

DIARY

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March 9 - March 12, 1937

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- c) British also turned down French and French then retorted whether it was liked or not they were going to do it and do it in London
- d) HMJr goes to Hill and works it out so that Robinson gives out release
- e) HMJr feels this brings Great Britain and United States closer together
- f) French also approached Bank for International Settlements, asking it to do the paying, and Bank for International Settlements refused
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Tuesday
March 9, 1937
10:00 a.m.

George
Harrison: How are you getting along?

HMJr: Well, physically I'm low today, I don't feel very well, -

H: Oh, I'm sorry.

HMJr: But, no wonder, after what happened yesterday.

H: But I thought you came out of it very well.

HMJr: Did you see the morning papers?

H: Yes

HMJr: Did you like it?

H: Well, don't you think so? I thought -

HMJr: Oh, I'm very happy about it.

H: Good

HMJr: Because, let me go back and tell you a little bit what happened yesterday. In the forenoon I got a telephone call from Cochran that Professor Rist had called on him and made a strong plea that we change, see?

H: Yes

HMJr: Then at two-thirty in comes Bonnet with the damndest memorandum you ever saw, telling me that we didn't interpret the Johnson Act correctly -

H: (Laughs)

HMJr: Then they went on to threaten me, which - they said if we didn't do this why they'd put in exchange control and other things and then he ended up with a statement by saying that Auriol wanted me to know that if I refused this I personally would be responsible for the failure of the French loan.

H: Downright impertinent guy.

HMJr: Impertinent is right. So I told him, I said -

I got terribly excited, that's why I've got this sick headache today - I said - I got terribly excited and I said, "Well, Mr. Ambassador, with all due respect to Mr. Auriol, if your loan is a failure there is just one reason and that is because the French investors haven't got confidence in your Government." And I said, "How can whether you do or don't designate a New York bank as an agent - how - what's that got to do with the success of your loan?" And then later on the English came in with a personal note from Mr. Chamberlain and the French told the English, whether they liked it or not they were going to do it and do it in London. To which Mr. Chamberlain told them they were going to do no such thing. I -

H: The British have turned them down?

HMJr: Pardon me?

H: The British have turned them down?

HMJr: Oh, very emphatically.

H: Yes

HMJr: But - and you can see that Chamberlain lost his temper with them, I mean, the French are behaving outrageously.

H: Yes

HMJr: I mean, to come in and tell me, first, that I don't know how to interpret the Johnson Act and second, that if the loan's a failure it's my personal fault. And -

H: I think that's the darndest cheek I ever heard of.

HMJr: Oh, well, I mean -

H: And after all you've done for those birds.

HMJr: Well, that's what I thought. And then, of course, I went up on the Hill and I was more than pleased to work it out so that Robinson would give this thing out, on account of all this stuff in the papers.

H: Yes

HMJr: And, of course, if the majority leader of the House - Senate - wants to do such a thing nobody can criticize him, you know?

H: Yes

HMJr: And I told him, I said, "Mr. Bonnet, take my word for this, the behavior of your Government is losing friends every hour for the French in the United States." And I said, "You're absolutely on the wrong track." And, well, I mean - Feis was here through the thing, he said - he said since London he has never seen such a thing go on.

H: Yes

HMJr: He said - that since the London Economic Conference -

H: Yes

HMJr: But the only good out of the whole thing - there's always some good - it's brought the English and ourselves closer together than we've ever been.

H: (Laughs) I think that's undoubtedly true.

HMJr: Oh yes, because Chamberlain's note was most friendly to me. And of course, you see, he sent me another note Sunday night begging me to stand by my guns because he had no legal ground and we did. So I sent a message to him last night and I said, "Well, at least out of this thing we have come a little closer and it shows that, - " And I said, "What it works out is that if we're going to have stable currency in the world it's to resolve upon the English Government and ourselves and nobody else."

H: I think you're right.

HMJr: What?

H: I've felt that in the wind for a long time.

HMJr: But it's brought us closer together, because it's like playing a game; if you find the fellow is a sportsman and doesn't cheat you get so you like him.

H: Yes

H.M.Jr: But if you find that a fellow is playing golf and when you don't look he kicks the ball into the hole you don't like to play with him again.

H: And you don't do it.

HMJr: What?

H: And you don't do it.

HMJr: And you don't do it.

H: Yes.

HMJr: But that's the situation. And -

H: I wonder who is responsible for that.

HMJr: Over there?

H: Yes - is it Auriol? I guess it is.

HMJr: I don't know, I don't - I don't pretend to be able to interpret the Frenchman's mind, I mean, it's - And of course, the more you see of this fellow Bonnet the less confidence you get in him.

H: Yes.

HMJr: As Bullitt said - Bullitt said, "If I'd have been given a message like that to deliver before I'd delivered it I'd have called my Government back and told them how impossible it was." But when I - when I went after Bonnet they tell me he went just as white as a sheet.

H: Huh - I'm glad you did.

HMJr: Oh, well, I'm not going to have anybody sit and point his finger at me and tell me because I won't permit something which is against the law that I am to blame for a failure of their financing. And of course, the beauty - the beauty was that this statement which I gave out to the press was the kind that could be given out without any offense to anybody, thanks to you.

H: Well, I'm glad you feel that way.

HMJr: Yes.

H: You remember I told you at the time that was going to be an important document some day.

HMJr: Well, it's - we didn't have to wait - and I couldn't have given it out.

H: Yes.

HMJr: But if Robinson, Pittman, the Speaker Bankhead, and McReynolds, the four of them decided they wanted to give it out, after I had planted the seed in their mind, the public can't object.

H: Yes.

HMJr: Or anybody else.

H: Yes - Well, I haven't heard any objection at all. Of course, all I've seen so far is just the news comment.

HMJr: Yes - Well, they wrote a fair story.

H: Yes, I thought they wrote a very good story.

HMJr: Yes.

H: I read the one in the Times.

HMJr: Yes, it was perfectly fair.

H: Yes.

HMJr: And - oh incidentally -

H: Is there anything I can do to help you?

HMJr: Pardon me?

H: Anything I can do to help you?

HMJr: No - just this will interest you. The French also approached the B. I. S. and asked them to do the paying. And the B. I. S. turned them down.

H: Really?

HMJr: Yes - I thought you'd like to know that.

H: That's Norman.

HMJr: Oh! - I haven't read it yet, but Norman is just wild he's so angry!

H: Yes.

HMJr: He is furious!

H: (Laughs)

HMJr: And 'what's his name' was there Sunday.

H: Cochran?

HMJr: Yes. He - Norman - he said he has never seen Norman so angry, - at the French.

H: On the way - on the ground of the way it's handled?

HMJr: Well, it's the impertinence and - and this whole thing, they've tried to force the British just the way they did us.

H: Yes.

HMJr: You see?

H: Yes.

HMJr: What?

H: Well, that's all very interesting. I wonder what's going to happen now.

HMJr: It -

H: It shows how weak they are because they're afraid, as Bonnet himself said, to do it without the New York and London paying agents, because people will believe that they'll go back on their word.

HMJr: Well, of course, the whole - yesterday morning before this happened my feeling was, well, things are a little better and maybe the French can pull through. Then when they layed such stress on this thing and - my God! those people must be weak.

H: Yes.

HMJr: You know?

H: Yes.

HMJr: No, there's nothing - that's just the gossip and - I don't know how our bond market is today, but putting in those orders yesterday was enough to stop it from falling any further; we didn't get anything.

H: You didn't get anything?

HMJr: I just -

H: Burgess says he thinks that the thing was turning on its own account then anyway, Henry.

HMJr: He thinks what?

H: - that the market was turning on its own account then.

HMJr: Oh, you tell Burgess 'to hell with him.' I say I picked the psychological moment to put in the order.

H: Oh, and I think you did, I'm not - don't misunderstand.

HMJr: No, I'm just kidding. But you tell Burgess I picked the psychological moment to turn the market and that I prefer my interpretation - (Laughs)

H: (Laughs) Well, that may be right, but I think the other interpretation is better in a way (laughs) as far as your bond market is concerned.

HMJr: Oh, as far as the public is concerned Burgess is right.

H: Yes.

HMJr: What?

H: Yes.

HMJr: Well, I'm not being too serious.

H: (Laughs) All right.

HMJr: You might keep your eye on the bond market today.

H: Yes, I shall.

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HMJr: No, I'm glad that we didn't have to buy anything.

H: Yes.

HMJr: Because I'd much rather have it that way.

H: Yes.

HMJr: But I think that as long as there is three quarters of a point margin the thing will go all right. Don't you?

H: Well, I think it will.

HMJr: Yes.

H: I think it will. But I'm awfully glad that you went the whole way.

HMJr: Oh my yes! And so is the President today.

H: Good -

HMJr: Yes - all right.

H: All right, Henry.

HMJr: Goodbye.

H: All right, goodbye.

March 9, 1937.
10:25 a.m.

O: Dr. Burgess - go ahead.

H.M.Jr: Hello

Burgess: Oh hello sir.

H.M.Jr: Good morning.

B: Well the market opened a little bit weaker.....

H.M.Jr: Oh.

B: a thirty-second or two off.

H.M.Jr: Oh.

B: We've acquired about a million and a quarter so far.

H.M.Jr: When you say "we" you mean for us.

B: I mean you.

H.M.Jr: Yes.

B: (Laughs) When I say we I mean you.

H.M.Jr: Right.

B: And.....

H.M.Jr: What have you bought?

B: We bought - ah - about three of those issues two and seven eighths.....

H.M.Jr: I don't hear very well.

B: The 2-7/8's....

H.M.Jr: Yes.

B:and the 2-1/2's.....

H.M.Jr: Yes.

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B:mostly - ah - one or - a little of one or two other issues.

H.M.Jr: How are my 2-1/2's? What are they at?

B: They are 24-25.

H.M.Jr: Ah-ha.

B: And we think that - that it may be desirable to buy a little more than a quarter of a million perhaps at one or two points.

H.M.Jr: Well let me tell you this - how I feel and then ask what you want to know.

B: Yes.

H.M.Jr: I think the market's entirely wrong.

B: Yes.

H.M.Jr: Ah - I'm very bullish on governments.

B: Ah-ha.

H.M.Jr: I've got 65 million dollars to invest.

B: Yes.

H.M.Jr: And this is as good a time as I know to invest it.

B: That's right - yes.

H.M.Jr: So - ah - you can't go too heavily to suit me.

B: All right.

H.M.Jr: See?

B: Yes.

H.M.Jr: And - ah...

B: Well I've already gone a little stronger than you suggested yesterday and I'm for that. I think we can hold it about here.

H.M.Jr: Well I wouldn't let it go much further, Burgess.

B: Yes.

H.M.Jr: Because I've got the money to invest and this is a good time. I mean I wouldn't let it go much - they're wrong downtown, see?

B: I think so, yes.

H.M.Jr: And this - I've got the 65 million; I'd like to invest it; prices are cheap so go to it will you?

B: Yes, O.K.

H.M.Jr: All right.

B: Fine.

H.M.Jr: All right.

March 9, 1937.
10:32 a.m.

12

H.M.Jr: Hello

O: Ambassador Troyanovsky. Go ahead.

H.M.Jr: Hello

T: Hello

H.M.Jr: Mr. Ambassador.

T: Yes.

H.M.Jr: Mr. Morgenthau speaking.

T: Good morning Mr. Morgenthau.

H.M.Jr: How are you?

T: Fine, thank you and you?

H.M.Jr: Mr. Ambassador, we're looking forward to coming to your home tonight.....

T: Yes.

H.M.Jr:and you know President Roosevelt is going to speak on the radio at 10:30....

T: Yes.

H.M.Jr:and I wondered if it would be possible maybe Mrs. Morgenthau and I - we're so anxious to hear him speak.....

T: Yes.

H.M.Jr: ..We might want to leave a few minutes earlier, you see?

T: All right.

H.M.Jr: In order to hear President Roos.....

T: Yes I understand.....

H.M.Jr: Pardon me?

T: I understand - I want to hear myself too.
H.M.Jr: You want to hear it also.
T: Yes (laughs)
H.M.Jr: Well maybe we can hear it together then.
T: Yes, maybe (laughs)
H.M.Jr: Because its going to be an important speech....
T: Definitely - I think then I will listen.
H.M.Jr: Pardon me?
T: I can arrange it.
H.M.Jr: Thank you very much.
T: That's all right.
H.M.Jr: Thank you. Goodbye.

March 9, 1937.
10:39 a.m.

H.M.Jr: Hello

Senator
Joe Robin- Hello Henry.

son:
H.M.Jr: Joe?

Yes sir.

H.M.Jr: I just wanted to call up and again tell you how much I appreciated your having that meeting yesterday and how helpful it was for me.

R: It worked out all right, didn't it?

H.M.Jr: And the President was very much pleased.

R: What?

H.M.Jr: The President was very much pleased.

R: Was he?

H.M.Jr: Yes, I spoke to him this morning. He said he thought it was fine.

R: Yes.

H.M.Jr: And I just wanted to tell you again thank you.

R: Well that's all right. I think there's a matter remotely connected with that which we ought to talk over in the early future.

H.M.Jr: What's that for.

R: What?

H.M.Jr: What is that?

R: Its about these war debts.

H.M.Jr: Oh yes.

R: They don't seem to have any thought of paying.....

H.M.Jr: No.

R:or adjusting or anything else.....

H.M.Jr: No.

R:but they want some new loans.

H.M.Jr: That's right.

R: And I think it may be well now to give some consideration....

H.M.Jr: Yes.

R:to that subject.

H.M.Jr: Yes.

R: If they're ever going to pay its a good time to revive an agitation in favor of paying. What do you think about it?

H.M.Jr: Well I - I - I'd like to talk to you about it sometime. Its - its - this whole foreign thing is so ticklish and having things going so badly abroad - they're looking for a goat all the time, you know?

R: Yes.

H.M.Jr: And I want to make sure that they don't make us the goat.

R: I see.

H.M.Jr: But I - I'd be more than pleased to discuss it.

R: All right, sir. All right, thank you.

H.M.Jr: Thank you, Joe.

R: Goodbye.

March 9, 1937.
10:44 a.m.

H.M.Jr: Hello

Fahey: Good morning, Mr. Secretary, Fahey talking.

H.M.Jr: Henry to you.

F: What?

H.M.Jr: Henry to you.

F: All righto. Say can you arrange so I can buy some French bonds this morning.

H.M.Jr: Well now I tell you John I might be able to do it but you'll have to pay a premium.

F: (Laughs) Well (laughs)

H.M.Jr: What?

F: That's all right.

H.M.Jr: Say those boys handled themselves badly. They tried to force my hand by releases/abroad, see?
from

F: Well I should say they did.

H.M.Jr: And they just pushed me a little bit too far.

FL I think you're dead right.

H.M.Jr: What?

F: Yes, sure. I thought you handled it splendidly.....

H.M.Jr: Thank you.

F:if you'll permit me to say so.

H.M.Jr: What's worrying you?

F: Oh they said you wanted me to call you.

H.M.Jr: No - I got a message - well I guess Mrs. Klotz is worrying because I hadn't given you an appointment or you hadn't asked for one.

F: Oh that's that hang-over.

H.M.Jr: That's that hang-over.

F: All right. How are you fixed for anytime to-day?

H.M.Jr: I'm not fixed to-day because I'm a little under the weather but I'm all right tomorrow.

F: All right.

H.M.Jr: How about 10:15?

F: Ah - well now I'll tell you.

H.M.Jr: What's your trouble.

F: The - I've got to go to New York tomorrow and I'm - but I think 10:15 would be all right.

H.M.Jr: Well I mean what time do you go to New York?

F: I'm going in the afternoon.

H.M.Jr: Well, I mean anytime between - is 11 o'clock better?

F: Well now the only thing on that is that I'm supposed to be over at the White House a few minutes tomorrow morning.

H.M.Jr: Well why don't we make it 10:15 and if you have to go to the White House give me a ring and we'll adjust it.

F: That's grand.

H.M.Jr: How's that?

F: That's first rate.

H.M.Jr: If I don't hear from you I'll look for you at 10:15; if you get a White House appointment of course go.

F: All right, I want to talk to you a few minutes about this Wagner thing and two or three other things connected with it.

H.M.Jr: O.K., John, I'll be glad to see you.

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F: But I think we've got to make some headway on it.

H.M.Jr: O.K.

F: All right, 10:15 if you don't hear from me by 9:30 or so.

H.M.Jr: All right, John.

F: Thank you.

March 9, 1937.
11:02 a.m.

H. Merle Cochran: Hello.

H.M.Jr: Hello Cochran.

C: Hello Mr. Morgenthau.

H.M.Jr: Good morning.

C: How are you?

H.M.Jr: Oh I'm a little weary after yesterday.

C: Guess you had a strenuous time.

H.M.Jr: Terrific.

C: Yes - yes.

H.M.Jr: And I just - ah - how do we stand today; are they talking to you?

C: No - I haven't had a word from them today.

H.M.Jr: Nor I either.

C: No, I think Mr. - Senator Robinson's statement sort of quieted things for a little while.

H.M.Jr: Well I think so because Bonnet came in at 2:30 our time and gave me a note which I'll mail you a copy of.

C: Yes.

H.M.Jr: Which is just unbelievable.

C: Yes, is that so?

H.M.Jr: Oh, just unbelievable - I'll mail it to you.

C: All right.

H.M.Jr: Ah - in the first place he started - they started to argue with me as to our interpretation of the Johnson Act.

C: Oh good heavens.

H.M.Jr: And then on top of that he told me that if the loan failed I'd personally be responsible.

C: Of all the nerve.

H.M.Jr: Yes.

C: No - no - I gave you a little hint on him you know when I was there.

H.M.Jr: Yes.

C: Its just been too sharp all a round you this time.

H.M.Jr: Yes - yes - and they told our British friends that whether they liked it or not they were going ahead with the loan.

C: Is that so? Is - is there any chance of the British changing?

H.M.Jr: What's that?

C: There's no chance of the British weakening on that decision?

H.M.Jr: Oh no.

C: No.

H.M.Jr: No, they were much

C: From my colleagues you know.

H.M.Jr: No - no.

C: But I didn't think there was any chance.

H.M.Jr: Pardon me?

C: I say I've got the copy of the telegram from Butterworth, you see?

H.M.Jr: Yes. No - no.

C: And from this statement and from my contact down at Basel there was any chance at all of them changing.

H.M.Jr: Oh no. - they've gone even further. They've told them that - the French told the British they were going ahead no matter what the British said.

C: Yes.

H.M.Jr: And the British came back and told them if they did well they wouldn't permit it to be listed or dealt in in England.

