McReynolds call on you?

L: At the Mayflower.

HMJr: At what time?

L: I'm here now. Or - I'll tell you, it's easier -
what's her address at the office?

HMJr: Pardon me?

L: 730 Jackson Place -

HMJr: 730?

L: Jackson Place -

HMJr: 730 Jackson Place -

L: That's right near you there.

HMJr: What is that? - That's the office of the Mayors' Conference

L: That's right.

HMJr: That's the office - ?

L: Yes

HMJr: That's the office of the - ?

L: Yes, U. S. Conference of Mayors.

HMJr: Well, now I'll find out what time Peoples and Mc-
Reynolds can call on you.

L: Yes

HMJr: And I know that McReynolds is on a - this low-cost
housing now -

L: That's what you -

HMJr: But - you - will you be there all afternoon?

L: Yes, I'll be glad to wait for him if I know he's coming.

HMJr: Well, I'll tell you what I can do. How - where are you now?

L: Why can't I go and see Peoples now?

HMJr: I don't know - I want McReynolds there.

L: Oh - I see. Well, look, suppose we make it tentatively for four o'clock.

HMJr: Or I tell you what you do, come to my office at four o'clock.

L: Yes

HMJr: If I can't be here -

L: Yes

HMJr: I'll have Peoples and McReynolds here.

L: That's fine.

HMJr: How's that.

L: That'll be fine.

HMJr: You come to my office at four o'clock and they surely will be here and I'll try to be here.

L: And I'll be able to take that letter with me, will I?

HMJr: You certainly will.

L: All right, thanks. I'll be there at four.

HMJr: Thank you.

March 8, 1937

2:30 p.m.

Present:

Ambassador Bonnet
Mr. Appert
Dr. Feis
Mr. Taylor
Mr. Lochhead

(Note: Unless otherwise indicated, Ambassador Bonnet's remarks were in French and were interpreted by Mr. Appert.)

Ambassador: He received, this morning, a telephone call from Paris from Mr. Vincent Auriol himself, who wishes to ask me to go to see you and make a communication, partly from himself and from Mr. Leon Blum and the whole French Government.

Mr. Auriol says that in asking the possibility of having an American bank pay the coupons of the loan which is going to be issued, it is not contrary to any American law or to the Johnson Act.

HM, Jr: Who says that?

Ambassador: Mr. Auriol says that in his opinion it would not be contrary to any American law or to the Johnson Act to ask you if an American bank could pay the coupons of the loan which is going to be issued.

Mr. Auriol wished to call attention of the American Government on certain considerations which are written in and which I ask permission to read to you, Mr. Secretary.

Mr. Auriol says that the success of the loan depends on decision which the American Government is going to take on this question.

HM, Jr: I beg your pardon. That is not fair. That isn't fair and I don't like it. Why should you come to me

AMBASSADE
DE LA RÉPUBLIQUE FRANÇAISE
AUX ÉTATS-UNIS

Washington, le March 8, 1937.

Since the loan about to be issued in France provides for a guarantee as well as for an option of exchange, the French Government wishes to take the necessary steps in order to allow the payment of the coupons by an American bank to be designated later.

10- The French Government does not appeal to American citizens residing either in France or in the United States for subscriptions to the loan;

20- No quotation of the new bonds in the United States will be requested by the French Government;

30- The French Government will deposit in advance in the United States the necessary funds for the payment of the coupons of the loan which would eventually be cashed in American banks.

In this regard, the French Government desires to call the attention of the American Government upon the following:

a)- At the present time, it is customary for American banks to pay without charge the principal or the interest of several French or foreign loans,

the principal of the bonds of the French loan of 1920. Such practice is provided for by private agreements.

b)- It does not appear to the French Government that the Johnson Act might in any way forbid such practice, since it is specified that no subscriptions will be solicited from American citizens or persons residing in the United States, and since funds necessary for the payment of the coupons will be supplied in advance in such a manner that the American bank which would be entrusted with such payment could never be without provision.

c)- In the opinion of the French Government, there can be no doubt as to the lawful character of the proposed procedure. Therefore, if the French Government has sought to secure the opinion of the American Government, it was as a matter of courtesy and also to give the proof of its friendly interpretation of the monetary tripartite agreement. In fact, it is the opinion of the French Government that no American bank which it might approach could base a refusal upon any American legal text. Furthermore, neither the French Government nor any French bank would refuse to satisfy a similar request which might be presented in France.