C: Yes - yes.

H.M.Jr: No - the British are very much upset about it as we were.

C: Well, they continue here in calling it an option loan and so on, you see?

H.M.Jr: Yes.

C: And the New York-Paris Herald carries your statement very correctly, you see?

H.M.Jr: Yes.

C: I mean the reports. But most of the French papers just give a little attention to that.

H.M.Jr: Ah-ha. Well they - well I can understand that.

C: Yes. They give wide attention to a statement of General Johnson, you see?

H.M.Jr: Yes.

C: And to two or three New York papers which think that American capital might find this interesting, you see?

H.M.Jr: I didn't even know that General Johnson made a statement.

C: Yes (laughs) he's given out one.

H.M.Jr: Well

C: Saying that we haven't come to their help, and so on. And then there's one thing that's played up quite a bit in the paper they call -

H.M.Jr: Yes.

C: - which is their paper. The question that the Ambassador will give a - us - a Bonnet is giving a radio speech this evening at 7:45. Do you follow?

H.M.Jr: Yes I hear you.

C: Is giving a radio speech at 7:45 appealing to French capital in the United States to go home, and said that out of courtesy and diplomacy he will have to make the speech in English.

H.M.Jr: Have to do what?

C: Translate for the millions of hearers throughout the country to learn the attractive terms of this loan which is specified in dollars, sterling, and francs.

H.M.Jr: Bonnet's making such a speech?

C: That Bonnet is to give this speech tonight, you see.

H.M.Jr: In English?

C: Yes.

H.M.Jr: 7:45.

C: That's what the paper here says.

H.M.Jr: What's that?

C: That Bonnet will broadcast tonight at 7:45.

H.M.Jr: Well now wait a minute - just a minute - let's see - 7:45?

C: Yes.

H.M.Jr: Just a second - I'm looking for the radio news - ah - I think there must be some mistake.

C: This - this is the only place I've seen it but it's in this paper which is one of the good papers.

H.M.Jr: Ah - they say it's not listed tonight.

C: Is that so?

H.M.Jr: I'll check it though.

C: Yes.

H.M.Jr: I'll check it. I'll - I'll check it with the radio companies. Ah - what else do you know.

C: Oh, listen - hello.

H.M.Jr: Yes.

C: It - it says that on the day - I thought it said -
no it says the day that this is voted he will do that.

H.M.Jr: Oh I see. Well, Herbert Feis is here and if he - don't know what he's going to do but it's up to him anyway.

C: Yes.

H.M.Jr: I mean he's looking very stern and I can't tell what he's going to do.

C: Yes.

H.M.Jr: He says he'll tell Mr. Hull.

C: Yes, but it was just one page - I'll read more of it ...

H.M.Jr: Ah-ha.

C: ... it looks as if it will be on the day that the loan is launched.

H.M.Jr: I see.

C: And their average vote is here. As it is now its being debated in the Chamber this afternoon.

H.M.Jr: I see.

C: Subject to tax with a number - with a good majority.

H.M.Jr: Yes.

C: But, there are a number of speakers - it may get to the Senate tonight, but there's not much chance of it being passed before tomorrow.

H.M.Jr: Ah-ha.

- 6 -

C: So they couldn't launch the loan until the next day.

H.M.Jr: All right.

C: And they - they had a fairly good day yesterday getting sterling.

H.M.Jr: Yes.

C: The - the operations of the fund amounted to four hundred and thirty million francs.

H.M.Jr: Ah-ha.

C: That was mostly sterling and today they're getting quite a bit.

H.M.Jr: Well there's only one good that has come out of this whole thing.

C: What's that?

H.M.Jr: It's brought the English and ourselves closer together than we've ever been.

C: I think so.

H.M.Jr: Yes.

C: When I was down in the country over the week-end - I never saw them wanting to be so cordial and stand side to side.

H.M.Jr: Pardon me?

C: I say they were more cordial to me than they'd ever been.

H.M.Jr: Yes. Of course I think what you told us about Leith Ross is very amusing.

C: About what?

H.M.Jr: About Frederick Leith Ross.

C: Oh yes (laughs) yes.

H.M.Jr: Yes.

- 7 -

C: Oh there's a feud on I think now.

H.M.Jr: It shows that we're not the only government that sometimes haven't a united front.

C: (Laughs) Oh they aren't as just - as you know.

H.M.Jr: Yes. Anything else?

C: No - I just wired you this noon

H.M.Jr: Yes.

C: the text of that law as they introduced it.

H.M.Jr: All right, now just a minute - Herbert Feis wants
(Pause)

H.M.Jr: Ah - Herbert Feis says please to tell Mr. Wilson

C: Yes.

H.M.Jr: to continue full political reporting.

C: To do what?

H.M.Jr: To continue full political reporting.

C: Continue full political reporting.

H.M.Jr: Yes.

C: I'll tell him right away.

H.M.Jr: That Herbert Feis said that Wilson should continue full political reporting.

C: Tell Wilson to continue full political reporting.

H.M.Jr: Yes, now just a minute.

C: I'll see him in a few minutes.

H.M.Jr: (Aside to Feis: "Anything else?")

H.M.Jr: That's all, thank you.

C: All right, sir. Goodbye.

H.M.Jr: Goodbye.

Tuesday
March 9, 1937
11:28 a. m.

HMJr: Hello
Treas.
Operator: Doctor Burgess -

HMJr: Hello -

B: Hello, sir.

HMJr: Well, how is our bond market?

B: (Laughs) Our bond market is doing better.

HMJr: Is doing better?

B: That is, it seems to be holding at these levels.

HMJr: Good -

B: As I thought perhaps it might.

HMJr: Good -

B: We haven't - we haven't any more to speak of -

HMJr: Yes

B: Something under two million.

HMJr: Well, that's good.

B: And it seems to be holding so that it looks pretty good. I think - perhaps we've passed the critical point.

HMJr: Yes

B: I'm crossing my fingers and knocking wood.

HMJr: Pardon me?

B: I'm crossing fingers and knocking wood, but I think we may have.

HMJr: I see - but you feel a little better about it?

B: Yes

HMJr: Yes

-2-

B: Yes, it seems to be holding pretty well.

HMJr: What are the big banks advising their correspondents? Do you know what they are telling them to do on this conversion?

B: No, I don't.

HMJr: Supposing you make a little check -

B: I think the price is an indication of it pretty much. I'll call up a couple of them, though.

HMJr: Yes - well, confidentially I mean - I don't -

B: Yes

HMJr: I'm going home and take a little rest; I don't feel very well. And I'll get in touch with later on -

B: All right.

HMJr: In a couple of hours.

B: Yes

HMJr: But Wayne Taylor is here and he'll sort of watch the thing if anything goes wrong.

B: Yes

HMJr: But I would like to know if you'd do a little phoning around, you see?

B: Yes, yes

HMJr: I'll leave it to you. I mean, do it - you know -

B: Yes, yes - All right, I'll nose around a little.

HMJr: Nose around a little.

B: Yes

HMJr: Any gossip on our French business or - ?

B: No, I haven't heard much about that.

-3-

HMJr: Good - all right.

B: I've been pretty close to this market.

HMJr: Thank you.

B: Good.

Tuesday
March 9, 1937
11:43 a. m.

29

George
Harrison: Hello, Henry -

H.M.Jr: Hello, George -

H: Russel Leffingwell has just me.

H.M.Jr: Yes.

H: And, while there is nothing of importance because it's all settled, I thought you might be interested to know - and I keep you informed - it appears that yesterday afternoon -

H.M.Jr: Yes.

H: - they got a telegram from Morgan and Company in Paris -

H.M.Jr: Morgan Hodges?

H: Well, it used to be Morgan Harges, it's no longer that; it's Morgan and Company.

H.M.Jr: Oh -

H: And - in which they are not even partners any more, they just have stock ownership I think.

H.M.Jr: I see.

H: Why - just asking whether if and when a French loan were issued -

H.M.Jr: Yes.

H: - And if they were asked - Morgan and Company -

H.M.Jr: Yes.

H: Would they be willing to act as paying agent here in New York.

H.M.Jr: Yes.

H: And they yesterday afternoon sent a cable to them, before they had heard of your - or saw your testimony or knew that you were even at Congress -

H.M.Jr: Yes.

H: - in which they said that while they saw no legal reason why, if France gave them dollars, they shouldn't pay dollar obligations for them just as they do for other things for them currently; -

H.M.Jr: Yes.

H: - nevertheless, they thought that there was so much said about the Johnson Act and it was so important that the French should not do anything at all by indirection or direction which would appear to be a violation of the Johnson; that they hoped they would not ask them the question.

H.M.Jr: I see.

H: And - that was the cable they sent. And then I asked Leffingwell this morning whether the cable - he thought the cable came from the - uninspired from their partners or whether it came as a result of some inquiry from the French. And Mr. Lamont this morning while I was talking to Leffingwell called up Paris and found out it was their own little bright idea, having seen that they - the French might ask for a paying agent in New York and London.

H.M.Jr: It was their own idea?

H: It was their own idea only and they assured and promised Mr. Lamont that the French had not asked the question, had not suggested it and had done nothing about it.

H.M.Jr: I see.

H: So I wanted to give you that background in case you heard anything else.

H.M.Jr: Thank you.

H: So it's all settled so far as they are concerned. And the inquiry which came, came just in view of press dispatches that they saw in Paris and not inspired by the French.

H.M.Jr: All right, well, thank you very much, George.

H: All right.

March 9, 1937

HM, Jr. called Secretary Hull at 5:30 and said, "I went up on the Hill and saw Senator Robinson. They took the stuff that I gave them. It was the question which I had been asked and my answer that they gave out to the press. Senator Robinson gave it out personally. And then I had my regular press conference and refused to make any comments on it. If the French say anything I can say, 'After all, if the Senators want to say anything I can't stop them'."

HM, Jr. also told Mr. Hull about his interview with Bonnet at 2:30.



DEPARTMENT OF STATE
WASHINGTON

March 9, 1937

My dear Mr. Secretary:

Upon receiving Mr. Feis' report regarding the prospective radio address of Ambassador Bonnet, the Department discussed the matter with Mr. Henry, Counselor of the French Embassy.

I am enclosing a copy of a memorandum of the conversation for your information.

Sincerely yours,

Cordell Hull

Enclosure:
Memorandum of
conversation,
March 9, 1937.

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.

RECEIVED DEPARTMENT OF STATE
MAR 10 1937
CRANE

Department of State

BUREAU } EA
DIVISION }

ENCLOSURE

TO

Letter drafted

ADDRESSED TO

..... **TREASURY**

March 9, 1937

MEMORANDUM FOR THE SECRETARY:

After discussing with you the reports which Dr. Feis told us the Treasury has received to the effect that several Paris newspapers are stating that Ambassador Bonnet is to make an address on the radio from here on the night the new French loan is to be issued, appealing for the repatriation of funds invested here in order that they may be applied to the purchase of the new French loan, I called up Mr. Henry, Counselor of the French Embassy, to tell him that we had heard of these articles in the French press and that we did not believe they were correct, but merely wished to point out that there were people in this country who might be very ready strongly to criticise any appeal made by the Ambassador from here in connection with funds to be invested in the French loan, or, in fact, anything that might be in any way construed by those who would wish to magnify anything he said with reference to dollar investments in the loan.

Mr. Henry stated that these articles were entirely erroneous. He explained that upon his arrival in New York, Mr. Bonnet was asked by the National Broadcasting Company

Company to make a radio address and that he had at that time declined to do so until after he had presented his letters of credence; that a few days ago the National Broadcasting Company had reminded the Ambassador of their offer and had placed time at his disposal on the night of next Thursday, March 11; that the Ambassador had accepted and proposed to make a speech in English along the lines of those which had been made by Ambassadors here previously mentioning that made by Mr. Rosso and others. Mr. Henry stated that the Ambassador was to speak on the French situation and that if he did mention the question of repatriation of French investments from the United States, it would be clearly in line with the desires of the Treasury as expressed over a period of recent months to reduce the amount of foreign investments in this country. I said that such would have been undoubtedly the case if it had been done previous to the situation which has arisen within the last few days with regard to the matter of dollar investments in the French loan, but that at this particular time it might be construed, of course, by those who wished to magnify anything said in that connection, as having some relation to the obtaining of dollar investments for the French loan. Mr. Henry then said that he thought quite certainly that the Ambassador would make

no

no reference to the question of dollar investments in the French loan; that it would be an address along the general lines of the French situation and that he felt that the Ambassador might even want to send us a copy of his proposed address in order to make certain that it did not in any way raise any controversial questions.

I gathered the impression that Mr. Henry did not seem at all pleased that we should even bring up the question with him, but I explained that while we ourselves had felt that these reports were entirely incorrect, we felt that we should mention the possibility of some misunderstanding arising from any reference in the Ambassador's address which might be criticised and thus make any more difficult the work of both the Embassy and of the Department by permitting misconstruction to be placed on anything he said which might touch this particular situation which has arisen in connection with the French loan.

James Clement Dunn

WE JCD.GAM

PARAPHRASE (PARTIAL) OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 9, 1937, 6 p.m.

NO.: 331

FROM COCHRAN

Franc spot and forward strengthened on Paris market today and French control is reported to have obtained considerable amount of sterling at around 106.92 and 93.

Yesterday the turnover of the control in French francs was 430,000,000, and sterling was acquired with most of that. As yet there has been no movement started to turn in domestic gold in significant amounts under the new regulations at the Bank of France. French rentes were up on an average of one franc with a heavy turnover and in spite of important sales by the Caisse de Depots. French share market was strong.

The Chamber is debating this afternoon the bill amending the monetary law of October 1, 1936 with the view to permitting the carrying out of the program envisaged by the Government's communique of last Friday and particularly the flotation of a national defense loan with exchange guarantee and option. The last word I have is

LMS 2-No. 331, March 9, 6 p. m., from Paris.

is that several speakers have been heard and that the Government has shown an inclination to meet to a surprising degree the demands of the Right wing for assurances as to the use of the funds to be borrowed and as to the future general policies of the Government. It is considered likely that the bill may not be voted until late this evening and that the Senate will not receive it therefore in time to vote it before tomorrow, Wednesday. (END SECTION ONE)

WILSON

HPD

RECEIVED
MAR 10 1947
TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20540

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 9, 1937, 6 p.m.

NO.: 331

SECTIONS TWO, THREE, AND FOUR.

FROM COCHRAN.

In my March 8 telegram No. 321, I gave the rather pessimistic views of the central bankers at Basel regarding the outlook for French financial recovery under the new program of the Government. The Bank of Japan director on the BIS board, Yanagita, called on me today on his way to London from Basel. Yanagita told me that yesterday sentiment at Basel continued to be skeptical as to the French situation. Central bankers unanimously hope that the French program will be successful, but they reserve their judgment until it can be seen to what extent political assurances the Government will give regarding its future social and economic program, and how capital will be treated.

The French press has begun a most active campaign in favor of the loan. Senator Robinson's statement regarding the refusing to France of permission to name a paying agent in the United States was reported fully in the NEW YORK HERALD of Paris but has not been copied extensively in the strictly French papers. The latter have given considerable space to reproducing extracts from New York papers which gave the impression that the flattering terms expected in the

French

- 2 -

French loan and particularly the option of exchange might attract important quantities of American capital. The opinion of General Johnson in the premises was quoted in the AGENCE ECONOMIQUE.

The most surprising press article was one appearing in the PARIS-MIDI today which reported that Ambassador Bonnet would at 7:45 p.m. on the day on which the French loan is floated deliver a radio address. The article said that out of courtesy and diplomacy the Ambassador would speak in English and for the same reasons the address would be directed primarily to French capital. To such funds he will explain that it is to their interest as well as their duty to subscribe to the French defense loan. The article added incidentally that the speech which Bonnet would make would be listened to by millions of American auditors and that they would thus hear of a French loan specified in three currencies of which the dollar is one to bear interest at a rate higher than that obtained on the American market. The author of this article said that Secretary Morgenthau's reply to Bonnet was quite comprehensible considering the Johnson law. The point was made, however, that without contravening this law American banks and citizens abroad could still subscribe to the loan. The concluding sentence was that "the French loan will be subscribed to even by Americans."

The Financial Counsellor of Great Britain in Paris, Rowe Dutton, telephoned me this evening at five o'clock

- 3 -

to see whether I had read the article above-mentioned which he said considerably astonished him. For the correct American version I referred him to the article in the PARIS HERALD.

Increasing optimism was shown toward the prospects for the French loan by the bankers and other market people with whom I have spoken today. Yesterday skepticism was shown by some who are now thoroughly convinced that the loan will be a success if the reports emanating from political circles that the Government is already giving long-awaited assurances against future aggression upon capital are true. It is difficult to believe that the stories that big subscriptions from the United States have already been received are true, for several reasons, not the least of which is that the terms of the loan have not yet been published. I was told this evening by the head of the Guaranty Trust here that not a single inquiry from the United States or from any American abroad had come to him regarding subscribing to the new French loan.

Some speculation is arising from the improved outlook for the loan as to whether London may not soon suffer from a heavy loss of capital to France - a loss of other flight capital that has taken refuge there in addition to French funds.

As yet it is still too early to get a clear picture of the situation. A great deal depends upon the developments

- 4 -

ments in the parliamentary debate and particularly upon
statements of the intentions of the Government.

END MESSAGE.

WILSON.

EA:LWW

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March 9, 1937

I telephoned the President and asked him if he had any comments to make on my statements about the French. He said, None. I told him that we had a very sloppy bond market yesterday and, much to my surprise, he said, "Well, I guess it's good that you priced the bonds generously".

I said, "I am looking forward to listening to your speech." He said, "Well, it's a very quiet one and you can sit by the fireside and eat marshmallows." I said, "Mr. President, I hate marshmallows." He said, "All right, eat chestnuts." So I said, "Will I see you before you leave?" He said, "Yes, we are going to have Cabinet meeting Wednesday afternoon. I am not leaving until Thursday."

I then told him how I had La Guardia come to my office and he held a meeting in my office. He loved it! And he said, "I am sending my son Jimmie over to the State Department today to find out what the State Department is doing to protest against some of the terrible things that the Nazis are saying about our people." So I said, "Did you see what they said about Governor Lehman and Judge Lehman?" And I said, "After all, if they attack people like that!" He said, "I didn't see that, but I did see what they did say about this group of Jewish women who met the other night in protest." He said, "They called them a lot of street-walkers and I am going to ask Jimmie to find out what the State Department is doing about it."

U

GRAY

Paris

Dated March 9, 1937

Rec'd 11:05 a.m.

Secretary of State

Washington

329, March 9, 1 p.m.

FOR TREASURY FROM COCHRAN.

The following is a translation of the text of the law which the Government has just laid before the Chamber of Deputies.

Article one. Within the limit of authorizations given by the Finance Law of December 31, 1936, the Minister of Finance is authorized to issue a loan providing as concerns capital and interest exchange guaranteed and option.

Article two. The provisions of articles eight, ten, eleven, and twelve of the Monetary Law of October 1, 1936 are abrogated.

Article three. The Minister of Finance is authorized to pay to holders of receipts delivered by the Bank of France at the time of surrender of gold or foreign currencies made in application of Article ten of the Monetary Law of October 1, 1936 and of Article fifty five of the Finance Law of December 31, 1936, the difference on the market between the value of the gold resulting from the application

U -2- #329, Mar. 9, 1 p.m. from Paris

application of the average rate practiced by the Bank of France over the period March 8, 9, and 10 and on the other hand the amount of the payment made to them in return for the gold surrendered increased if necessary by the value of the negotiable certificates which were delivered to them at the time of the issue of the three and one half per cent national defense loan. The value of the said certificates will be equal to the average Bourse quotation from December 23, 1936, to January 28, 1937.

Notwithstanding the provisions of Article two above persons who, having surrendered to the Bank of France at the market price the gold which they had declared to the administration of direct taxes, have obtained the delivery of negotiable certificates remain liable to a levy equal to the value of the said certificates determined as provided above.

WILSON

HPD
MAR 10 1937
RECEIVED
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

FEDERAL RESERVE BANK
OF NEW YORK

W. C. Coker 45

OFFICE CORRESPONDENCE

DATE March 9, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knobe

BANK OF FRANCE.

Mr. Cariguel called me at 11:50 today. The market had been pretty good again today, he said, and they had bought over £2,000,000 and about \$2,000,000.

I told him the demand for sterling in this market had been very substantial and we had sold over £800,000 so far this morning. There was also good demand for francs, I continued, but none were available. Cariguel then said that there was an order to us on the way quoting us 10690 to 10710 on francs and a gold price to correspond to those quotations.

[Handwritten signature]
LWK:KMC

RECEIVED
MAR 10 1937
FEDERAL RESERVE BANK
OF NEW YORK

PARIS.--VINCENT AURIOL, MINISTER OF FINANCE, PRESENTED THE GOVERNMENT'S BILL AUTHORIZING AN ESTIMATED BILLION DOLLAR DEFENSE LOAN TO PARLIAMENT TODAY. HE URGED SPEEDY ENACTMENT.

PARLIAMENTARY PLANS INDICATED THAT THE BILL WOULD BE RUSHED THROUGH IN TIME FOR A FIRST OFFERING TO BE MADE THURSDAY MORNING. AN ATTEMPT TO AMEND IT SO MONEY RAISED COULD NOT BE SPENT FOR ANYTHING BUT NATIONAL DEFENSE WAS REFUSED BY THE GOVERNMENT.

THE TREASURY AND THE BANK OF FRANCE REFUSED TO ACCEPT OFFERS FOR THE NATIONAL DEFENSE BONDS, PENDING PARLIAMENTARY APPROVAL.

3/9--R915A

ADD DEFENSE LOAN, PARIS

THE CHAMBER OF DEPUTIES FINANCE COMMITTEE APPROVED THE LOAN BILL, WITH THREE AMENDMENTS AS FOLLOWS:

1. THE LOAN WILL BE RESERVED EXCLUSIVELY FOR NATIONAL DEFENSE.
 2. ANY CURRENCY CONTROL MEASURES HEREAFTER WILL NEED PARLIAMENTARY APPROVAL.
 3. ONLY BANKS AND NOT INDIVIDUALS WILL BE ABLE TO PURCHASE GOLD.
- BLUM ASSURED THE COMMITTEE THAT HE WOULD NOT PROPOSE ANY NEW BILLS NATIONALIZING INDUSTRY.

3/9--R933A

PARIS--A ROW AMONG WOMEN IN THE GALLERIES, IN WHICH MME. LEON BLUM PARTICIPATED, CAUSED AN UPROAR TODAY IN THE CHAMBER OF DEPUTIES. DEBATE WAS SUSPENDED.

THE DISPUTE IN THE GALLERIES OCCURRED AS PREMIER BLUM WAS CONCLUDING HIS SPEECH SUPPORTING THE BILLION DOLLAR DEFENSE LOAN.

MRS. BLUM ENTERED THE ARGUMENT WITH OTHERS, INCLUDING THE WIFE OF FORMER PREMIER FERAND BOUISSON. THEIR DISCUSSION OF THE BLUM POLICIES WAS SO NOISY THAT THE CHAMBER SESSION WAS SUSPENDED.

PREMIER BLUM WENT UP TO THE GALLERY PERSONALLY TO LEARN THE NATURE OF THE WOMEN'S DIFFERENCES. HE SPOKE TO THEM BRIEFLY.

IN HIS ADDRESS TO THE CHAMBER, THE PREMIER SAID HE REFUSED TO ENTER ANY POLITICAL CONTROVERSY CONCERNING THE DEFENSE LOAN, AND ASKED THE DEPUTIES FOR AN EARLY VOTE ON THE MEASURE. IT WAS PRESENTED TO PARLIAMENT EARLIER BY FINANCE MINISTER VINCENT AURIOL.

3/9--CS132P

ADD CHAMBER, PARIS

THE NOISY DISTURBANCE AMONG THE WOMEN BEGAN WHEN THE WIFE OF A RIGHTIST DEPUTY, M. BIETRIX, BEGAN TO LAUGH WHEN PREMIER BLUM STOPPED SPEAKING. MME. BLUM WAS SITTING DIRECTLY IN FRONT OF MME. BIETRIX WITH MME. JULIEN CAEN, IN THE FIRST ROW OF THE GALLERY. SHE TURNED AND SAID:

"SHUT UP! YOU COULDN'T DO AS WELL AS HE."

THEY EXCHANGED INSULTS IN VOICES CARRYING THROUGH THE CHAMBER.

3/9--CS144P

Defense Loan

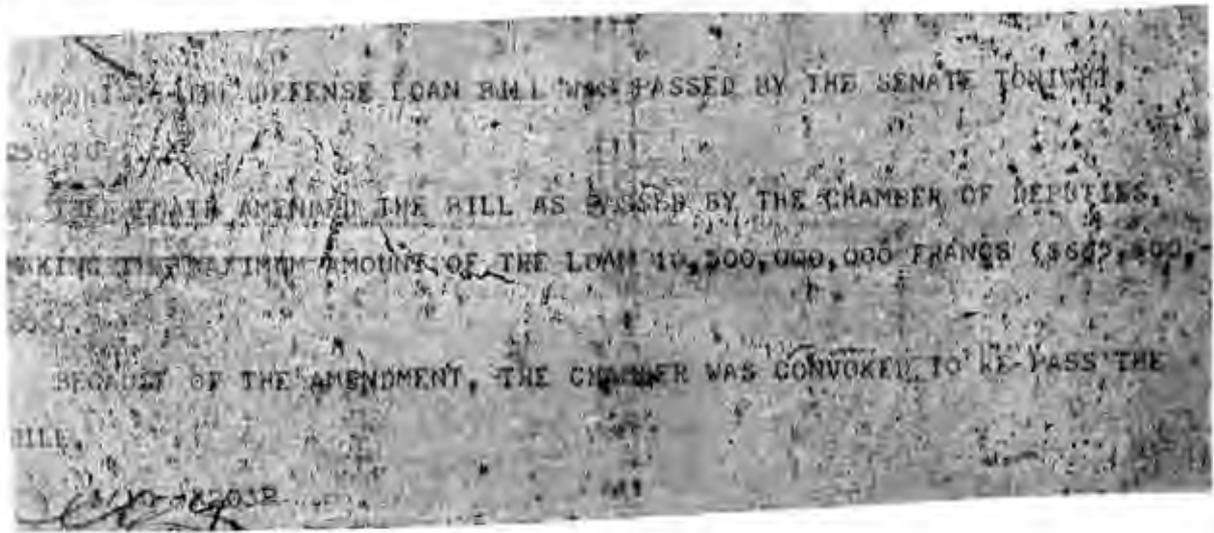
PARIS.--A FIRST INSTALMENT OF 5,000,000,000 FRANCS (\$228,500,000) OF THE NATIONAL DEFENSE LOAN WILL BE ISSUED TOMORROW AT 98, BEARING 4-1/2 PER CENT INTEREST AND REPAYABLE IN .60 YEARS, IT WAS ANNOUNCED TODAY. THE LIST WILL BE CLOSED MARCH 25.

3/10--R852A

PARIS--FRANCE'S BILLION DOLLAR DEFENSE LOAN BILL GOES TO THE SENATE TODAY WHERE IT IS EXPECTED TO BE ENACTED INTO LAW BY TONIGHT, IN TIME FOR A FIRST PUBLIC OFFERING TO BE MADE TOMORROW MORNING.

THE CHAMBER OF DEPUTIES APPROVED THE COUNTRY'S GREATEST PEACE-TIME LOAN LAST NIGHT.

3/10--TP10A



March 10, 1939
(DC 1:50 a.m.) - Approx.

Paris - Senate passed Defense Loan Bill.

SECRETARY MORGENTHAU SAID TODAY THERE IS NO INDICATION OF ANY MOVEMENT OF AMERICAN FUNDS ABROAD FOR THE PURPOSE OF PARTICIPATION IN THE FRENCH DEFENSE LOAN PROGRAM.

"THERE WERE NO IRREGULAR MOVEMENTS OF FUNDS IN OR OUT OF THE COUNTRY THIS WEEK," MORGENTHAU SAID.

INTEREST IN THE MATTER HAD BEEN INCREASED AS A RESULT OF THE TREASURY DEPARTMENT'S REFUSAL TO SANCTION A PLAN APPARENTLY DESIGNED TO CIRCUMVENT THE JOHNSON ACT, WHICH FORBIDS AMERICAN LOANS TO COUNTRIES WHICH HAVE NOT PAID THEIR WAR DEBTS. UNDER THE PLAN, A NEW YORK BANK WOULD HAVE BEEN PERMITTED TO ACT AS FISCAL AGENT FOR PRIVATE AMERICAN CITIZENS WISHING TO PARTICIPATE IN THE FRENCH LOAN.

"THE MATTER IS CLOSED SO FAR AS WE ARE CONCERNED," MORGENTHAU SAID.

3/11--R1119A

Bingham - Eden

LONDON--U. S. AMBASSADOR BINGHAM IS REPORTED RELIABLY TO HAVE URGED AGAIN ON THE FOREIGN OFFICE THAT RUBBER PRODUCING COUNTRIES SHOW "A GREATER CONSIDERATION" FOR CONSUMING COUNTRIES.

THE AMBASSADOR'S REPRESENTATIONS, MADE DURING A CALL ON FOREIGN SECRETARY EDEN YESTERDAY, WERE REGARDED AS OF ESPECIAL SIGNIFICANCE IN VIEW OF THE FORTHCOMING MEETING OF THE INTERNATIONAL RUBBER COMMITTEE HERE NEXT TUESDAY.

IT WAS BELIEVED THAT BINGHAM POINTED OUT THE DESIRABILITY OF FURTHER INCREASING THE QUOTA OF RUBBER WHICH PRODUCING STATES SHOULD RELEASE ON THE WORLD MARKET.

BINGHAM AND EDEN EXCHANGED VIEWS ON FINANCIAL DEVELOPMENTS IN FRANCE, THE AMBASSADOR PARTICULARLY ELICITING GREAT BRITAIN'S OPINION ON THE FUTURE MONETARY COLLABORATION OF THE UNITED STATES AND BRITAIN WITH FRANCE.

3/12--CS159P

PARIS.--THE FIRST INSTALLMENT OF FRANCE'S DEFENSE LOAN WAS OVER-SUBSCRIBED THREE TIMES, ACCORDING TO UNOFFICIAL REPORTS TODAY WHICH SAID SUBSCRIPTIONS AMOUNTED TO 15,000,000,000 FRANCS (\$683,500,000).

3/12--R219P

ADD FRENCH LOAN, PARIS

THE FULL AMOUNT OF THE LOAN WAS SET AT 10,500,000,000 FRANCS (\$481,950,000). IT WAS DECIDED, HOWEVER, ONLY TO ISSUE 5,000,000,000 FRANCS AT THIS TIME, LEAVING THE BOOKS OPEN UNTIL MARCH 23.

TWO REASONS WERE CITED FOR THE QUICK SUBSCRIPTIONS: THE HIGH INTEREST OF 4-1/2 PER CENT AND THE PATRIOTIC APPEAL FOR AID MADE BY THE PARTY IN POWER AND UPHELD ALMOST UNANIMOUSLY IN THE PARLIAMENT.

3/12--R229P

ADD FRENCH LOAN, PARIS

AMERICAN, ENGLISH, SWISS AND DUTCH NATIONALS WERE REPORTED TO HAVE SUBSCRIBED TO 3,000,000,000 FRANCS OF THE ISSUE.

3/12--R252P

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, March 9, 1937.
3/8/37.

Press Service
No. 9-74

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 2-1/2 percent Treasury Bonds for 1949-53 will close at the close of business Wednesday, March 10, 1937. This offering is open only to the holders of Treasury Notes of Series B-1937, maturing April 15, 1937.

Subscriptions placed in the mail before 12 o'clock midnight, Wednesday, March 10, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and their division among the several Federal Reserve districts will be made later.

-cc0cc-

TREASURY DEPARTMENT

53

INTER OFFICE COMMUNICATION

MEMORANDUM OF THE DAY'S ACTIVITIES
FOR MARCH NINTH

DATE March 9, 1937

TO Secretary Morgenthau
FROM Mr. Magill
Subject: Disposition of cases pending before the
Board of Tax Appeals

Mr. Oliphant, Mr. Shafroth and I discussed plans for the improvement of procedure in the General Counsel's office looking toward the more efficient disposition of cases pending before the Board. As you know, about four times as many cases are appealed by taxpayers to the Board each year as the Board can hear. Consequently, the General Counsel's office is under severe pressure to settle about three-fourths of the cases appealed and it is important that the machinery be adequate to protect the Government's interests and also to insure that the settlements will be made as expeditiously as possible.

Following the lines of a study by Mr. Oliphant, a simplification of procedure as to cases involving less than \$6,000. was agreed upon. We further agreed that Mr. Shafroth should take steps to cause the trial attorneys to prepare an agreed statement of facts in each case looking toward a stipulation and settlement with the taxpayer; and, secondly, that the trial attorneys should be ordered to make a specific denial rather than a general denial of the facts stated by the taxpayer in order to hasten the formulation of an issue. The first step is really insurance that the case will be adequately prepared by the trial attorney. We all three think that these reforms will considerably facilitate the disposition of these cases.

We also discussed the relations between the General Counsel's office and the Commissioner's office in connection with the settlement of cases. There are a number of difficulties which seem to arise primarily from failure in the past to draw a definite line of responsibility between the two offices. Mr. Oliphant is preparing a memorandum on the subject and when Mr. Helvering and Mr. McReynolds return we hope to be able to straighten out the situation.

RM

March 9, 1937.
10:25 a.m.

O: Dr. Burgess - go ahead.

H.M.Jr: Hello

Burgess: Oh hello sir.

H.M.Jr: Good morning.

B: Well the market opened a little bit weaker.....

H.M.Jr: Oh.

B:a thirty-second or two off.

H.M.Jr: Oh.

B: We've acquired about a million and a quarter so far.

H.M.Jr: When you say "we" you mean for us.

B: I mean you.

H.M.Jr: Yes.

B: (Laughs) When I say we I mean you.

H.M.Jr: Right.

B: And....

H.M.Jr: What have you bought?

B: We bought - ah - about three of those issues two and seven eighths....

H.M.Jr: I don't hear very well.

B: The 2-7/8's....

H.M.Jr: Yes.

B:and the 2-1/2's....

H.M.Jr: Yes.

B:mostly - ah - one or - a little of one or two other issues.

H.M.Jr: How are my 2-1/2's? What are they at?

B: They are 24-25.

H.M.Jr: Ah-ha.

B: And we think that - that it may be desirable to buy a little more than a quarter of a million perhaps at one or two points.

H.M.Jr: Well let me tell you this - how I feel and then ask what you want to know.

B: Yes.

H.M.Jr: I think the market's entirely wrong.

B: Yes.

H.M.Jr: Ah - I'm very bullish on governments.

B: Ah-ha.

H.M.Jr: I've got 65 million dollars to invest.

B: Yes.

H.M.Jr: And this is as good a time as I know to invest it.

B: That's right - yes.

H.M.Jr: So - ah - you can't go too heavily to suit me.

B: Allright.

H.M.Jr: See?

B: Yes.

H.M.Jr: And - ah....

B: Well I've already gone a little stronger than you suggested yesterday and I'm for that. I think we can hold it about **here**.

H.M.Jr: Well I wouldn't let it go much further, Burgess.

B: Yes.

H.M.Jr: Because I've got the money to invest and this is a good time. I mean I wouldn't let it go much - they're wrong downtown, see?

B: I think so, yes.

H.M.Jr: And this - I've got the 65 million; I'd like to invest it; prices are cheap so go to it will you?

B: Yes, O.K.

H.M.Jr: Alright.

B: Fine.

H.M.Jr: Alright.

Tuesday
March 9, 1937
11:28 a. m.

57

HMJr: Hello
Treas.
Operator: Doctor Burgess -

HMJr: Hello -

B: Hello, Sir

HMJr: Well, how is our bond market?

B: (Laughs) Our bond market is doing better.

HMJr: Is doing better?

B: That is, it seems to be holding at these levels.

HMJr: Good -

B: As I thought perhaps it might.

HMJr: Good -

B: We haven't - we haven't any more to speak of -

HMJr: Yes

B: Something under two million.

HMJr: Well, that's good.

B: And it seems to be holding so that it looks pretty good. I think - perhaps we've passed the critical point.

HMJr: Yes

B: I'm crossing my fingers and knocking wood.

HMJr: Pardon me?

B: I'm crossing fingers and knocking wood, but I think we may have.

HMJr: I see - but you feel a little better about it?

B: Yes

HMJr: Yes

-2-

B: Yes, it seems to be holding pretty well.

HMJr: What are the big banks advising their correspondents? Do you know what they are telling them to do on this conversion?

B: No, I don't.

HMJr: Supposing you make a little check -

B: I think the price is an indication of it pretty much. I'll call up a couple of them, though.

HMJr: Yes - well, confidentially I mean - I don't -

B: Yes

HMJr: I'm going home and take a little rest; I don't feel very well. And I'll get in touch with later on -

B: All right.