The French Government wishes to point out that it has at all times respected the letter as well as the spirit of the tripartite monetary agreement. It

serious consequences that might result either from the institution in France of a policy of control of exchange or from any other measures to which it remains firmly opposed and the result of which would inevitably be to precipitate towards the United States a new exodus of funds, the danger of which the American Government is fully aware.

The French Government is all the more confident that a favorable answer will be given by the United States Government that on several occasions, it received the assurance of all the American cooperation compatible with existing American legislations. Such assurances were recently reiterated by the Secretary of the Treasury during his conversations with the French Ambassador.

It would appear to the French Government that the matter now submitted to the consideration of the American Government would give to the latter a special opportunity for cooperation, due to the fact that the wishes expressed by the French Government do not seem to be in contradiction with existing legislations./.

and say the success of your loan depends upon the confidence of the French people whether they will buy it and not whether I say yes or no. I mean, it depends upon the confidence of the French investor whether he wants to buy it or not, and not on the decision whether he is going to get paid in dollars or sterling. And if you don't mind my saying

Dr. Feis: The Ambassador explains that he has been instructed by his Government to say this to you.

HM, Jr: I know that. It's nothing personal. But I am talking this way in answer to Mr. Vincent Auriol and, if I may also say to Mr. Vincent Auriol, -- you are bringing his message and I am using you as a very kind agent, as a messenger -- and I may also say to Mr. Vincent Auriol that if he does not mind my saying so, when it comes to interpreting the Johnson Act I think he is pressing a little bit hard when the United States Government handed the French Government the note that we did and then Mr. Auriol says that the United States Government doesn't know how to interpret the Johnson Act.

My dear Mr. Ambassador, you have some French law and you tell me the French tariff is so much on a certain American product and I say to you, No; you are wrong; you don't know your French law. Now I ask you.

Mr. Appert: (Speaking in English for himself)
May I read the memorandum, Mr. Secretary. (Original attached)

HM, Jr: Please.

Mr. Appert: (reading)

"Since the loan about to be issued in France provides for a guarantee as well as for an option of exchange, the French Government wishes to take the necessary steps in order to allow the payment of the coupons by an American bank to be designated later.

"10- The French Government

-3-

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a)- At the present time, it is customary for American banks to pay without charge the principal or the interest of several French or foreign loans, namely the coupons of the Suez Canal Company and the principal of the bonds of the French loan of 1920. Such practice is provided for by private agreements.

b)- It does not appear to the French Government that the Johnson Act might in any way forbid such practice, since it is specified that no subscriptions will be solicited from American citizens or persons residing in the United States, and since funds necessary for the payment of the coupons will be supplied in advance in such a manner that the American bank which would be entrusted with such payment could never be without provision.

c)- In the opinion of the French Government, there can be no doubt as to the lawful character of the proposed procedure. Therefore, if the French Government has sought to secure the opinion of the American Government, it was as a matter of courtesy and also to give the proof of its friendly interpretation of the monetary tripartite agreement. In fact, it is the opinion

-4-

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"The French Government wishes to point out that it has at all times respected the letter as well as the spirit of the tripartite monetary agreement. It does not think it necessary to insist upon the serious consequences that might result either from the institution in France of a policy of control of exchange or from any other measures to which it remains firmly opposed and the result of which would inevitably be to precipitate towards the United States a new exodus of funds, the danger of which the American Government is fully aware.

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"It would appear to the French Government that the matter now submitted to the consideration of the American Government would give to the latter a special opportunity for cooperation, due to the fact that the wishes expressed by the French Government do not seem to be in contradiction with existing legislations."

-5-

HM, Jr: Thank you. Now, Mr. Ambassador, I also have a little temperament so you understand it is not only the French citizens that have temperament. I have also. And I get excited because, if you don't mind my saying so, I think your Government is making a great mistake. Now, I very courteously and very politely in my note pointed out that we could not do this. If I talk slowly, you understand? If you don't mind my saying, for your Government to press this question when we went into it very, very carefully and when I handed you that note it had the full backing of the entire Administration and I reiterate again that President Roosevelt and myself, on the financial end, during the past two years have tried everything we could, I say, within the law to assist the French Government. But this request which Mr. Rueff made to Mr. Cochran and which I received in a cable, we feel would be contrary to the Johnson Act -- not maybe, but absolutely contrary to the Johnson Act.

Now, here is Senator Borah. He made a speech in the Senate today. Congressman McReynolds, Chairman of the Committee on Foreign Affairs in the House, makes a statement. My dear Mr. Ambassador, the more your Government push this, the more, every hour, France is losing friends here.

I was very careful in what I said to the newspapers, which was in the Sunday newspapers, not to publicly say that I had said no to France, notwithstanding the fact that there were despatches published in our papers Saturday which would lead people to think that I had approved it.

Ambassador: Mr. Bonnet says that he has to protest the interpretation; that he has nothing to say about a loan which is issued in France unless

HM, Jr: Which I have been very careful to avoid. All I said was (I was very careful) and when Mr. Henry came in at four o'clock Saturday and he wanted to ask me additional questions, I said, 'No, Mr. Henry. I will only answer the one question which I was asked' and, as I pointed out, what the French Government wished to do within France is their own business; not mine. And I want to

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say again, with all due courtesy, I think the French Government is making a grave mistake when they try to press this question any further. I think that you will hurt yourself in America.

Ambassador: Mr. Bonnet says that the first call has been made through the channel of Mr. Cochran in Paris; that the French Government wished to do it regularly. It is again he is asking through the channel of the French Ambassador in Washington, but of course

HM, Jr: But I want to say to the Ambassador, Prof. Ritz called on Mr. Cochran this morning and asked him again. The same thing.

Ambassador: (Speaking in English) I did not know.

Mr. Appert: (Speaking in English for himself): It demonstrates the great importance the Government attaches, Mr. Secretary.

HM, Jr: I appreciate that, and my reason for being so serious is I wish I could help the French Government at this time. I wish there was something I could do. But as I told the Ambassador the first time he came and visited me, that I have to live within our American laws and we went into this question very thoroughly and the answer I got from our lawyers was that this is contrary to the Johnson Act.

Ambassador: Mr. Bonnet says that he has received a mission and he can do nothing else but to carry this mission.

HM, Jr: I understand, but please explain to the Ambassador that my being so emphatic is toward Mr. Auriol and not at all towards Mr. Auriol's ambassador. There is nothing of any personal nature.

Ambassador: (Speaking in English) I understand.

HM, Jr: But this is a very, very serious thing and it disturbs me very much and I sincerely hope that the French Government will be successful in their loan.

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Mr. Appert: (Speaking in English for himself) The French Government thinks it could be more successful if it could have here a bank who would pay the coupons.

Ambassador: Mr. Bonnet says that the French Government has not at all intention to try to get the subscription from American citizens neither here nor in France in asking for this facility. He wishes only to give to the French investor a new assurance that they will be protected against any change of the French politics towards its investors.

HM, Jr: I have confined myself to just one question. The French Government asked me one question. Could this coupon be paid through an agent which they designated in New York? We made a study of that question and the answer was no. Now we worked very hard at it. We approached it from a friendly attitude and the various departments all studied it and the unanimous opinion of the Office of the Attorney General, the State Department and the Treasury was that it was contrary to the Johnson Act, so my hands are tied:

Ambassador: Yes.

HM, Jr: I again want to say that I appreciate your coming. I hope you will come as often as you feel like it, whether you have business or just to smoke a cigarette and have a cup of coffee, and I understand that as Ambassador for you will have pleasant missions and sometimes you will have unpleasant ones, and this happened to be an unpleasant one, and I am sorry.

The Ambassador and Mr. Appert departed.

AMBASSADE
LA RÉPUBLIQUE FRANÇAISE
AUX ÉTATS-UNIS

Washington, le March 8, 1937. 411

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Copy of message sent by the
Chancellor of the Exchequer to
French Minister of Finance

Position appears to be that despite objections felt both by His Majesty's Government and the United States Government to appointment of paying agents in the United Kingdom and the United States respectively French Government have publicly committed themselves to exchange option participation which in their view can only be made effective by appointment of paying agents abroad.