HMJr: In a couple of hours.

B: Yes

HMJr: But Wayne Taylor is here and he'll sort of watch the thing if anything goes wrong.

B: Yes

HMJr: But I would like to know if you'd do a little phoning around, you see?

B: Yes, yes

HMJr: I'll leave it to you. I mean, do it - you know -

B: Yes, yes - All right, I'll nose around a little.

HMJr: Nose around a little.

B: Yes

HMJr: Any gossip on our French business or - ?

B: No, I haven't heard much about that.

-3-

HMJr: Good - all right.

B: I've been pretty close to this market.

HMJR: Thank you.

B: Good

9:00

AURIOL PRESENTS PROGRAM

PARIS-UP- VINCENT AURIOL MINISTER OF FINANCE PRESENTED THE GOVERNMENT-S BILL AUTHORIZING A DEFENSE LOAN TO PARLIAMENT TODAY - HE URGED SPEEDY ENACTMENT

PARLIAMENTARY PLANS INDICATED THAT THE BILL WOULD BE RUSHED THROUGH IN TIME FOR A FIRST OFFERING TO BE MADE THURSDAY MORNING - AN ATTEMPT TO AMEND IT SO MONEY RAISED COULD NOT BE SPENT FOR ANYTHING BUT NATIONAL DEFENSE WAS REFUSED BY THE GOVERNMENT

THE TREASURY AND THE BANK OF FRANCE REFUSED TO ACCEPT OFFERS FOR THE NATIONAL DEFENSE BONDS PENDING PARLIAMENTARY APPROVAL

THEODORE ROUSSEAU DIRECTOR OF THE PARIS BRANCH OF THE GUARANTY TRUST CO OF N Y SAID HIS BANK HAD SUBSCRIBED NOTHING TO THE LOAN AND THAT HE HAD TALKED TO THE MANAGERS OF OTHER AMERICAN BRANCH BANKS IN PARIS AND THEY HAD ASSURED HIM THEIR ORGANIZATIONS HAD MADE NO SUBSCRIPTION

-THE PARIS BRANCHES BELIEVE THAT THEY AS FRENCH CORPORATIONS ESCAPE THE RESTRICTIONS OF THE JOHNSON ACT - HE SAID

THE MEASURE WENT TO THE CHAMBER OF DEPUTIES FINANCE COMMITTEE WHICH PLANNED TO BRING IT ON TO THE FLOOR FOR DEBATE STARTING AT 3 PM AND LASTING ALL NIGHT IF NECESSARY

THE SENATE FINANCE COMMITTEE WILL GET THE MEASURE TOMORROW AFTERNOON AND DEBATE IT

TOMORROW NIGHT FINISHING THE LEGISLATIVE
WORK IN TIME FOR THE FIRST PUBLIC OFFERING TO
BE MADE THURSDAY MORNING

THE TOTAL WILL NOT BE FIXED AND WILL VARY
ACCORDING TO DEFENSE REQUIREMENTS BUT THE
BILL SPECIFICALLY LIMITS THE DEFENSE LOAN TO
THE EXPENSES INVOLVED IN 1937 - THE LOAN CAN
BE ISSUED IN SEVERAL BOND OFFERINGS

MAR 9 1937

9:06

SECRETARY MORGENTHAU IS OPPOSED TO
DESIGNATION BY FRENCH GOVERNMENT OF AN AMERICAN
BANK AS FISCAL AGENT IN THIS COUNTRY FOR
CASHING OF COUPONS ON PROPOSED FRENCH LOAN
MAJORITY FLOOR LEADER ROBINSON REVEALS AFTER
CONFERENCE OF CONGRESSIONAL LEADERS WITH MR
MORGENTHAU

MAR 9 1937

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March 9, 1937
(DJ 12:04 p.m.)

Bankhead Sees No Prospect for Amending Johnson Act.

Washn. - Speaker Bankhead gave it as his opinion that there is no prospect for amendment of the Johnson Act to permit France to sell any part of its defense funds in the U.S. The Speaker said he believed the public sentiment would be against such a step.

9:17 AM

MAR 9 1937

FRENCH NATIONAL DEFENSE LOAN

PARIS - THE TEXT OF THE NATIONAL DEFENSE LOAN BILL AMOUNTS TO A GENERAL AUTHORIZATION FOR THE ISSUE OF THE LOAN CARRYING AN EXCHANGE GUARANTEE OR OPTION WITHOUT SPECIFYING DETAILS WHICH WILL BE ANNOUNCED ONLY BY DECREE AFTER ENACTMENT OF THE BILL

THE BILL RESTORES THE FREEDOM OF THE EXPORT IMPORT AND NEGOTIATION OF GOLD BARS AND COIN WHEREAS IT HAD BEEN EXPECTED THAT EXPORT OF GOLD WOULD REMAIN PROHIBITED IN ADDITION THE BILL COMPENSATES THOSE WHO ALREADY HAVE DELIVERED GOLD AGAINST BANK OF FRANCE RECEIPTS OR 3 1-2 PC THREE-YEAR BONDS BY AUTHORIZING THE BANK OF FRANCE TO PAY THE DIFFERENCE BETWEEN THE VALUE OF GOLD AS ESTABLISHED BY RATES FIXED MARCH 8 MARCH 9 AND MARCH 10 AND THE AMOUNTS THEY RECEIVED WHEN THEY SURRENDERED THE GOLD

IN THE PREAMBLE OF THE BILL THE MINISTER OF FINANCE STATES THAT THE LOAN MAY BE ISSUED BY INSTALMENTS BUT THAT THE NET PROCEEDS WILL BE LIMITED TO NATIONAL DEFENSE EXPENDITURES PROVIDED FOR BY THE 1937 BUDGET WHICH TOTAL 9 500 000 000 FRANCS

THE PRICE OF GOLD REMAINS UNCHANGED- STERLING WAS ERRATIC AT THE OPENING RISING FROM 107 00 FRANCS TO 107 40 THEN DROPPING TO 107 05-107 10 AS ON MONDAY AND THE DOLLAR ACTED SIMILARLY- THE CONTROL OCCASIONALLY BUYS STERLING- PREMIUMS ON FORWARD FRANCS ARE ONLY 60 AND 160 CENTIMES

MAR 9 1937

FRENCH FINANCE COMMITTEE APPROVES DEFENSE
LOAN BILL

PARIS-U P- THE CHAMBER-S FINANCE COMMITTEE
APPROVED THE LOAN BILL WITH THREE AMENDMENTS
AS FOLLOWS-

1- THE LOAN WILL BE RESERVED EXCLUSIVELY
FOR NATIONAL DEFENSE

2- ANY CURRENCY CONTROL MEASURES HEREAFTER
WILL NEED PARLIAMENTARY APPROVAL

3- ONLY BANKS AND NOT INDIVIDUALS WILL BE
ABLE TO PURCHASE GOLD

BLUM ASSURED THE COMMITTEE THAT HE WOULD
NOT PROPOSE ANY NEW BILL NATIONALIZING INDUSTRY

-0-

9. 25

March 9, 1937
(DJ 1:37 p.m.)

Blum Supports Defense Loan

Paris - UP Prem. Blum made an address in the Chamber of Deputies supporting the defense loan. The Premier refused to enter any political controversy concerning the loan and asked the Deputies for an early vote on the measure. It was presented to Parliament earlier by Finance Minister Auriol.

March 9, 1937
(DJ 2:28 p.m.)

Foreign Exchange

Paris - Foreign Exchange traders say that the control has absorbed considerable quantities of sterling and dollars in the official market.

The Bourse repeated Monday's performance rentes rising one franc. Domestic bank issues and industrial issues were active and firm especially chemicals.

International securities were lower, including Kaffirs, Rio Tinto, Royal Dutch, De Beers, and Suez Canal.

Debate on the national defense loan bill is expected to end late tonight with passage by an overwhelming majority. The Senate is expected to concur in this action Wednesday.

PARIS.--THE CHAMBER OF DEPUTIES TONIGHT APPROVED THE BILLION DOLLAR DEFENSE LOAN BILL BY AN OVERWHELMING MAJORITY. THE VOTE WAS 470 TO

46.

3/9--R421P

4:30

FRENCH CHAMBER APPROVES DEFENSE LOAN
BILL
PARIS - THE CHAMBER OF DEPUTIES APPROVED
THE DEFENSE LOAN BILL 470 TO 46
- BY UNITED PRESS

-0-

MAR 9 1937

CORRECTION:

SUBSTITUTE FOR SECOND PARAGRAPH ADD MORGENTHAU
CONFERENCE, (TIMED 450P):

THE CABLE WAS SENT AT 8 P. M. THE NEXT DAY, AT 3:45 P. M.,
MORGENTHAU HANDED TO THE FRENCH AMBASSADOR A REPLY WHICH SAID
THAT THE TREASURY DEPARTMENT "DOES ENVISAGE OBJECTIONS" TO SUCH AN
APPOINTMENT.

3/8--CS534P

of that said loan

AFTER A CONFERENCE WITH SECRETARY MORGENTHAU, CONGRESSIONAL LEADERS
ANNOUNCED THAT THE TREASURY HAD DECLINED TO APPROVE A SUGGESTION BY
THE FRENCH GOVERNMENT THAT A NEW YORK BANK BE NAMED TO ACT AS U. S.
AGENT FOR THE PURPOSE OF THE PROPOSED FRENCH DEFENSE LOAN.

3/8--CS437P

ADD MORGENTHAU CONFERENCE.

MAJORITY LEADER ROBINSON, AS SPOKESMAN FOR THE CONFERENCE OF
CONGRESSIONAL LEADERS AND TREASURY OFFICIALS, DISCLOSED THE ACTION
TAKEN BY THE TREASURY AND SAID THAT IT HAD BEEN FULLY APPROVED
BY THE CONFEREES.

THE ANNOUNCEMENT WAS DESIGNED TO CLEAR UP REPORTS THAT AN EFFORT
WAS BEING MADE TO EVADE THE JOHNSON ACT PROHIBITING LOANS TO NATIONS
WHICH HAVE NOT PAID WAR DEBTS TO THE U. S.

3/8--CS442P

WITH MORGENTHAU, HERMAN OLIPHANT, SENATOR PITTMAN, SPEAKER BANKHEAD AND REP. SAM MCREYNOLDS SITTING BY, ROBINSON ANNOUNCED THAT THE TREASURY HAD RECEIVED A REQUEST FROM FRANCE ON MARCH 5. IT ASKED WHETHER THERE WOULD BE ANY OBJECTION TO NAMING A BANK OR FIRM "SUCH AS J. P. MORGAN" TO ACT AS AGENT IN THE UNITED STATES FOR THE "PURPOSE OF PAYING COUPONS OF THE PROPOSED LOAN IN CASES WHERE THE PAYMENT IS REQUESTED IN DOLLARS?"

THE CABLE WAS RECEIVED AT 8 P. M., THE NEXT DAY, AT 3:45 P. M. MORGENTHAU HANDED TO THE FRENCH AMBASSADOR A REPLY WHICH SAID THAT THE TREASURY DEPARTMENT "DOES ENVISAGE OBJECTIONS" TO SUCH AN APPOINTMENT.

"THAT," ROBINSON SAID, "WAS THE ONLY QUESTION EVER SUBMITTED TO ANY BRANCH OF OUR GOVERNMENT BY THE FRENCH AUTHORITIES."

THE MORGENTHAU REPLY TO FRANCE SAID:

"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 HOPS THAT THE NEW LOAN WILL BE A GREAT SUCCESS."

"THAT," SAID ROBINSON AS HE FINISHED READING THE CABLEGRAM, "IS WHAT THIS CONFERENCE DISCUSSED AND THAT IS ALL I HAVE TO SAY."

PITTMAN AND BANKHEAD ADDED THAT THE CONFERENCE FULLY APPROVED THE ACTION OF THE TREASURY DEPARTMENT.

ADDRESS - COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

March 9, 1937

In reply refer to
EA 851.51/2299

*Attachment
is filed in
diary 2-18-37*

My dear Mr. Lochhead:

A copy of Paris despatch No. 366 went to the Treasury in routine disposition a day or two ago. For greater certainty, I am sending you one direct, thinking that parts of it may interest you.

Sincerely yours,

Herbert Feis

Herbert Feis,
Economic Adviser.

Enclosure:
Despatch No. 366,
February 18, 1937, from
Paris.

RECEIVED
MAR 17 1937
DEPARTMENT OF STATE

Mr. Archie Lochhead,
Office of the Secretary,
Treasury Department,
Washington, D. C.

March 9, 1937

My dear Mr. President:

I am sending you herewith two documents: (1) copy of a memorandum that Ambassador Bonnet handed me at 2:30 on Monday, March 8th, and (2) a document handed to me by Mr. Mallet at 5:40.

I think you will agree that the French document is unique.

Respectfully,

The President,
The White House.

March 9, 1937

My dear Mr. President:

I am sending you herewith two documents: (1) copy of a memorandum that Ambassador Bonnet handed me at 2:30 on Monday, March 8th, and (2) a document handed to me by Mr. Mallet at 5:40.

I think you will agree that the French document is unique.

Respectfully,

The President,

The White House.

March 9, 1937

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My dear Cordell:

I am sending you herewith two documents: (1) copy of a memorandum that Ambassador Bonnet handed me at 2:30 on Monday, March 8th, and (2) a document handed to me by Mr. Mallet at 5:40.

Sincerely,

Honorable Cordell Hull,
Secretary of State.

March 9, 1937

My dear Cordell:

I am sending you herewith two documents: (1) copy of a memorandum that Ambassador Bonnet handed me at 2:30 on Monday, March 8th, and (2) a document handed to me by Mr. Mallet at 5:40.

Sincerely,

Honorable Cordell Hull,
Secretary of State.



DEPARTMENT OF STATE
WASHINGTON

March 9, 1937.

My dear Henry:

Thank you for sending me copies of (1) a memorandum that Ambassador Bonnet handed you at 2:30 on Monday, March 8th, and (2) a document handed to you by Mr. Mallet at 5:40. I am glad to have this record.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

101110
MAR 10 1937
MAR 8 10 01 AM '37

GROUP MEETING

March 10, 1937
9:30 a.m.

- Present: Mr. Magill
- Mr. Oliphant
- Mr. Gaston
- Mr. Taylor
- Miss Roche
- Mr. Bell
- Mr. Lochhead
- Mr. Haas
- Mr. Thompson

H.M.Jr: Dan's leaving Friday night and he's kind of worried. I don't see, if anybody is nervous, why we offer any bills next week, which really makes a difference of \$200,000,000. I mean if we let a hundred run off instead of asking for a hundred, it would supply the market with an extra hundred million of cash. And next week is the week. George, do a little homework on it, eh?

Haas: Yes, sir.

Magill: I sent in word about this notice that came over the Dow Jones ticker yesterday afternoon to the effect that Mr. Pelley had received final authority to negotiate with respect to the railroad retirement allowances, which authority he had not previously had. Interesting observation.

H.M.Jr: Who did he get that authority from?

Magill: From the meeting of the railroad executives in Chicago.

H.M.Jr: You mean he hadn't had that before?

Magill: No, pur previous information was that that was to be the final meeting and everything was to be cut and dried. So that means a postponement, and what it looks like now is either the information given us was not correct or else they have changed their tune.

H.M.Jr: Well, Herbert Gaston has a little to contribute on that.

Gaston: Yes, when I talked to Steve Early the day before yesterday he told me that he told Pelley that when he went out to Chicago he was to tell those people that if they would put up some tentative suggestions it would be considered by the Administration, and that there was nothing final.

H.M.Jr: Nothing final.

Gaston: That there was no agreement on it.

Magill: Good.

I have had some conferences with Mr. Russell and Mr. Sherwood of the Income Tax Unit regarding further improvement in income tax procedure in several of the districts. They have prepared detailed plans for it, largely worked out as a result of work which Mr. Wood has done under Mr. McReynolds' direction. And as soon as we get the thing worked out - I think we'll try to put it into effect by April 1st. There will be one quite general revision to go in throughout the whole service, and then three other - three districts are to be specially dealt with: New York, Dallas, and San Francisco.

H.M.Jr: You (Mrs. Klotz) and I going to make a swing around and visit them?

Magill: You want to go to Dallas or San Francisco or New York?

H.M.Jr: What do you say?

Mrs. Klotz: San Francisco.

Magill: I'd rather pick that for myself.

H.M.Jr: If we go out there we can pay a visit to Jake Viner when we are out there.

Magill: Well, as soon as it is worked out, shall I talk to Mr. Gaston about it?

H.M.Jr: Sure, absolutely.

Magill: I notice in passing that the Income Tax Unit anticipated us on simplification of form. We designate our committee and decide to say nothing about it until March 15th, and immediately some publicity comes out given by the Income Tax Unit on the subject. They are going to simplify forms to beat the band.

H.M.Jr: Well, when we really have got the thing going, I may want to say something myself and give them a real blast. But I wouldn't say anything about it until I get back after the first, because when I do get

back we'll really have something. I don't want to go and raise all the taxpayers' hopes.

Magill: No, it's going to be quite a job. I've got the first report of the committee and I'm quite certain that most of that committee, just from looking at them, will say, "Well, this has all been studied and the form is swell just the way it is."

H.M.Jr: Well, I'd like to know what you have to make out two for. What's that for?

Magill: For the benefit of the State authorities.

H.M.Jr: Do they pay us for it?

Magill: No.

H.M.Jr: Well, why should we?

Magill: Well, it's for the benefit of the states and Sen. LaFollette.

Roche: I've voted with that two.

H.M.Jr: Two?

Roche: I think so. I think if they want it in the states, why shouldn't they?

H.M.Jr: Excuse me. What I suggested that they do now is that we photostat - make enough photostat copies so that the thing can stay in the field. The field makes the photostat and sends the copy right in here. Now while they are doing it they could make the photostat for the state or the city just as easy - make two or three photostats. Once they make a print, they can run off as many as they like. It is a terrific thing for the taxpayers.

Magill: Of course, you now have to prepare your return in triplicate for the Federal Government and you have to prepare two more for the state, as in New York, which would be true in any state having an income tax. So you prepare five at the present time.

H.M.Jr: No, but, seriously, if you carry out that suggestion - when they photostat it they could just as well make

- 4 -

innumerable copies.