His Majesty's Government do not understand why this situation should have arisen. Not only their objection to appointment of paying agents in London but their general criticism of principle of an exchange of option which when applied to so great a loan may contain many embarrassments for them have been repeatedly notified to French Government. Nor do His Majesty's Government understand how the French Government's proposals could proceed in any case in their present form in view of objections made by the United States Government to paying agents in New York. Chancellor of the Exchequer cannot

express/

express approval of proposals which he has informed both the United States and French Governments that he dislikes; nor does he see how the tripartite agreement can be worked in that spirit of cooperation which should inspire it if views of parties in a matter so closely connected with that agreement receive so small consideration.

If therefore French Government decide to proceed they must do so on their own responsibility. If they consider they are so far committed by (group undecypherable) statement that it is not possible for them to withdraw you may inform them that the Chancellor of the Exchequer desires that the following points should be clearly understood.

1. It is obviously within the power of the French Government to undertake payment of interest in francs in France and that is still true even if number of francs to be paid is made to vary in accordance with current value of franc in terms of sterling or gold or any other

But a promise to pay in actual sterling commits the French Government to an undertaking which is not in their power to implement unless they are able to obtain sterling. It is not clearly stated whether undertaking to make repayment in sterling applies to interest only or to interest and capital. But in any case there is no promise or undertaking expressed or implied on the part of His Majesty's Government that they will in fact assist.

2. No issue can be made in London and no quotation can be given on London Stock Exchange and French Government should undertake not to invite or facilitate subscriptions from British source.

March 8, 1937

After Mr. Bonnet and Mr. Appert left and the group remained for a general discussion, and the following is a transcript of their remarks.

HM, Jr: This fellow sits here and I knew I was getting excited, and has the nerve to say to me that the success of it all depends upon me so he could say Morgenthau was responsible for the whole Blum Government and let him get away with it. My reaction is, My God! They are over the precipice! I am going up to the Hill. I want you to think of this, and very carefully, Do we or don't we want to tell this to Mallet. Think that over.

Dr. Feis: That note is the damndest thing. That veiled reference to exchange control is the other damn fool thing in that note.

HM, Jr: But he can't take any personal insult.

Dr. Feis: No doubt that these fellows are going to continue to believe that this thing does not violate the Johnson Act.

HM, Jr: I began to feel a little bit encouraged on the French thing. Now they have scared the death out of me on this thing. I don't think it is up to me to tell Mallet about this note.

Dr. Feis: Certainly I would not let them see the text of the note. Call Mallet and tell him you saw the Ambassador and just reiterated your decision.

March 8, 1937

4:45 p. m.

Present:

Mr. Mallet
Mr. Taylor
Mr. Lochhead

HM, Jr: Another one?

Mr. Mallet: Another message. A long one. This is a message which the Chancellor of the Exchequer wants me to give to you. He says that he received further urgent representations from France to the effect that their preparations have gone too far to be withdrawn and that the loan terms must be settled today if the serious crisis is to be avoided. In these circumstances there was no further time for consultation with Mr. Morgenthau and the Chancellor replied in this telegram to Paris. (Handed HM, Jr. the attached document.)

HM, Jr: Thank you.

(Reading)

"Position appears to be that despite objections felt both by His Majesty's Government and the United States Government to appointment of paying agents in the United Kingdom and the United States respectively French Government have publicly committed themselves to exchange option which in their view can only be made effective by appointment of paying agents abroad.

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-2-

"of paying agents in London but their general criticism of principle of an exchange option which when applied to so great a loan may contain many embarrassments for them have been repeatedly notified to French Government. Nor do his Majesty's Government understand how the French Government's proposals could proceed in any case in their present form in view of objections made by the United States Government to paying agents in New York. Chancellor of the Exchequer cannot express approval of proposals which he has informed both the United States and French Governments that he dislikes; nor does he see how the tripartite agreement can be worked in that spirit of cooperation which should inspire it if views of parties in a matter so closely connected with that agreement receive so small consideration.

"If therefore French Government decide to proceed they must do so on their own responsibility. If they consider they are so far committed by (group undecypherable) statement that it is not possible for them to withdraw you may inform them that the Chancellor of the Exchequer desires that the following points should be clearly understood.

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-3-

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"2. No issue can be made in London and no quotation can be given on London Stock Exchange and French Government should undertake not to invite or facilitate subscriptions from British source."

HM, Jr: Well, so that the Chancellor can sleep easy, this is the only thing that I have got and I will give it to you. You had better make notes. I am always glad to furnish the British Empire with pencil and paper as long as the paper lasts. Well, so that you get our time schedule, because it is fairly important. Around one o'clock Senator Borah made an attack on this proposition. At the same time he said that he had not been in communication with me.

Mr. Mallet: He talked on the floor of the Senate?

HM, Jr: Yes. It will be in tonight's papers unquestionably. Second, at 2:30 Ambassador Bonnet called on me and put all the pressure he could on me to reconsider.

Mr. Taylor: Including the brass knuckles.

HM, Jr: To which I replied most firmly, No! I then went up on the Hill. This will explain it (news ticker #1 report as attached) and met with Robinson, Pittman, Speaker Bankhead and MacReynolds. You know who all these people are, don't you?

Mr. Mallet: Yes.

HM, Jr.: At the conclusion of that meeting Senator Robinson gave out this statement. (Copy attached.) #2.

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I will just take a minute to give you the gist of it. "After conference with Secretary Morgenthau" -- then he goes on and states the question that the French asked us. You see?

Mr. Mallet: On Friday?

HM,Jr: Yes. And then he gave my answer, which I gave you on Friday.

Mr. Mallet: He gave that to the press?

HM,Jr: Gave it to the press. It's all here. I will give it to you. Do you mind, after you have copied it, to send it down by hand tomorrow so we will have it for our records. Will you send it down by hand tomorrow to Mrs. Klotz. So that will be in every newspaper in the world tomorrow, because we give them the question they asked us, plus the answer, and here is Senator Robinson, Key Pittman, Chairman of Foreign Affairs, Speaker Bankhead and McReynolds, Chairman of the House Foreign Affairs, jointly gave out that statement. And the answer is No.

Mr. Mallet: Of course, you are absolutely committed now.

HM,Jr: Irrevocably!

Mr. Mallet: Yes; quite.

HM,Jr: There is the whole thing, but I need that back for my records.

Mr. Mallet: Yes. I will send that back. I was wondering whether I need take it. Perhaps I had better, just to check up on the talkers.

HM,Jr: But that's the whole thing. But I wish you would say this, if you don't mind, to Mr. Chamberlain: that I am very glad that he and I have again demonstrated that we can work together.....

Mr. Mallet: Yes; quite.

HM,Jr: To the mutual interests of our respective

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Mr. Mallet: What are you going to do now?

HM, Jr.: I just want to tell you -- it's just unbelievable what they have done to you and to us. It's just unbelievable. It's just unbelievable and, incidentally, you know I was bothered about Petit Parisien -- that cable. I now find that the thing is run by a known gambler and stocks-betting man.

Mr. Mallet: Oh really?

HM, Jr.: You know, they took that thing and twisted it, and what was the word they used 'unequivcal'. Now I understand the whole paper is run by just a bunch of stock gamblers. I got that from a reputable American correspondent who said no other paper would do such a thing. But this whole performance is just unbelievable.

You see, my stuff will all be in your papers tomorrow morning and I would appreciate -- you might add to Mr. Chamberlain -- I appreciate very much his sending me a copy of his statement to the French. When Bonnet came in at 2:30, I simply said No. I didn't give anything -- just a definite No.

Well, I had better not get started, but the answer is Great Britain and the United States will have to carry the ball from now on. And we can!

Mr. Mallet: We can; yes.

HM, Jr.: We can! Sure! We can carry it! I am not worrying about it. I am not worried about it as far as your Government and mine is concerned. We can carry it.

Mr. Mallet: What's going to happen to the French loan? Will they get away with it?

HM, Jr.: Supposing your Government and mine announced, with the Premier of France, Mr. Caillaux and Mr. Reynaud all going on the air Sunday night, the French Government has done its part and expect the French to do theirs, and then suddenly find out we haven't done our homework. Suppose I announced I am going to have a loan today -- which

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I did -- and then suddenly find I will do it Wednesday!