- Magill: I don't want to scare this committee to death yet, but one thing I have in mind - this matter of coordination of state and federal revenues, to see whether or not it will be possible to effect some agreement with the state authorities that one return be made, and let the state authorities, if they want to, ask a couple of additional questions which they believe necessary for their own administration; make one return and let them use that.
- H.M.Jr: Well, the way the thing is now, it is perfectly asinine.
- Magill: It seems so to me.
- H.M.Jr: All right.
- Magill: That's all.
- Oliphant: Congressman Andresen's letter went to the Hill at 1:00 and was delivered to him at 2:00, as soon as we could find him. It is just one of those cases where a miracle happened and that thing escaped three bullet-proof checks - checkup system in my office
- H.M.Jr: And how many in McReynolds'?
- Oliphant: I don't know. I imagine with a little more overhead we could get more of a check. I hate to do it just because you get one
- H.M.Jr: (To Kieley) During Mr. McReynolds' absence, I want Mr. Thompson to attend these meetings.
- Kieley: Shall he come in now?
- H.M.Jr: I sent for him.
- McReynolds' father is desperately ill. He left yesterday at 4:00 to go to Los Angeles.
- Anything further? I just say in passing that I like the way you (Oliphant) report on it. I mean no alibis.
- Oliphant: I know there aren't any. In fact, there was - in the operation of the three-check system, there is

only one that failed, but the other two should have caught it - the other two systems.

(Thompson comes in.)

- H.M.Jr: (To Thompson) Mr. Oliphant just reports that in the Andresen case, the letter wasn't answered for a month. He says it was one case in a million that got by three checks. What about your office?
- Thompson: I'm having that checked. I'll have a report on it.
- H.M.Jr: Will you? Find out that and other offices, and how many other slips there are, see? Because I try to run my office - with Congress on the Hill, I try to make a great effort to run it on a 24-hour basis.
- Thompson: Yes, and that's the rule.
- H.M.Jr: If you can't get the technical information, I think the Congressman should get an acknowledgment. I thought I laid that all down once.
- Oliphant: Well, that is where this system - and, as I say, I am adding three people to the pay roll on account of this. I may be going too far.
- H.M.Jr: I don't think you can with the Hill. I think they are entitled to an acknowledgment within 24 hours. I mean that was the system.
- Thompson: Yes, that is the rule.
- Oliphant: We'll all be checking and nobody doing any work.
- H.M.Jr: Well, that's the ideal; that would be the ideal state of the Government.
- Thompson: I think that's the difficulty upstairs. They need more help if they are going to have more checks.
- H.M.Jr: Well, I don't know. I say if we could reach the state that Mr. Oliphant - we are all checking on each other and doing nothing else - it would be the ideal state of the Federal Government.
- How about neutrality?
- Oliphant: Well, any time.

H.M.Jr: Well, I'm ready to have a session. The Mexican Ambassador got here before breakfast, and I'm ready to do neutrality at 11:00. What?

Taylor: (Nods yes.)

H.M.Jr: Incidentally, that request which he made - inasmuch as I pin it on you (Lochhead) and Graves, see that it goes through Mr. Oliphant.

Lochhead: I just spoke to Mr. Graves and he's going down to check with Oliphant.

H.M.Jr: And I'm not going to hire anybody extra to see that we get 24-hour service.

(Hearty laughter.)

O.K.?

Oliphant: The third thing you asked me to speak to you about - a note concerning putting this insurance of those who have loans on a self-sustaining basis instead of our holding the bag.

H.M.Jr: Couldn't we do that also at 11:00 instead of

Oliphant: I should think it could be. Dan and Wayne and I were talking about it yesterday and they both liked the idea that the thing ought to be paying its own way.

H.M.Jr: Have they got it now?

Bell: There are some of those bills in the budget now. I asked Mr. Ahern to check it up and see, and he will report on it.

Oliphant: And hold them.

Bell: I understand that - well, when we had our first meeting, you may recall Stewart McDonald said he didn't want any extension of the Housing Act except Title II. Now this involves Title I, and his report on it is more or less non-committal. In other words, he doesn't want to make anybody in Congress mad by reporting against it, so he is letting the Budget Bureau hold the bag. That is, if we say it is not in conflict

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H.M.Jr: Well, what do you recommend that I do? I mean I don't want to hold you up on it.

Oliphant: Well, I would just take the position that if you recommend that the thing should not be extended, fine; and then say, "Well now, if they are going to be extended, it ought to be put on a self-sustaining basis. This insurance ought to be paying for itself."

Bell: I think that is right.

H.M.Jr: Now we are talking about FHA; Title I. Well, I thought the agreement was to let it expire.

Bell: That was the agreement.

H.M.Jr: Well, before we talk about self-sustaining basis, oughtn't we to find out whether we want to extend it or not?

Oliphant: Well, I said recommend that it not be extended, but say if you are going to extend it in spite of this, then it ought to be self-sustaining.

H.M.Jr: Well, I'm in complete accord with that. There's no argument about that. Anybody disagree with that?

Taylor: I think we ought to say pretty hard that we don't think it ought to be extended, no. That was the

Bell: That's right.

Taylor: And then express the thought that if they do finally decide to extend it, why then, sort of reluctantly, we suggest this other matter.

H.M.Jr: All right. But if they are going to extend it, it should be made self-sustaining. Does that answer you?

Oliphant: Yes.

Bell: That's right.

H.M.Jr: All right.

Oliphant: We'll leave it with the statement that you (Bell) will catch all those bills as they come over, so we can forget it.

Bell: For the time being.

H.M.Jr: All right. Anything else, Herman? Neutrality at 11:00. You (Taylor) are in on neutrality. Anybody else here neutral? All right.

Herbert?

Gaston: Mr. David Stern wanted me to express his regret to you for both of those editorials Monday night about the French situation and about the housing. He agreed that they had written what they did without proper knowledge of the facts.

H.M.Jr: Good.

Gaston: And he said that hereafter he would have his people check with us before they started denouncing you for something without knowing just what the situation was.

Then I also had a long talk with Kenneth Crawford about it.

H.M.Jr: Well, how did you get this word from Stern?

Gaston: I talked to Stern; I called him on the phone. I called him at New York and then found he was at Philadelphia, then got him at Philadelphia.

H.M.Jr: Well, at first when you said you would

Gaston: Well, I did both. I decided I'd like to talk to Stern.

H.M.Jr: I see, I see. And that was his attitude?

Gaston: Ah-ha.

H.M.Jr: I wish you had gone one step further; the third thing was that I was the person responsible for laying off all the people. He ran that story, too, you know.

Oliphant: That in a column?

H.M.Jr: No, straight news, straight news.

Gaston: I did touch on that in connection with that housing editorial. There was a reference to the fact that that reveals that it was you. I told him that wasn't true at all.

H.M.Jr: And what did Crawford have to say?

Gaston: Well, he didn't have to say very much. I went over the housing thing with him and told him, so that he could understand for background, what the actual situation was, what the bill itself provided, and what your attitude was on it.

H.M.Jr: Good. Well, I'm awfully glad you talked to him. Evidently for once, he was friendly.

Gaston: Stern was quite humble. I started in by saying that I had a favor to ask of him. He wanted to know what it was. I said it was that I hoped hereafter that before they wrote editorials stating what your position was and finding fault with it, they would try to ascertain from us what your position actually was. I said they wrote these editorials in which statements were made about what you said and what your position was, and they could have saved themselves making that mistake if they had inquired of us. And I told him I didn't think it was fair to write editorials based on rumors about your position without finding out the facts.

H.M.Jr: Good. Thank you very much.

Gaston: And he agreed that was right.

H.M.Jr: Thank you.

Gaston: He said he didn't like this policy of your - Eccles' policy of trying to raise the rate of interest and make money scarce, and I told him that was Federal Reserve and not Treasury. He said he thought you ought to have stopped Eccles from doing it.

H.M.Jr: Well now, if you are that successful, will you please call up this editor of the New York Tribune on his statement that I misinterpreted the Johnson Act in relation to their having a paying account here - the French - and ask him to consult his lawyers, inasmuch as he doesn't think our lawyers are any good. Ask the New York Tribune whether they will consult their lawyer, and ask their lawyer to give them an interpretation on that; and tell them you dare them, if their

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lawyer agrees with us, to rewrite that editorial. I'd just as leave call Ogden Reid myself; I'd like - just as leave call Ogden Reid.

Gaston: There was another dirty crack in that editorial this morning which said that, forced into a corner by insurgent Senators, you did this and so.

H.M.Jr: Would you like me to call him or would you?

Gaston: I can call him.

H.M.Jr: I wish you'd call up Ogden Reid. Will you this morning, Herbert?

Gaston: Yes.

H.M.Jr: There was one yesterday, wasn't there - an editorial? Well, there's one this morning.

Gaston: Yes, I know there's one this morning.

H.M.Jr: Just call up Ogden Reid, will you?

Gaston: Yes.

H.M.Jr: (To Bell) Just talked to Burgess.

Bell: I'll take some of those for FDIC if I may. We haven't invested anything for a long time for them.

H.M.Jr: After I get what I want for that special fund. Then, after that, we will go fifty-fifty between Postal Savings and FDIC.

Bell: About twenty to twenty-five million.

H.M.Jr: Fifty-fifty.

Gaston: Ted Goldsmith tells me that there are two things particularly worrying the market. The letter going out is stressing two points. One is what the President said at that press conference about the possibility of abolishing the social security reserve fund. He says they are taking that pretty seriously. And the other is the story that's gone around that the Federal Reserve Board - and it is being stated flatly by a lot of people that the Federal Reserve

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Board is going to sell off a billion of securities. In other words, they are going to absorb all the excess reserves of the banks and put the banks five hundred million in debt to the Federal Reserve.

H.M.Jr: Listen, Herbert, old man, I can't worry about Goldsmith. After today is over, I'll bet anybody any amount of money within reason that the bond market a week from today will be, on an average, half a point higher than it is today. And that will take care of all the Ted Goldsmiths. That a week from today the Government bond market will be a half point higher than it is today. Now I very, very seldom say, but extra, extra in the family, I will make anybody a bet that this thing - this is the way to answer it.

Haas: Still, I think, Mr. Secretary, that is important.

H.M.Jr: Well, bring it up at lunch.

Haas: The source of it was over there, too.

Taylor: Well, it is just - I mean I talked to Eccles about something else yesterday

H.M.Jr: Well, Wayne, will you bring it up at lunch?

Taylor: Yes - and that he's never heard about that.

H.M.Jr: Well, Wayne, will you bring it up at lunch? Will you?

Taylor: Fine. I never heard anybody talk any harder about the desirability of something else, so that isn't exactly

H.M.Jr: Well, you bring it up at lunch. I'm sorry I have to do this thing, but publicly - not publicly, but in the room, I know what is the matter with the bond market and that's not it. But you bring it up just the same.

What's the matter with the bond market is that the rich people of America are sore, mad at the President over the court, see? That's what's hurting the bond market. I've been through this thing before. I mean that's the thing. I've been through this before.

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I know how to handle those babies, too. We always keep enough money for this sort of thing and it happens about once or twice a year, and the only thing that those babies understand is power buying. I mean it is the only thing they understand. When a thing like this goes along I, without flicking an eyelash, say, "Buy twenty-one million dollars' worth of bonds." I mean that's the thing they understand. And they are - it is only a matter of a couple of months ago the Federal Reserve - "For God's sake, haven't you got some long-term bonds you can sell? Because the Government bond market is so strong we don't know what to do. Haven't you got something you will sell to ease it off?" Two months ago.

Lochhead:

Within the two months.

H.M.Jr:

And last July there wasn't a single individual in America that would buy a million dollars' worth of two and seven-eighths.

Oliphant:

That was in the era of good feeling.

H.M.Jr:

Yes.

Roche:

Not July.

H.M.Jr:

Georgie?

Haas:

I have nothing this morning.

H.M.Jr:

George, will you - if we are getting from Mr. Lubin those costs of living figures on 12 cities, as soon as they do come through, Mr. Wallace would appreciate it if we sent a photostat over the same day to Mr. Bean, and Bean will give us anything he's got.

And while I'm on it, walking down with Wallace, I asked him how much cotton he had sold on the cotton pool. Well, it's very rough - I just wrote them on the pad. They've sold 571,000 bales up to the eighth, and it's going at the rate of thirty to forty thousand bales a day; and by the end of the month they expect to have not less than a million and a quarter out and maybe a million and a half if it goes like it is going.

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Well, I suggested to Wallace that they run it for another month and sell it down to a million bales, and he's going to take it under consideration.

- Bell: But they don't want anybody to know that at the present time.
- H.M.Jr: No, no.
- Taylor: Down to a million?
- H.M.Jr: To a million, yes, and then hold the million as a carryover. Now we've got that boy from Commodity Credit now and, without you (Haas) telling him what I did, ask him whether he thinks they should continue to sell, and then carry a million bales over this year, see?
- Haas: I think I know his answer.
- H.M.Jr: I'd like to take it with me to Cabinet - a one-page memorandum, because I think Wallace will bring it out. I told Wallace while the selling is good to sell, then hold a million bales and carry that over. And without - was it originally 6,000,000 bales we had?
- Bell: Yes, between five and six. When they started this program they had just under 3,000,000.
- H.M.Jr: Then they can sell it down to a million. You check, Wayne?
- Taylor: I'd like awfully well to see, when you got down to a million - to see whether you wouldn't want to move out the other million.
- H.M.Jr: All right. Well, any way, Henry hadn't thought of it - said it was a new idea.
- Taylor: Well, I'd check certainly to go down to the million if the market will take it, and then have a look.
- H.M.Jr: Well, he was figuring on shutting off on the first of April, stopping all sales.
- Bell: Johnson didn't have that in mind.
- H.M.Jr: Who?
- Bell: Ben Johnson.

H.M.Jr: Who's Ben Johnson, RFC?

Bell: He's the second man on Commodity Credit, under Talley. He says that they are very much encouraged and hope that on April 1st they can extend it another month.

H.M.Jr: That is just exactly what I suggested to Wallace.

Bell: They don't want to announce it until April 1st, because they are afraid it will have an adverse effect on it.

H.M.Jr: Well, they haven't announced any April 1st.

Bell: Two months, I think.

H.M.Jr: No, it's open. He didn't tell me

Bell: He said two months from February 1st.

H.M.Jr: Wallace thought that - it was just open. But what I was suggesting to Wallace was if it was April 1st that they go to May 1st.

Bell: Well, he's in agreement with that.

H.M.Jr: Good.

Taylor: On the subject of cotton, there is a little bit of a table in the paper this morning showing world production which is extremely interesting.

Bell: Johnson says so far as they can tell - their statistics are not very good and this is largely a test - but the indications are that about 40% of the cotton they have sold is going abroad. Very interesting.

Haas: When is Cabinet, 2:00?

H.M.Jr: Yes.

Haas: Today?

H.M.Jr: Ah-ha. I'd like a letter from that boy once a week any way.

Haas: All right. On just this stuff?

H.M.Jr: No, prices. And is that Lubin stuff coming through?

Haas: The what?

H.M.Jr: Lubin's stuff.

Haas: You know, it came through and we disagreed. Then he wrote back to me and said they were checking back to correct it; he agreed that it didn't line up.

H.M.Jr: Well, I'd like a price letter from this boy once a week.

Haas: All right.

H.M.Jr: Anything else, George?

Haas: I have nothing more.

Taylor: Would you like to devote an hour to Cuba before you go away?

H.M.Jr: I don't know anything I'd rather not do.

Taylor: I realize that.

(Hearty Laughter)

H.M.Jr: All right, 3:00 tomorrow afternoon. Bon chere! Wayne and I are getting - we're getting all the French gestures. If that thing had kept up another week

Taylor: I don't think they'll be back for quite a while.

H.M.Jr: I don't either.

Miss Roche?

Roche: I don't have anything special, sir. We are having some legislation come up through Public Health on two items particularly, one on the stream pollution and one on cancer - legislation that was introduced last year, and not only because of money but because of other things was disapproved. The bills that have come up so far have met all the objections but the money one, and I was wondering if we could approve them and send them on.

H.M.Jr: When you speak of "we"

Roche: The Public Health and my office.

H.M.Jr: Why not?

Roche: All right.

Bell: Send them on where?

Roche: You.

Bell: All right.

Roche: That's about all. I reported on the settlement of the strike to you last night.

H.M.Jr: I congratulate you on that.

Roche: Narrow escape.

H.M.Jr: Some time I'd like to meet Father Haas.

Roche: I'd like to have you, sir, and I'd like to tell him, if you approve, some of the details of that Michigan situation.

H.M.Jr: Very interesting.

Roche: The rates are still holding.

H.M.Jr: Dan?

Bell: I have just one little item. We are selling United States savings bonds in a good many postoffices throughout the country and the money comes in currently to the Federal Reserve Banks. It goes into a Postmasters' Checking Account, and does not get into the public debt of the United States for probably two months. The accounts are all audited here in Washington. There is now outstanding about \$123,000,000 not in the public debt. I'd like to make a re-arrangement of that procedure so we could put at least a preliminary figure in the public debt statement daily, calling it an unclassified sale of United States savings bonds.

H.M.Jr: Sold.

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Bell: There will be some publicity on that, I take it, when that appears for the first time, but it ought to be done.

H.M.Jr: It's all right.

Bell: And if somebody finds out we've got \$120,000,000 outside of the public debt, we'll get more publicity.

H.M.Jr: You can do it any time beginnning tomorrow.

Bell: O.K. And I have a memorandum which I have submitted to the President. I hope he will read it at Cabinet today. I thought you might like to (Hands a copy to Secretary).

H.M.Jr: I'm glad to get it from you. I'll read it during the morning.

Bell: All right.

H.M.Jr: Anything else?

Bell: That's all.

Thompson: I haven't anything, sir.

H.M.Jr: All right. The neutrality at 11:00.

Wednesday
March 10, 1937
9:30 a.m.

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M. S.
Eccles: - that you have had quite a siege of it I observed from the press.

HMJr: Would you like to come over and have lunch today?

E: I was - Secretary Wallace asked me to come over to the Department of Agriculture. Now I can -

HMJr: Could you make his Thursday, do you think?

E: I think I could.

HMJr: I tell you why -

E: There wasn't anything special, I -

HMJr: I have something special I want to take up.

E: All right, I'll call him up then and I'll come on over.

HMJr: And - supposing you bring Goldenweiser with you.

E: All right, I'll be glad to do that. And I am sure -

HMJr: I tell you what it is, so that you'll be thinking about it. I want to discuss with you the question of whether we should or shouldn't sell any bills next week.

E: All right.

HMJr: I won't be here and the question - and if you people have any estimates on the turnover that you are at all worried about - the price of money, see?

E: Yes

HMJr: I'd like to talk to you about it at that time.

E: Yes

HMJr: See? I'll have Bell there too, and Haas and Taylor.

E: Yes

HMJr: See?