Mr. Mallet: Terrible barging on their part!

HM, Jr: As I told somebody, if I were Mr. Auriol I wouldn't wait for my resignation. I would already be on the Farm. I don't know where Mr. Auriol lives, but I should think he would be headed toward home.

Thank you very much. It's been a great disillusionment.

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PARAPHRASE OF TELEGRAM RECEIVED

430

FROM: American Embassy, Paris

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

NO.: 324

With respect to the political reaction to what is termed the new economic policy of the Popular Front, it is obvious that the Government's decisions of last Friday have received more favor in the moderate circles of the opposition than they have received from the extreme Left of the Government's supporters. While evidently wishing to remain loyal to the Government, the communists and the leaders of the C.G.T., are having some difficulty in concealing their dissatisfaction. Apparently they are struck by the possibility that the Government's decisions constitute a definite change of direction towards liberal, orthodox methods rather than a "pause" in the fulfillment of the Popular Front program. (END OF SECTION ONE)

RECEIVED
MAR 8 1937
TELETYPE UNIT
EA:DJW

PARAPHRASE OF SECTIONS TWO, THREE, AND FOUR OF TELEGRAM NO. 324 of March 8, 1937, from the American Embassy, Paris.

Extreme Right elements are very jubilant in some cases overplaying it to the extent of urging that there is a favorable opportunity at present for driving a wedge between Blum and the C.G.T., thus destroying the Popular Front Party.

At least for the immediate future the fate of the new policy will depend upon the degree of success of the new loan. There is bound to be a certain amount of skepticism, on the other hand, on the part of people who have money. As one of this latter class has expressed it, they are asking themselves whether, after they have subscribed to the loan and saved the Popular Front Government, later on they will not be met with a new program of advanced social legislation which will create serious Treasury and monetary difficulties again.

However, the loan offering makes an appeal to the average Frenchman on points to which he is particularly susceptible - namely, a good opportunity to make a profitable investment, and an appeal to patriotism. A further and important aspect of the loan which the extreme left or the moderate element have not overlooked is the fact that Blum for the first time since he formed his Government appealed to the country as a whole, and not to a party or a group of parties. One observer has stated that this time Blum is to be followed by Lebrun instead of being followed on the platform by Jouhaux as has frequently occurred in the past.

The

The Radical Socialists tend to claim credit for the Government's "conversion" to the new policy. During this recent period of anxiety over the financial situation, the Radical Socialists have undoubtedly proved a strong anchor on the conservative side, just as they did during the critical days of the Strikes in June of last year, and during the period when the Government formed its policy regarding non-intervention in the Spanish crisis. In looking for an explanation of the recent decisions of the Government it does not seem necessary to go further than recognizing the fact that Blum was faced with an urgent choice between two things - methods of righting the situation and methods of control which he felt would have alienated sympathy in Great Britain and in the United States, and he chose the way that seemed to be in the best interests of the country, demonstrating the courage which he has shown whenever called upon to take an important decision.

As Professor Rist has written, there is after all nothing inconsistent in prescribing different remedies at different stages during the time a patient is ill.

When considering the reasons which may have caused Blum to reach the decision on new policy, one should not lose sight of the fact that should serious difficulties be encountered by the Popular Front Government, many people believe

believe

believe that there might be some disturbance of public order which would give Hitler a long-awaited opportunity to profit from the temporary division in France by assuming a more aggressive attitude in the central and eastern part of the European Continent.

END MESSAGE.

WILSON.

EA:LWW

RECEIVED
MAR 9 1937
TREASURY DEPARTMENT
DIVISION OF INVESTIGATION
WASHINGTON, D. C.

Monday
March 8, 1937
5:30 p. m.

HMJr: Hello
W. R.
Burgess: Oh, hello, sir

HMJr: Hello, Burgess -

B: I hear you've had a big day.

HMJr: Oh, I'm just exhausted.

B: I'll bet you are.

HMJr: Yes

B: Did you decide to give out any notice about the close of the books?

HMJr: Close it Wednesday night.

B: That's just right.

HMJr: Yes

B: That's what I would say.

HMJr: Yes

B: Yes - Well, that's fine. We'll send out notices tonight, then.

HMJr: Yes, Bell will give them out.

B: Very good - very good. Well, I think we came through the day pretty well, we didn't buy a cent, you know?

HMJr: (Laughs) You old -

B: And I think perhaps we've hit the bottom on this.

HMJr: You old Scotchman - Well, I like to support the market when it doesn't cost anything.

B: Well, it's all in the psychology of doing it at the right time and in the right way.

HMJr: Well -

B: And you hit it just right.

HMJr: Yes, we hit it just right and it didn't cost us a nickel.

B: That's right, yes.

HMJr: I'm not worried; I'm glad we got the extra cushion.

B: I think it's fine.

HMJr: Everytime one of my boys comes in I rub their nose in it.

B: (Laughs) Thank God we were right once.

HMJr: All right, Randolph -

B: Right - goodbye

HMJr: Goodbye.

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GRAY

Paris

Dated March 8, 1937

Rec'd 7 p.m.

Secretary of State

Washington

325, March 8, 6 p.m.

FROM COCHRAN.

Market contact said Bank of France had a satisfactory day acquiring between 3 and 4 million pounds of sterling at around 107 and fair amount of dollars at from 21.94 to 92. Lazard was principal seller of pounds and dollars. Forward franc better. Rentes up about 65 centimes. Stock market fairly good but indicates general tendency to await developments. Bank of France paying price for gold is said to be 24509.527 francs per kilogram based on sterling parity of 107 which my contact says works out to about \$34.77 per ounce. Exchange traders say some French intend to make their subscriptions to the loan through British banks so it will be easier for them to get back foreign exchange when selling or cashing coupons.

RECEIVED
 MAR 10 1937
 U.S. DEPARTMENT OF STATE

WILSON

SMS:EMB

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GRAY

Paris

Dated March 8, 1937

Rec'd 7:30 p.m.

Secretary of State

Washington

326, March 8, 7 p.m.

Embassy's telegram 312, March 5, 4 p.m.

Blum broadcast a speech on the evening of March 6 giving the reasons for the decisions taken by the Cabinet with regard to the exchange situation. At the end of the speech he said that some of his hearers might be surprised that he did not use a ton (tone?) of contrition (?) revised but that he saw no reason for pretending sentiments which he did not feel, that the reforms which had been voted remained, and that the Government could consider without shame the course followed for the past nine months.

Chautemps, in a speech delivered at Chatre on March 6 said that the Radical Party would have renounced its duty towards the nation and failed in its mission had it not associated itself in the last elections with the reassemblment of the Left parties, since the abstention of the Radical Party would have made parliamentary government impossible and would have Left and two extremes of

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U -2- #326, Mar. 8, 7 p.m. from Paris

the Right and Left opposed to each other in disorder and violence. He stated that his party had served as a useful counterbalance to certain more extreme forces and that he had too much confidence in the good sense and patriotism of the nation to doubt the success of an operation of salvation which should bring all Frenchmen together in the same ardent faith of the country's future.

The TEMPS comments that the "Popular Front Government has returned to liberal orthodoxy in finance.

(END ONE.)

WILSON

SMS:NPL

Paris

Dated March 8, 1937

Rec'd 7:10 p.m.

Secretary of State
Washington

326, March 8, 7 p.m. (SECTION TWO)

whereas it had hitherto practically turned its back to it". L'ECHO DE PARIS says that a return to orthodox finance will not be sufficient and demands that the Government return as well to orthodox politics, remarking that the experiment of the last nine months has been deplorable and that Blum "must not deceive himself or us".

FIGARO says that a change of financial policy must be accompanied by a change in the general policy.

L'ERE NOUVELLE comments that the Government's measures are in line with the warnings the Radical Party has made ever since last June. An editorial in the same paper shows clearly how the Radicals claim the laurels for the Government's volte face.

L'ERE NOUVELLE likewise draws attention to the divergency between Blum's liberal policy and statements by Jouhaux and Foure advocating nationalization of basic industries.

LE PEUPLE, organ of Jouhaux, head of the C. G. T. points out that liberalism and capital have been given a

last

U -2- #326, Mar. 8, 7 p.m. Sec. 2 from Paris

last chance.