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E: Well then - then I'll bring Goldenweiser -

HMJr: Would you bring any other member of the Board?

E: What is it?

HMJr: Would you bring any other member?

E: Well, no, I think there is no other member unless it's - I think Szymczak is here.

HMJr: Well, unless he knows something about it let's - what?

E: Well, there really isn't any other - -

HMJr: Does he know anything about it?

E: No, I don't think so, nothing particular, he just has general ideas, but I don't think you would -

HMJr: Want to bring him?

E: Well, I don't know that he's here. I'll do whatever you want to do.

HMJr: It's entirely all right. I'll have a place set for him.

E: All right, then.

HMJr: How's that?

E: All right. If he's here, or Ransom -

HMJr: I'll have a place set so that - I'll have a place set for you, Goldenweiser and one extra.

E: Yes - Well, all right, I'll be over there at one.

HMJr: Yes, and that's what it's about.

E: What is it?

HMJr: I mean, that's what I want to talk to you about particularly because Bell and I will both be away next week.

E: Yes - You mean - of course the regular, the extra

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fifty that you've been selling?

HMJr: Well, we may not do anything next week, I don't know.

E: Yes

HMJr: But Dan's kind of -

E: You think you may - you may even pay off the - ?

HMJr: Yes, which would make a difference of two hundred million, you see, I mean, in a way.

E: Well, she couldn't - you couldn't for a week or two with your tax money.

HMJr: Just for one week we'd go.

E: Yes

HMJr: Well, we - come over and we'll talk about it.

E: Yes, all right, then.

HMJr: As I say, Dan's kind of nervous - we'll talk about it.

E: All right. Did -

HMJr: Well, you come over and - I just thought you, after all - and be thinking about it will you?

E: Yes

HMJr: We might not ask for any bill money next week, or we might ask for fifty, or we can ask for a hundred.

E: Well, you've - last week you asked for a hundred.

HMJr: Yes - Well, think about it, Marriner; you sound as though you were dead. Are you?

E: What did you say?

HMJr: Are you dead?

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E: No!

HMJr: Good - all right, all right. Cheerio, I'll see you at one.

E: All right, sir.

HMJr: Goodbye.

E: Goodbye.

Wednesday
March 10, 1937
9:58 a.m.

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W. R. Burgess: Well, I think this market's ready to turn around.

HMJr: Yes

B: Now, I was just talking to Harrison a few minutes ago; has he talked to you since then?

HMJr: No

B: I thought that he did. There are two or three of the dealers who have got quite a little load of these things. And I think it might be smart this morning to change our method of operation. And if you really want some cheap bonds I think we can pick up a little block this morning from a couple of the dealers.

HMJr: How muchee?

B: Oh, up to ten million maybe. Would you like them?

HMJr: Which ones?

B: Of the new one? - For the fifteenth delivery?

HMJr: What pricee?

B: Well, twenty-two -

HMJr: Twenty-two - wait a minute, wait a minute - How much?

B: The market closed last night at twenty-two three.

HMJr: Twenty-two three - you can't get them at twenty-one, can you?

B: No, I don't - I don't believe that would have the same effect. I think maybe they'd be losing on that, or just getting out.

HMJr: Well, who are the dealers?

B: Well, Devine -

HMJr: Ah!

B: - did a hell of a good job for us yesterday.

HMJr: How do you mean?

B: He moved - he took a great big block off the market -

HMJr: Did he?

B: - and sold most of it.

HMJr: Yes

B: He's got about ten million left.

HMJr: Yes

B: We took about five from him. And then Solomon has got about eleven of them.

HMJr: Yes

B: I thought if we took five from him -

HMJr: Yes

B: We'd probably get them at a good price -

HMJr: Twenty-two?

B: And it would make a lot of difference in this market. I'm not sure they'd sell at that price.

HMJr: I'll take all they've got, I'll go you - I'll raise you -

B: (Laughs)

HMJr: I'll take - I'll take twenty million!

B: Well, I'm not sure it'd be wise to - but you'd like to get them though, would you?

HMJr: Sure!

B: All right.

HMJr: I'll take the whole works.

B: All right, all right. And then after that - -

HMJr: At twenty-two.

B: We can have a small order -

HMJr: I'll take the - what have they got, twenty-one million between them? I'll take the whole works.

B: Well, I'll see what I can get.

HMJr: All right, I'll be delighted.

B: All right. Very good.

HMJr: Yes - I'll take twenty-one million and then I'll laugh at them tomorrow.

B: That's fine, all right.

HMJr: All right.

B: Step out.

HMJr: Goodbye.

10:14 a.m.

HMJr: Hello -

B: Well, it's about the same as I -

HMJr: I don't hear very well.

B: It's about the same as last night.

HMJr: Yes

B: We've got nine million so far.

HMJr: Who did you get them from?

B: I got those from Devine.

HMJr: I see.

B: Now, I've got to hear from Solomon. I've been talking to them. But we'll pick up some more I think.

HMJr: Well, how did that leave that man feeling?

B: Oh, it leaves him feeling fine.

HMJr: He feels fine?

B: He's a ll full of fight.

HMJr: Now he'll go out?

B: Sure

HMJr: Good -

B: Yes, yes

HMJr: Good -

B: Oh, I think - I think we're about at the bottom of this - we don't know - I've got my fingers crossed.

HMJr: Well -

B:

HMJr: Did that leave any with him, or did you take them all?

B: I took all of that issue that he had. He had some other issues, but I took all that he had of that.

HMJr: Well, when you speak to the other organization give me a ring.

B: All right, fine.

HMJr: Will you?

B: Yes, I've talked to them once, they're going to call me back.

HMJr: All right. Well, when you hear from them, call me, please.

B: Right

10:23 a.m.

B: Hello

HMJr: Hello, Burgess

B: I got ten from Solomon.

HMJr: Did you?

B: Yes

HMJr: And how did that leave them?

B: Well, that leaves them all cleaned up on these new ones; they've got some of the others but they're all right.

HMJr: Well, did they -

B: I got one from Hanseatic, making twenty.

HMJr: Who?

B: I got twenty altogether - New York and Hanseatic.

HMJr: Oh yes, well doesn't that - won't that - doesn't that leave the air a little clearer?

B: That clears up the air quite a lot.

HMJr: Good

B: I think it was a good thing to do and I think you got some cheap bonds.

HMJr: Anybody else get any?

B: (Laughs) I haven't heard of anybody.

HMJr: Discount?

B: No, they're all right.

HMJr: They're all right?

B: I've got them working for us a little bit this morning.

HMJr: Good. What are the two and a halves now?

B: They're twenty-one three - twenty-two three - along in there, it's pretty hard to say.

HMJr: It's pretty hard to say? But -

B: Yes

HMJr: Well, the actions you've taken ought to take the pressure off.

B: Oh, that'll take the pressure off, I'm sure.

HMJr: O. K.

B: Yes

HMJr: All right.

B: Very good. We'll stay right with it.

HMJr: Thank you.

B: Good.

March 10, 1937.
11:23 a.m.

H.M.Jr: Hello

Burgess: Hello sir.

H.M.Jr: How is it going, Burgess?

B: A little better.

H.M.Jr: A little better.

B: The new bonds are quoted 22-24 now.

H.M.Jr: I see.

B: And that's about the same as last night's close.

H.M.Jr: Yes.

B: And the rest are about the same as last night's close and thirty seconds better than earlier.

H.M.Jr: But how about the tone?

B: Ah - tone's better.

H.M.Jr: Tone's better.

B: Tone's better, yep.

H.M.Jr: Taking that 23 million out must have helped.

B: Awful good thing - yep.

H.M.Jr: What?

B: Worked fine.

H.M.Jr: O.K. Glad you suggested it.

B: Well I think it was right - yep

H.M.Jr: Thank you.

B: O.K.

TREASURY DEPARTMENT

103

INTER OFFICE COMMUNICATION

MEMORANDUM OF THE DAY'S ACTIVITIES-- FOR MARCH 10. DATE March 10, 1937

TO Secretary Morgenthau
FROM Mr. McGill

1. Revenue Legislation

In an informal discussion at luncheon today Mr. L. H. Parker indicated that although he was working a little on a revision of the tax on Capital Gains, he did not think the time was ripe for recommending any change therein. He felt that it would be desirable to reenact all the excise taxes which expire at the end of the fiscal year, except that he thought we should consider whether we might not recommend or tolerate the elimination of some of the taxes with small yields, to an aggregate amount of say \$10 millions or \$20 millions. He thought that we could probably hold Congress to some stated amount of this sort. Finally, he felt that some amendments should be proposed to the Undistributed Profits Tax. He said he was getting many letters on the subject directly, and that many others were referred to him by Congressmen, - some of which he found hard to answer.

I told him that we were studying the whole situation and would assemble data on the Undistributed Profits Tax as quickly as possible after the returns are in on March 15th. We agreed to get together again to discuss the legislative situation about April 1st.

2. Bureau Administration

Deputy Commissioner Russell and his assistant, Mr. Sherwood, and I discussed again the proposals for changes in the procedure in the Dallas, San Francisco and third New York Districts. I proposed several changes in the draft orders which Messrs. Russell and Sherwood agreed to. They will prepare new orders which will be ready in a day or two. We hope to institute the new procedure about April 1st, after personal conferences with the revenue agents involved.

RM

Attachment

TREASURY DEPARTMENT

204

INTER OFFICE COMMUNICATION

DATE

March 10, 1937.

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: Luncheon Meeting, Wednesday, March 10, 1937.

Present: Secretary Morgenthau, Mr. Eccles, Mr. Goldenweiser,
Mr. Taylor, Mr. Bell, Mr. Haas.

The Secretary brought Mr. Eccles up to date with regard to the relations of the Treasury in connection with the French loan.

The Secretary then asked Mr. Bell if he would open the discussion with regard to the issuance of next week's Treasury bills. Mr. Bell discussed the Treasury balance situation, pointing out that at the present time he is allowing one of the 50 million dollar issues to be paid for with bank book credit. He further indicated, however, that this does not mean that the whole 50 million is paid for with book credit because many of the banks have excess reserves and prefer to pay cash; so it works out that about half of the issue is put on a book credit and the other half is paid for with cash.

Mr. Bell raised the question as to the desirability of changing the present procedure for next week. After a round table discussion of the subject, in which there seemed to be unanimous agreement that 100 million dollars of bills should be issued rather than making a change at this time, Mr. Haas indicated that if there was a strong feeling that one of the 50 million dollar issues should be discontinued for a week, it could be accomplished without any adverse effect on the market if accompanied by an adequate explanation, such as larger tax receipts received by the Treasury at this period. It was generally agreed that no change should be made in the amount of bills issued next week. At this stage the Secretary left for the Cabinet meeting, and asked if we would continue to discuss the matter of whether or not we should continue on the present basis or whether we should allow both issues to be paid with bank book credit.

It was brought out in the discussion that followed, that if a change is made now an explanation will have to be given, and the logical explanation would be that the tax receipts are somewhat larger than we expected. However, it was pointed out that, particularly with a new tax law in effect, it is impossible to estimate the actual distribution of tax receipts over a period of days. In fact in Treasury history the daily distribution of receipts has shown rather wide variation one year with another. It was therefore felt

Secretary Morgenthau 3/10/37 -2

unwise at this period to base any reason for a change on the tax receipts, inasmuch as the early receipts may be low and later receipts of larger volume, making a total conforming with our estimate. Nevertheless the financial writers might assume that the Treasury expected larger receipts than actually occurred. It was the final consensus that the most conservative procedure in view of all considerations would be to continue next week on exactly the same basis as this week—that is, one of the 50 million dollar issues to contain the bank book credit option.

Mr. Eccles discussed rather at length his understanding of the present price rise, pointing out that a price rise of the present type is not subject to control by bank credit. He indicated several other means that might be used in controlling a price rise of this type. He suggested the use of embargoes and reduction in tariffs and the cessation of government buying of certain materials, etc. He said we have to meet the question squarely whether or not we are really going to manage our economy or go *laissez faire*. If we are going on the management theory we must proceed to meet situations on that ground when they arise.

Mr. Eccles then raised the question about the inactive gold, and indicated that more gold was put in the active account than he anticipated would be put there. Mr. Taylor indicated, however, that this was the arrangement which had been agreed upon by the Federal Reserve Board and Treasury. Mr. Eccles proceeded to discuss the matter, indicating that he would like to have about 800 million of excess reserves rather than 500 million dollars, and also that 500 million dollars with the new and higher reserve requirements serves as a much smaller base for credit expansion than 500 million dollars under the previous reserve requirements. He stated that he thought the Treasury might use some of the inactive gold and thereby save Treasury expense, reduce the public debt, and have a beneficial effect on the money market situation. (Both Mr. Bell and I had somewhat similar ideas with regard to this subject, but did not raise the question; I think the proposition has considerable merit.) I will furnish you with a memorandum in the next day or two in which this proposal will be discussed fully.



March 10, 1937

PRESENT:

Mexican Ambassador
Mr. Taylor

HM, Jr: The State Department made an error. I asked them to have you come in at 11.

Ambassador: I am sorry. They told me to come in at 9 o'clock.

HM, Jr: Well, I am very glad to see you at any time.

Ambassador: I received a letter from Suarez. (He handed HM, Jr. the attached undated memorandum.)

HM, Jr: I have not seen you for a long time.

Ambassador: I have been in Buenos Aires for about four months.

HM, Jr: (Reading the memo)

"On various occasions the Department of the Treasury of the United States of America has offered to cooperate with the Mexican Government in the task of preventing smuggling of gold from Mexico. In this connection, it may be stated that a decree has been issued establishing an exemption of payment of production taxes on the gold that may be sold to the Bank of Mexico (Banco de Mexico) by complying with the requirements established by said decree and regulations thereof.

"Simultaneously with the granting of the above prerogative, the Mexican Government should like to secure from the Government of the United States of America the necessary support to place smugglers in such a position that they

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Simultaneously with the granting of the above prerogative, the Mexican Government should like to secure from the Government of the United States of America the necessary support to place smugglers in such a position that they may prefer to make use of the exemption in question, by placing in their way the greatest obstacles, should they try to make unlawful exports.

In view of the above it is requested that the authorities of the United States of America demand in all cases from whoever may import gold from Mexico a certificate to show, either that the production taxes have been covered, or the exemption thereof.

The Mexican Government shall appreciate the cooperation of the Government of the United States of America.

-2-

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"In view of the above it is requested that the authorities of the United States of America demand in all cases from whoever may import gold from Mexico a certificate to show, either that the production taxes have been covered, or the exemption thereof.

"The Mexican Government shall appreciate the cooperation of the Government of the United States of America."

HM, Jr.: I will tell you now, unhesitatingly, that we will do everything we can within our law. Give me 24 hours and I will see what we can do, but I can assure you that I am in entire sympathy with you. You remember, once before you asked us about smuggling silver and I issued special orders all along the border.

(At this point, HM, Jr. called in Mr. Graves and handed him the memorandum from Suarez and asked him to read it.

Ambassador: (While Mr. Graves was reading the memorandum) Mr. Suarez is coming here next month to attend some conference.

HM, Jr.: Does his wife come too?

Ambassador: Yes.

HM, Jr.: Where do they stay?

Ambassador: At the Mayflower.

HM, Jr.: (To Mr. Graves) I would like to do everything I can, within our own law, to cooperate. Several years ago, when silver was approaching 78 cents, they were worried about people smuggling and we got out a special order to our Border Patrol. If we have the right to do it, I would like to do the same thing now. Take it up with

-3-

Lochhead, the Federal Reserve and Customs, and get out special orders. I give you 24 hours on it and whatever orders I get out I want to send the Ambassador copies.

TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

FROM _____

BUREAU _____

CHG. APPROPRIATION _____

U. S. GOVERNMENT PRINTING OFFICE: 1936

COLLECTORS OF CUSTOMS IN THE CONTINENTAL UNITED STATES:

Pursuant to the provisions of section 2a of the Provisional Regulations issued under the Gold Reserve Act of 1934, you are hereby instructed, effective immediately, and regardless of whether said regulations are otherwise complied with, to refuse entry into the continental United States of gold in any form (including gold in its natural state) imported from Mexico, unless there is filed with you a certificate, duly certified by an official of the Mexican Government, to the effect that such gold has been lawfully exported from Mexico. However, these instructions do not apply to:

- (1) "Fabricated gold" as defined in said Gold Regulations.
- (2) Any substance, including gold in its natural state, which you are satisfied, after the filing of an appropriate affidavit by the importer, does not contain more than 5 Troy ounces of fine gold per Troy ounce.

Henry Myer Thompson

SECRETARY OF THE TREASURY

Approved:

Franklin D. Roosevelt

THE WHITE HOUSE

March 11th 1937

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING PAPERS,
Friday, March 12, 1937
3-11-37.

Press Service
No. 9-77

At the request of the Mexican Government and with the approval of the President, Secretary Morgenthau today directed Collectors of Customs to refuse entry into the United States of shipments of gold from Mexico unless the shipment in each case is accompanied by a certificate showing that it may lawfully be exported from Mexico. A copy of the Secretary's telegram to collectors follows:

"TO COLLECTORS OF CUSTOMS IN THE CONTINENTAL UNITED STATES:

Pursuant to the provisions of section 8a of the Provisional Regulations issued under the Gold Reserve Act of 1934, you are hereby instructed, effective immediately, and regardless of whether said Regulations are otherwise complied with, to refuse entry into the continental United States of gold in any form (including gold in its natural state) exported from Mexico, unless there is filed with you a certificate, duly certified by an officer of the Mexican Government, to the effect that such gold was or may be lawfully exported from Mexico.

However, these instructions do not apply to

- (1) "Fabricated gold" as defined in said Gold Regulations.
- (2) Any substance, including gold in its natural state, which you are satisfied, after the filing of an appropriate affidavit by the importer, does not contain more than 5 troy ounces of fine gold per short ton.

(signed) HENRY MORGENTHAU, JR.

SECRETARY OF THE TREASURY."

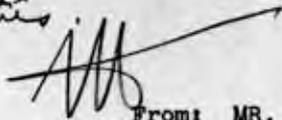
TO:

Mrs. Klatz

3-1-12

Accompanying a detailed
account of the recent
invested seizure from
the S/S Taybark at
New York.

If the Secretary should
find the time, I am
sure that he would find
it interesting to read
this.



From: MR. GRAVES

3/20

Bureau of Customs

2-497

C
O
P
YCustoms Agency Service
Supervising Customs Agent
430 Customhouse

NEW YORK, N. Y.

3-10-37

The Commissioner of Customs,
(Investigative Unit),
Treasury Department,
Washington, D. C.

Sir:

There are forwarded herewith copies of a report in narrative and syllabus form, addressed to the Collector of Customs under even date, dealing with the seizure of 599 - 5 tael tins of prepared smoking opium found on board the British SS TAYBANK on March 6, 1937, which seizure led to the arrest of four oriental members of the crew; - the carpenter, boatswain, 2d boatswain and storekeeper, and also in the arrest of William Bonanzi, the contact man between the members of the crew and the Chinese interests for whom he was operating, together with Dominick Buda and Tizio Butta, brothers and river junkmen, who were in this instance and unquestionably in the past used by Bonanzi in landing narcotic drugs in their junk boats from vessels in this port.

We are not in possession of sufficient evidence at this time to warrant the arrest of the Chinese principal to whom this opium was unquestionably consigned, one Fung See Too, alias Lam Soc, who our investigation definitely established has been in direct contact on numerous occasions during the past three months with Bonanzi, both on the telephone and in personal contact.

Under date of November 9, 1936, a cablegram was forwarded direct to the Treasury Attache at Shanghai, China, advising him of the seizure and of the statement made by Ah Nan, the ship's carpenter, to the effect that he was working for one Wong Cheong of Shanghai, from whom he was to receive compensation for his services upon his return to Shanghai, and the further statement that the so-called delivery order, which was found in his possession, was given to him on board the TAYBANK by Chang Quin while the vessel was in the Yangate Poo Drydock in Shanghai, just prior to her sailing from that port on December 8, 1936.

In connection with this seizure, it is interesting to note that on Monday evening, March 8th, I heard broadcast over the radio an announcement to the effect that some 70 odd tins of smoking opium had been seized upon the British SS BOSSIEBANK at Shanghai on that day in the possession of a Chinaman named Wong as this vessel was about to sail for New York.

The IOSSIEBANK is owned and operated by the Bank Line, Ltd., who are also the owners of the SS TAYBANK, and it would therefore appear that vessels of this line are being used extensively in the smuggling of smoking opium out of Shanghai and it is our intention to have our enforcement officers concentrate their efforts in searching the vessels of this line.

It might be stated that this case is indirectly an outgrowth of the so-called Morris Schatz, et al case in that during the course of that investigation one John Caputo, an ex-bootlegger and river junkman, was brought in for questioning at that time and during the course of his interrogation by agents of this office and by Assistant U. S. Attorney Joseph P. Martin, he informed us that Willie Bonansi was operating with the Buda brothers in landing opium from ships arriving at New York from the Far East for delivery to a Chinaman in New York whose identity he did not know.

Caputo, as you have been previously advised, was subsequently placed under arrest in New York upon information furnished by this office, which was developed during the course of our investigation, and is now being held for extradition to France, where he has been convicted of murder and escaped after his conviction.

The successful culmination of this case resulted from intensive wire supervision and surveillance over Bonansi from November 24, 1936 to the date of the seizure and arrests. Several members of the Collector's and Surveyor's office, together with two Customs Patrol Inspectors, were used continually on this wire supervision and surveillance and it was due mainly to their conscientious efforts that this office was able, from the reports submitted by them, by a process of elimination, to identify the SS TAYBANK as a vessel upon which there was undoubtedly opium which would be removed from the ship by Bonansi and his associates.

Our investigation will be continued with the object in view of obtaining additional evidence to bring about the arrest of the receiver of this opium, Pung See Too, alias Lum See

Respectfully,

J. W. ROBERTS
Customs Agent, In Charge,
Smuggling Investigations.

Respectfully forwarded,
Approved:

L. W. BEAN,
Acting Supervising Customs Agent.
JWR/AM
Enclosure:

2 Cys. Report to Collector

TREASURY DEPARTMENT
Bureau of Customs

2-497

115

Customs Agency Service
Supervising Customs Agent
420 Customhouse

NEW YORK, N. Y.

March 10, 1937.

The Collector of Customs,

New York, N. Y.

Sir:

Please be advised that on November 20, 1936, this office received information to the effect that William Bonanzi of 343 - 62nd Street, Brooklyn, N. Y., was actively engaged in removing narcotics from various vessels at this port by the use of small work boats (junk boats). Subsequently additional information was received to the effect that Bonanzi was assisted in this smuggling by Dominick and Tommy Buda, who owned a work boat which they kept at the foot of 16th Street, Brooklyn.

The original information definitely stated that Bonanzi had received a half of a Hongkong dollar which was to be used in identifying him as the party to receive 300 or 400 cans of opium which were concealed on a vessel which had sailed from China and was due at this port between January 26th and 28th.

Investigation of Bonanzi developed that he resided at the address mentioned and that he spent most of his time at a place known as the Syrian Club, 88 Washington Street, New York City, where he conducted a bookmaking business. The telephone at this address is Bowling Green 9-9456. Supervision was placed over this telephone on November 28th by this office. On various occasions conversations were had between Bonanzi and one Lum Soo, which definitely indicated that Bonanzi was in fact engaged in handling narcotics. On numerous occasions Bonanzi was trailed, several times to the residence of Lum Soo at 126 East 12th Street, New York City.

On one occasion conversation definitely indicated that Bonanzi had obtained a can of opium from an unknown individual and delivered same to another unknown man who met him by arrangement in front of a restaurant on West 48th Street. This meeting was observed by several agents of this office. No action was taken at this time as the telephone conversations indicated that he was in possession of some seventy-seven cans and it was deemed inadvisable to make any arrest on that occasion as it was felt that it would be more beneficial to this office to effect a seizure of the seventy-seven cans of opium in which he had some interest.

Supervision of the telephone Bowling Green 9-9456 on February 24th showed that at 11:20 A. M. Bonanzi had a conversation with an unknown man to the effect that he would meet him at 7:30 A. M. on the morning of February 25th. During this conversation mention was made of the battery in a boat which was out of order. As a result of this conversation Bonanzi's residence was kept under surveillance early the morning of the 25th by Customs Border Patrolmen Daniel O'Leary and Peters and Customs Guard Eisenberg. At 7:20 A. M. Bonanzi was observed leaving his home in his Plymouth Sedan, N. Y. State License No. 4-K-8996. He proceeded to 68th Street between Shore Road and Owl's Head Court, where he parked his car. At 7:40 A. M. he left his car and hurried to the 69th Street Ferry pier, Brooklyn, where he boarded a work boat (junk boat), in which there were two other men. This boat had just pulled up to the bulkhead of the pier. Immediately upon Bonanzi boarding the boat it left the pier and headed in the direction of Staten Island towards Tompkinsville. At about 8:10 A. M. this boat was seen returning to the same pier. This time it stopped at the shore end of the pier and Bonanzi was observed leaving the boat. He had no package and nothing was observed in the boat. The name or number of the boat could not be ascertained from the location where the customs men were stationed. The boat was the usual type of junk boat and was painted a very dark gray, almost black. Bonanzi proceeded toward his car and drove back to his home. At 9:20 A. M. the same day he was observed leaving his home in his car and proceeded direct to 88 Washington Street.

At 8:45 P. M. February 25, 1937 supervision of the telephone, North 2-8862, located at 69 Nott Street, registered in the name of the Nanking Company, showed that a telephone call was made from this number to the telephone Bowling Green 9-9456, which is the telephone located at the Syrian Club, as follows:

Man - 'Hello, is - er da Willie there?'
Man - 'Just a moment.'

Willie - 'Hello.'
Man: - 'Hello, Willie.'

Willie - 'Yeah, well listen see I can't do nothing
till it comes back'.
Man - 'When it come back?'

Willie - 'Well, it'll be back next week - She goes
away Friday, see, tomorrow and she'll be back
Thursday.'

Man - 'No, she's gonner sail Thursday, wasn't it?'

Willie - 'On the 6th she sails.'

Man - 'Six, what day is that?'

Willie - 'Well she will be back three days before time.'

Man - 'What?'

Willie - 'She will be back three days before time.'

Man - 'You better keep your eye on that, huh?'
Willie - 'Don't worry about that - leave it to me.'

Man - 'All right.'

As a result of this conversation a check was made of the vessels in port at that time and in the process of elimination it was believed that the vessel which was being referred to might possibly be the British S/S TAYBANK then moored at Pier 19 Staten Island. This vessel from that date was constantly kept under surveillance by enforcement officers, special instructions being issued to the enforcement bureau of the Surveyor's office to be on the alert for an offshore delivery via a work boat from this vessel.

On February 27th this vessel sailed fro Baltimore and returned to this port on March 4th, docking at Pier 4, Army Base, Brooklyn, N. Y.

On March 3rd the following quoted conversation was heard on Bonanzi's phone at 2:39 P. M. between Bonanzi and an unknown man:

"Man - (slow talker) talks to Willie.

Willie - 'It didn't come in yet. It won't be in until tomorrow.'

Man - 'Yes, but -' and is interrupted by

Willie - 'Don't worry about it, you leave it to me.'

Hangs up receiver - conversation was abrupt."

It will be noted that this conversation is to the effect that 'It' did not come in yet and would be due tomorrow. Bonanzi advises the unknown party not to worry about it as he would take care of it.

As stated above the S/S TAYBANK arrived at Pier 4, Army Base on March 4th.

On March 4th at 1:23 P. M., the following quoted conversation was heard between an unknown man and Bonanzi over Bonanzi's telephone:

"Man - (With accent asks for Willie).

Man - 'Hello, Bill, what do you know?'

Willie-'It come in to-day.'

Man - 'Kiti - sui or such, eh?'

Willie-'I'll take care of it tomorrow'.

Man - 'Well, you know he is going away tomorrow'.

Willie-'I know I will take care of it tomorrow'."

On March 5th, the following conversation was heard between Bonanzi and an unknown man over Bonanzi's telephone:

- 4 -

Man - 'Hello Bill (with foreign accent)'
 Bonanzi - 'I was there this morning, tomorrow sure. He went over to Staten Island.'
 Man - 'Yes ----- (Interrupted by Bonanzi)'
 Bonanzi - 'He moved, it's not my fault, he knows.'
 Man - 'Did you see the men?'
 Bonanzi - 'Sure'.
 Man - 'He said tomorrow at 12'.
 Bonanzi - 'No, not until Sunday.'
 Man - 'But, the paper said sailed Sunday.'
 Bonanzi - 'Yes, maybe tonight or tomorrow.'
 Man - 'Sure?'
 Bonanzi - 'Aw listen, what are we babies? I can't tell you everything.'
 Man - 'I know he's going away.'
 Bonanzi - 'All right, leave it to me.'
 Man - 'Bye - bye'. "

Again at 1:59 P. M., the following conversation was heard over this telephone between Bonanzi and the same man who phoned him at 11:38 A. M.:

Man - 'Willie?'
 Man - 'Yes.'
 Man - 'See; called up to remind you.'
 Willie - 'I couldn't talk with you this morning. The ship went over to Staten Island, couldn't do anything. She'll be there at 3 o'clock this afternoon. I was there this morning. I will be there at 7:30 tomorrow morning. I could not do anything, expected to do everything this morning. I went over this morning.'
 Man - 'Have you got plenty of money?'
 Bonanzi - 'Yes, I got plenty of money. I haven't touched it. It is as you gave it to me. It's only ten minutes work.'
 Man - 'I know.'
 Willie - 'Sometimes something gets in the way, so you can't do it. Don't worry'. "

It might be stated that the SS TAYBANK returned from Baltimore and arrived at Pier 4 Army Base, Brooklyn, at 2:50 A. M., March 4th and left at 3:45 P. M., the same day for the Plaster Mills, New Brighton, S. I., arriving there at about 4:45 P. M. and left there March 5th at 6:00 A. M., for the Ford plant at Edgewater, N. J., arriving there at 8:30 A. M., the same day. The vessel left Edgewater at 12:00 Noon March 5th and returned to Pier 4 Army Base the same day at 2:00 P. M.

In view of the fact that Bonanzi stated in the last quoted telephone conversation, March 5th, that the job would only take ten minutes and he would take care of it on the morning of March 6th at 7:30 A. M., arrangements were made to keep Bonanzi under observation on March 6th.

At 5:15 A. M. Customs Guards H. Rovitch and M. J. Yarrugia, who were stationed on the open pier at 52nd Street, Brooklyn, N. Y., observed a man, later identified as Bonanzi at the river end of the pier. Bonanzi was next observed at 7:12 A. M. by Customs Guards Eisenberg and Smassanow leaving his home, 343 - 62nd Street, Brooklyn, N. Y., in his Plymouth Sedan, New York State registration 1937 - 4-K 8996. He was followed by the above guards and proceeded to 65th Street and 4th Avenue where he purchased gasoline. He then proceeded west on 65th Street to the Army Base, driving in the 58th Street entrance, circling around in front of Pier 4, Army Base. He was then observed proceeding down 1st Avenue to 52nd Street, where he turned in heading west. He parked his car on 52nd Street and he was observed walking down to the river end of the 52nd St. pier. He was dressed in old clothes wearing a black leather jerkin and a cap. He remained at the end of this pier for approximately forty-five minutes. During this period of time there was observed by Customs Guards Eisenberg and Smassanow and the undersigned a work boat pass close to the end of the 52nd Street pier in the direction of the SS TAYBANK which was anchored at the foot of 58th Street.

At about 8:15 Bonanzi walked up towards the street end of the pier and when about half way up was approached by Customs Agent Gullfoyle, in the presence of several of the other customs officers, and questioned as to what business he had on the pier. He stated that he was waiting to see a fellow. Asked who the fellow was he refused to give any information. He was asked what his name was and he said "John". Questioned further as to his last name he stated "Williams". He was later questioned as to the automobile in which he arrived in the vicinity and which had been left approximately 500 feet from the land end of the pier in 52nd Street and stated that it did not belong to him. The key for this automobile was found on his person, and he was then informed that it was our knowledge that his correct name was William Bonanzi which he denied.

Bonzani's person was searched by the undersigned and in the pocket of his shirt there were found twelve One Hundred Dollar bills, and in his right pants pocket there was found \$195 in bills of different denominations. A small envelope with Chinese characters containing two pieces of paper bearing Chinese characters was found on his person by Customs Guard Smassanow. Smassanow had observed him remove this paper from his pants pocket to his back pocket and when Guard Smassanow was removing this envelope from his back pocket Bonanzi resisted. The Chinese characters on the outside of the envelope were subsequently translated as follows:

"Deliver to Ah Nan (Tam Nan)".

The small piece of paper, translated reads as follows:

"Upon presentation of the paper pay American money
300 equal to Shanghai money 990",

and was dated December 6, 1936. On the reverse side of this paper were two Chinese characters in purple reading:

"Cheong".

It might be stated that the word "Cheong" is impressed in raised letters on each tin of opium contained in this seizure with the exception of ten tins.

The other paper when translated was as follows:

"Mr. Ah Nan (Tam Nan)

I send you herewith \$1200 to be delivered to you personally by my friend. The rest of money shall be sent to you right after the business is O.K. Please do not worry about it and arrange the transaction with my friend without fail.

Tu Tow Eng."

It might be stated that the name "Tam Nan" appearing in parenthesis, and the name "Ah Nan" is shown in Ah Nan's seaman's discharge book as being also used by him.

At about 8:30 A. M. Agent Hunt observed a Ford automobile, bearing license S-X 00-35, enter the 52nd Street pier and observed a man leaving the car and walking in the direction of the river end of the pier. He was observed by Agent Hunt to wave his hand to a man who was standing on the end of the pier. The man who was standing at the end of the pier was Customs Guard M. J. Farruggia, who was wearing Bonanzi's leather jacket and cap, Bonanzi having in the meantime been placed under arrest. Farruggia was placed in this position on the pier, wearing Bonanzi's clothing as it was felt that the two men in the work boat would endeavor to contact him if they failed to meet him at a probably designated place.

Customs Guard Farruggia also observed this man coming towards him and waved to him and heard him say "Hello Willie". This man was stopped by Agent Hunt and questioned by him and a few minutes later by Agent Sullivan, to whom he stated that he was down on the pier to see a friend of his to try to buy some old rope. He was then questioned as to whether he owned a motorboat or not and he stated that he did and reached into his clothing producing Certificate of Award of Number, issued at New York, dated April 25, 1936, covering a work boat, bearing No. 10-Q-801 in the name of Dominick Butto, 537 - 49th Street, Brooklyn, N. Y., together with several registrations and operator's licenses in the name of Dominick Butto, the most recent being for a 1937 Ford car bearing New York Registration 1937 - 2-X - 99-78. It was then definitely established that he was Dominick Butto, who was known by this office to be an associate of William Bonanzi. Butto was placed under arrest and confronted with Bonanzi who was being detained on the same pier and each denied knowing the other.

In the meantime the car which was used by Bonanzi to reach the pier was placed under seizure.

- 1 -

At about 8:35 A. M. Customs Inspectors Harman Lipaki and John Rorke, and the undersigned went on board the SS TAYPANK to endeavor to find the opium which was believed to be still on board. It had been ascertained during the course of this investigation that the crew consisted of one Chinese, who was the ship's carpenter, and a number of Malaysians, the officers on board all being English.

Upon identifying ourselves to the master of the vessel, Captain J. Robertson and the Pier Superintendent who was present, Captain Andoe, they were informed that we wished to interrogate the ship's carpenter, who we believed was in possession of a large quantity of opium. They were informed that our belief was substantiated by the fact that we had just arrested a man ashore who had in his possession several pieces of paper bearing Chinese characters.

Ah Nan, the ship's carpenter was located and questioned by Inspector Lipaki, Inspector Rorke and the undersigned as to the whereabouts of the opium on board the vessel. After some ten minutes of interrogation he indicated that the second boatswain, later identified as Omar Bin Geni, could tell us where the opium was concealed. A search of Ah Nan's person revealed in his shirt pocket a part of a Chinese newspaper wherein there were found two small pieces of paper bearing Chinese characters. These papers were identical with the small paper found in the envelope on the person of Bonanzi.

The second boatswain was located on board the vessel and after some fifteen minutes of questioning he stated that the opium was concealed in the dunnage store room in the after hatch. The Chief Officer, R. C. Jones, was then directed to have the hatch covers to this hatch removed. The second boatswain was directed to enter the hatch and was followed by the undersigned and Agent Gordon H. Pike, who had in the meantime joined us; the second boatswain removed a number of canvas tarpaulins stored on the port side of this hatch and from underneath he showed the undersigned one of the bags. This bag was removed and found to contain 5-tael tins of opium. Subsequently four other bags, one of which contained two smaller bags, making a total of six bags, all containing 5-tael tins of prepared smoking opium, were found and removed.

Ah Nan, the ship's carpenter and the second boatswain were interrogated and they involved the storekeeper, Sainee Bin Rasep and the boatswain, Echil Bin Hassen.