HUMANITE confines itself principally to attacking articles in the Right press rather than enthusiastically supporting the Government's measures.

END OF MESSAGE

WILSON

SMS:NPL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

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

NO.: 328

FROM COCHRAN.

This afternoon at four o'clock I had a call from Professor Rist. Professor Rist referred to the matter of the exchange option clause which has been proposed for the long term national defense loan for the French. I was asked by Professor Rist whether I would consent to telephone to Secretary Morgenthau to see whether it was possible for the Secretary to reconsider his decision of last Saturday night, in view of all the circumstances of the French situation.

When I spoke with Secretary Morgenthau, I said, I had told him that Leith-Ross was in Paris, and the latter had indicated to me that he was going to try to change the mind of the Chancellor of the Exchequer on the subject, and get him to allow the French Treasury to name a paying agent in London if a favorable answer were received from American officials with regard to the matter. [I mentioned to Leith-Ross that I had been informed by Rueff that the British were not willing to approve an arrangement for a London paying agent unless similar approval were given by the American authorities; Leith-Ross said that he had the impression that an unconditional refusal had been given by the British authorities].

The

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The answer of Secretary Morgenthau, I told Rist, had indicated that a definite and final decision had been reached by the American authorities, and that American laws were the basis for judgment. I said that as a purely personal favor, I would promptly telephone Secretary Morgenthau. I mentioned to Professor Rist that at Basel and elsewhere the impression prevailed that unpreparedness had been shown by French officials in their new program, and particularly the loan announcement just made. He agreed with this, and said that he had not known about the matter of option of exchange as contained in the announcement until after it had been made public.

It was unfortunate, I said, that even after the matter had been submitted to the British authorities and the American authorities, public utterances continued to indicate definitely that full option in exchange would be given to holders. I read to Rist certain paragraphs from the speech which Blum gave Saturday night. In translation they are as follows:

"The loan issue which is now being prepared will enjoy the benefit of an exchange guarantee and also exchange option.

"It will be issued in francs, in pounds, and in dollars; that is to say in the respective currencies of the three countries which have concluded between themselves the monetary agreement of last September.

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"The coupon is therefore protected against all possible variations of the three currencies in relation to each other and they may always be cashed on the center (sur la place) where the payment will be the most advantageous".

There was no desire to draw any American funds for the loan, according to Professor Rist. I was reminded by him that he had expressed to me, only a few days ago - before his appointment to the present exchange committee -

END SECTIONS ONE AND TWO.

WILSON.

EA:LWW

PARAPHRASE OF TELEGRAM NO. 328, SECTION THREE, of
March 8, 1937, from PARIS.

his frank opinion that any French loan should be an internal loan and not external. However, he added that the investing public in France had been so nervous that officials in the Treasury thought they should add the option of exchange provisions so the loan would be made attractive enough that there would be no chance of the French public failing to subscribe to the full extent required by the French Government. If it cannot be arranged to have paying agents in London and New York, authorities feel that the loan must be replanned to the extent of offering an exchange guarantee instead of an option as to place of payment and as to the currency in which paid. I was confidentially informed by Professor Rist that the latest plan is to limit the first issue to five billion francs, and as early as possible close the books on the loan.

Professor Rist intimated that as regards the British they still definitely refused to grant the French request for a paying agent in London.

I telephoned to Secretary Morgenthau at 4:15 and explained the visit by Rist. I was informed by Secretary Morgenthau that the decision of which he had informed me on Saturday night had been entirely final, and furthermore
those

- 2 -

those whom he had consulted unanimously approved. A statement of Chairman MacReynolds/^{of the Foreign Affairs Committee} was read to me by the Secretary, in which the French Government's alleged proposal to seek American funds for the huge defense loan program was criticised, in view of the fact that France had not yet paid its war debts to the United States. I telephoned to Professor Rist at the Ministry of Finance after the conversation with Secretary Morgenthau, and emphasized the final character of the decision by the American authorities, and repeated to him the statement of Chairman MacReynolds. He said that he understood the situation fully.

END MESSAGE.

WILSON.

EA:LWW

RECEIVED
NOV 2 1937
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.