Some twenty-seven members of the crew were brought to this office, including the four mentioned above. Bonanzi and Dominick Butto were also ordered brought to the Customhouse, together with the automobile which had been used by Bonanzi to ride to the pier.

In the meantime customs officers attached to the Enforcement Division seized a work boat bearing No. 10-G-302 at 16th Street and Gowanus Canal, the motor of this boat being still warm when picked up by the enforcement officers. This boat is registered in the name of Tizio Buda of 728 Sackett Street, Brooklyn, N. Y. While the customs officers

were examining this boat Tizio Buda approached and was also placed under arrest by Customs Guard E. Ven Pelt. The automobile registered in his name which was on the premises at the time and which had been used by him to drive his brother, Dominick Butto, to the 52nd Street pier to contact Bonanzi, was also placed under seizure, this car bearing New York State license No. 6-K 80-35.

William Bonanzi, upon being interrogated at the Customhouse, refused to state from whom he had received the envelope containing the two papers with the Chinese characters and stated that the money found in his possession was his own. Aside from this nothing of any importance was developed by the interrogation.

Dominick Butto and Tizio Buda when questioned denies having any knowledge of the opium and nothing was developed from their questioning.

Ah Nan, the ship's carpenter, was interrogated through an interrogated through an interpreter, Fong Mar, and stated that the opium was placed on board the vessel at Shanghai while the vessel was at the Yangtze Foo Drydock, and that the two slips of paper found on his person had been given him by Chang Qin, a 22-year old watchman employed at the drydock; that upon his return to Shanghai he was to receive \$1.00 per tin from Wong Cheong, the manufacturer of the opium in Shanghai; further, that while the SS TAYBANK was moored at Pier 19, Staten Island on or about February 26, 1937, early in the morning, a junk boat came alongside the vessel with three men in it. They informed him that they would be back that evening to remove the opium from the vessel. Then again on the morning of March 6th at about 6:00 A. M. the same boat approached in the vicinity of the TAYBANK with the same three men in it, one of the three men informing him that they would be back that evening at 10:00 P. M. to take the opium. He was confronted with William Bonanzi, Tizio Buda and Dominick Butto and he identified all three as being the three men in the junk boat on both occasions, and further identified Bonanzi as the man who spoke to him about removing of the opium. He was brought to the Barge Office and shown Tizio Buda's boat and also identified this boat as being the boat used by the men on both occasions.

Kechil Bin Hassen, the boatswain, Omar Bin Geni, the second boatswain, and Sainee Bin Hasep, the storekeeper, upon being interrogated all stated that they had been approached by Ah Nan, the ship's carpenter to assist him in unloading the opium and that they were to receive from the carpenter \$30.00 each. They stated further that they were present on the deck of the steamship about a week ago when the vessel was moored at Pier 19, Staten Island, and that early one morning a junk boat came alongside with three men in it and had a conversation with the ship's carpenter, AH NAN, about taking the opium; that they all three again saw this same boat with the same three men come alongside the SS TAYBANK early on the morning of March 6th and that they heard one of the three men have a conversation with Ah Nan, the ship's carpenter, about removing the opium and advising that they would be back that same night at 10:00 o'clock. All three were confronted with Bonanzi, Butto and Buda, and they all identified them as being the three men in the boat on both occasions, further identifying Bonanzi as the man who did the talking to Ah Nan.

A copy of each of the statements taken from the four members of the crew of the SS TAYBANK, and the other three defendants, Bonanzi, Butto and Buda, is enclosed herewith.

The seven defendants were arraigned before U. S. Commissioner Martin C. Epstein in the Eastern District of New York on March 8th charged with violations of the Narcotic Drugs Import & Export Act and Title 19, Section 1593 of the U. S. C., and remanded to the Federal House of Detention in this city in default of bail as follows:

William Bonanzi -----	\$75,000.-
Ah Nan -----	25,000.-
Kechil Ben Hassen -----	25,000.-
Omar Bin Ganl -----	25,000.-
Sainee Bin Rasep -----	25,000.-
Dominick Butto -----	10,000.-
Tizio Buda -----	10,000.-

Hearing was set for March 16, 1937.

A check of the fingerprint impressions of the seven defendants made at Police Headquarters, New York City, disclosed that Bonanzi, Buda and Butto have past criminal records, which are quoted below:

WILLIAM BONANZI

Alias WILLIAM BONZANA

- 5/4/17 as William Bonanzi, B'klyn. Gd. Larceny on 7-2-17, Blackwells Island Penty. Judge May. Off. Beatty, 155th Pct.
- 11/26/25 William Bonanzi, Manh. Att. Forgery. On 1-6-26, Indefinite term, Blackwells Island Penty. Off. McGann, 1st. Sq.
- 10/5/25 William Bonanzo, B'klyn. Pet. Larceny Convicted in Spec. Sess. Ct. B'klyn. on 1-12-27. Off. Mannick, 66th Pct.
- 3/6/37 William Bonanzi, B'klyn. Smuggling Opium. Off. U. S. Customs Agts.

TIZIO BUDA

Alias TIZO BUDA

E10506

- 11/13/36 as Tizo Buda, Jersey City, N. J. Dis. Pen. (Loitering) No final disposition at present. Off. Sgt. Meglone, Night Sq.
- 3/6/37 Tizio Buda, B'klyn. Smuggling Opium Off. U. S. Customs Agts.

DOMINICK BUTTO

B-144371

- 10/10/17 as Dominick Butto, B'klyn. Burglary & Con. Weapon. Discharged, Magt. Reynolds, Off. Behan, 145th Pct.
- 5/30/19 Dominick Butto, B'klyn. Dangerous Weapon. On 9/22/19, discharged, Judge Dike, Co. Ct. Off. Ternan, 91st Pct.

- 9/26/36 Dominick Butto, Tompkinsville, Staten Is. Gd. Larceny
On 2-28/27, Discharged, Judge Tiernan, Co. Ct. Off.
Graham, 66th Sq.
- 4/2/36 Dominick Butto, B'klyn. Rec. Stolen Goods - On 4-20-36,
Discharged, Mgt. Solomon, 6th Ct. Off. McKenna, 84th Pct.
- 3/6/37 Dominick Butto, B'klyn. Smuggling Opium. Off. U. S.
Customs Agts.

At a conference held prior to the arraignment of the defendants, between agents of this office and Chief Assistant U. S. Attorney Harold O'Dougherty of the Eastern District of New York, it was decided by him to present this case to the Grand Jury on Thursday, March 11th at 1:00 P.M. In view of this a copy of this report, together with copies of the statements of the defendants will be personally delivered to the United States Attorney by the undersigned.

Samples of the opium have been delivered to the U. S. Chemist for analyses. The balance of the opium has been delivered to the Seizure Room at the Appraiser's Stores.

The following are the witnesses who can testify in this case:

S. A. SALOTICO	Customs Inspector.
N. H. STONE	Customs Inspector.
JOHN M. HOOE	Customs Patrol Inspector.
ABRAHAM EISENBERG	Customs Guard.
DANIEL O'LEARY	Customs Patrol Inspector.
THOMAS PETERS	Customs Guard
MAX SMASSANOW	Customs Guard
M. J. FARRUGLIA	Customs Guard
H. ROVITCH	Customs Guard
DANIEL T. GUILFOYLE	Customs Agent
JOHN F. HUNT	Customs Agent
OSCAR JURKOWITZ	Customs Inspector
JOSEPH J. FLYNN	Customs Agent
HERMAN LIPSKI	Customs Inspector
JOHN RORKE	Customs Inspector
FONG MAR	Interpreter
JOHN J. ROGERS	Customs Agent
LOUIS TANNER	U. S. Chemist
E. VAN PELT	Customs Guard
PETER ARATA	Laborer.
EUGENE McDERMOTT	Deputy Collector of Customs
JOHN J. O'CONNOR	Deputy Surveyor of Customs.
GORDON H. PIKE	Customs Agent.

Customs Inspector S. A. Salotico - Can testify to certain conversations had between William Bonanzi and other individuals over telephone No. Bowling Green 9-9456, located at 88 Washington Street, the Syrian Club, and can identify the voice of Bonanzi.

Customs Inspector N. E. Stone - Can corroborate the testimony of Inspector Salotico.

Customs Border Patrol Inspector John M. Hooe - Can testify to certain conversations had between William Bonanzi and certain individuals over telephone No. Worth 2-8862. This telephone is located at the Nanking Company, 69 Mott Street, New York City.

Customs Guard A. Eisenberg - can testify to the surveillance of William Bonanzi on February 25th, at which time Bonanzi boarded a motorboat at the 68th Street Ferry Pier, Brooklyn, at about 7:40 A. M.; also to the fact that there were two other men in this boat at that time and that the boat proceeded in the direction of Tompkinsville, S. I., and returned to the same pier at about 8:10 A. M.; also that on March 6th at 7:12 A. M. he observed Bonanzi leaving his home in his automobile and proceeding to Pier 4, Army Base where the SS TAYBANK was moored and thence to the open pier on 52nd Street, Brooklyn, and to observing him standing for some time at the river end of the pier; also to observing him while a junk boat passed the 52nd Street pier during this period of time, the boat proceeding in a southerly direction toward the SS TAYBANK.

Customs Patrol Inspectors Daniel O'Leary and Thomas Peters - can corroborate Customs Guard's Eisenberg's testimony as to the surveillance of Bonanzi on February 25, 1937.

Customs Guard Max Smassanow - can corroborate that part of Customs Guard Eisenberg's testimony regarding the surveillance of Bonanzi on the morning of March 6th; can also testify to the finding of the envelope in which were two pieces of paper bearing the Chinese characters found on the person of Bonanzi, and that the translation of one of these pieces of paper states that the writer is sending \$1200 to Ah Nan, the ship's carpenter.

Customs Guard M. J. Farruggia - can testify that at about 5:15 A. M. March 6th, he observed William Bonanzi standing on the river end of the 52nd Street pier; also to observing Bonanzi on the same pier at about 7:35 A. M. where Bonanzi remained for a period of about 45 minutes. He can also testify as to wearing Bonanzi's leather jacket and cap and standing in a position on the pier where Bonanzi was first observed; also to the fact that about 8:30 A. M. he observed Dominick Butto approaching him on this pier, waving to him and saying "Hello Willie".

Customs Guard H. Rovitch - can testify that at 5:15 A. M. he observed Bonanzi on the river end of the pier at 52nd Street, and later at about 7:35 observed Bonanzi standing in the same locality on the pier, and can corroborate Agent Hunt as to certain conversation had

had on the pier between Agent Hunt and Bonanzi, on the 52nd Street pier.

Customs Agent D. T. Guilfoyle - can testify to arresting Bonanzi on the 52nd Street pier, Brooklyn at about 8:15 A. M. on March 6th; also to the fact that when he interrogated Bonanzi Bonanzi informed him that his name was John Williams and that he was on the pier to meet a friend who was in a boat; he can also testify as to his interrogation of Dominick Butto at the time of his apprehension; also to the interrogation of Tizio Puda and William Bonanzi at the Customhouse.

Customs Agent John F. Hunt can testify to observing Dominick Butto appear on the 52nd Street pier at about 8:30 A. M. and wave to Customs Guard Farruggia, who was standing on the end of the pier wearing Bonanzi's coat and cap; can also testify that he, in the presence of Customs Inspector Oscar Jurkowitz and Customs Guard Rovitch, questioned Bonanzi on the 52nd Street pier and that Bonanzi informed him that he was in the bootlegging game during prohibition and also was a bookmaker at the present time; that his presence at the end of the pier on that morning was for the reason that he expected to smuggle in 15 Chinese stowaways from the SS SILVER BEACH, which was moored at the 57th Street pier parallel with the SS TAYBANK; that if this job turned out to be "dope" he would get the fellow who swindled him into this job smuggling dope through a double cross.

Customs Inspector Oscar Jurkowitz can corroborate the testimony of Customs Agent Hunt as to his interrogation of Dominick Butto at the time of his apprehension.

Customs Agent Joseph J. Flynn can testify to searching Bonanzi on the 52nd Street pier at 8:15 A. M. March 6th and to finding in his shirt pocket 12 \$100.- bills and \$195 in bills of other denominations in his trousers pocket; also to the interrogation of Ah Nan, the ship's carpenter, and Omar Bin Geni, the second boatswain, on board the SS TAYBANK at about 8:35 A. M. March 6th at which time there was found on the person of Ah Nan, the ship's carpenter, two pieces of paper bearing Chinese characters identical with one of the papers found on the person of Bonanzi; also to the finding of the five bags containing 599 5-tael tins of prepared smoking opium in the dunnage storage room hatch on board the SS TAYBANK at about 8:50 A. M. March 6th; Can also testify as to the interrogation of the four members of the crew at the Customhouse and the identification of Bonanzi, Dominick Butto and Tizio Puda by the four members of the crew as being the three men who were on two occasions observed by them in the motorboat alongside the SS TAYBANK and one of whom, indicating Bonanzi, as the man who spoke to Ah Nan relative to removing the opium from the SS TAYBANK.

Customs Agent Gordon H. Pike can corroborate the testimony of Agent Flynn.

Customs Inspector Herman Lipski can also corroborate the testimony of Agent Flynn.

Customs Inspector John Rorke can also corroborate the testimony of Agent Flynn.

Interpreter Fong Mar can testify to the interpreting of the interrogation of Ah Nan at the Customhouse, the translation of the various Chinese characters on the pieces of paper found on the persons of Ah Nan and Bonanzi, as well as to the translation of various Chinese characters on the tins contained in this seizure.

Customs Agent John J. Rogers can testify to the delivery of samples to the chemist for analysis and to the delivery of the balance of the opium to the Seizure Room, Appraiser's Stores.

Chemist Louis Tanner - can testify as to the analysis of the two samples submitted to him by Customs Agent John J. Rogers.

Customs Guard E. Van Pelt can testify to the arrest of Tizio Buda and the seizure of Buda's junk boat and automobile.

Customs Laborer Peter Arata can corroborate the testimony of Customs Guard E. Van Pelt.

Deputy Collector Eugene McDermott can produce the manifest of the SS TAYBANK which shows that this vessel cleared from Shanghai, China, December 8, 1936.

Deputy Surveyor John J. O'Connor can testify to the surveillance of the SS TAYBANK while in port.

EXHIBITS:

1. Manifest of the SS TAYBANK.
2. Original notes made by Inspectors Salotico, Stone and Hooe relative to certain conversations had between Bonanzi and various other persons over the telephones Bowling Green 9-9456 and Worth 2-8862.
3. Twelve \$100.- bills found on the person of Bonanzi.
4. Envelope with Chinese characters containing two pieces of paper also bearing Chinese characters found on the person of Bonanzi.
5. Translations of Chinese characters on envelope and also of the two pieces of paper found therein.
6. Newspaper with two pieces of paper enclosed therein with Chinese characters thereon found on the person of Ah Nan, ship's carpenter.
7. Translations of exhibit No. 6.
8. 5 bags of opium found on board the SS TAYBANK.
9. Photograph of Tizio Buda's junk boat.

10. Chemist's report of analysis.
11. Original transcripts of statements taken from the seven defendants.
12. Criminal Record, William Bonanzi, taken from the Police Records, City of New York.
13. Criminal Record, Dominick Putto, taken from the Records of the Police, City of New York.
14. Criminal Record, Tizio Buda, taken from the Police Records, City of New York.

All the above papers are retained in this office for use in the trial of the case, with the exception of the manifest of the SS TATEANK.

For the further information of your office and the office of the Treasury Attache at Shanghai, China, to whom a copy of this report is being transmitted, you are advised that all the five-tael tins with the exception of ten, hereinafter mentioned bore the following marks of identification:

All of the cans are die stamped on one end with the Rooster Brand and Chinese characters reading "5 tael". The other end of the can is die stamped with Chinese characters reading from right to left "Lum Kee Hop", the word "Cheong" and a seal indicating that the opium is genuine. One side of the tin has a raised impression reading (in English letters) "Cheong". A white oblong paper label on the top of one side was noted consisting of five characters which are not clear for reading, but two of which indicate that the characters show the name of the manufacturer. On the reverse side is a square white paper label with Chinese characters reading "Owing to the falsification of the company's merchandise, now the company is using an extra seal for identification of the genuineness of the product which is on the top of the tin." Over this is stamped in purple characters the name "Cheong".

There were also ten tins bearing a white paper label with some Chinese characters and the words "Lo Fook Kee" which words were also die stamped on one side of each of these ten tins.

A cablegram was sent to the Treasury Attache at Shanghai under date of March 9th advising of this seizure and also requesting that an investigation be made as to the identity of Wong Cheong and Chang Quin, who are mentioned in this report.

It might be stated that it is the opinion of this office that the successful culmination of this case will be due in a great measure to the close cooperation existing between this office and the personnel of the Surveyor's force under your jurisdiction, as well as to the assistance rendered by the border patrolmen temporarily assigned to this office from the Northeast Patrol District.

Seizure papers covering the seizure of the opium, the automobiles and the junk boat will be transmitted with a supplemental report.

You will be advised of any further developments in this case.

Respectfully,

JOSEPH J. FLYNN,
Customs Agent.

Respectfully forwarded,
Approved:

L. W. BEAN,
Acting Supervising Customs Agent

Enclosures:

Copies - 7 statements. (4 incorporated in one).
Extra copy. Supplemental statement
Copy to Bureau with covering letter.
Surveyor.
Treasury Attache, Shanghai, with covering letter/
By hand to D. A. E. D. N. Y.

jjf/acd

March 10, 1937.
11:51 a.m.

H.M.Jr: Hello

O: Senator Moore. Go ahead.

H.M.Jr: Hello

M: Hello Mr. Secretary.

H.M.Jr: How are you?

M: Pretty good, sir. An - Frank ^{Haig} ~~Haig~~ is on my neck about that little matter of ours.

H.M.Jr: I didn't - I can't hear very well.

M: I said Frank Haig is on my neck about that little matter of ours.

H.M.Jr: Yes, well tell Frank Haig that the minute Helvering comes back and will send me over a letter moving this fellow I'll sign it but Helvering has left town and.....

M: Well he came back.

H.M.Jr: What?

M: He's back and he said he sent the letter.

H.M.Jr: Well that isn't true; there's no letter here.

M: Yes.

H.M.Jr: And he said he sent me a letter?

M: That's what I understood him to say. He said that everything was all right as far as he was concerned; he did all he could do.

H.M.Jr: Well if he's back....

M: He recommended this man - one of the three - I don't know which one.

H.M.Jr: Well now will you - will you stay in your office for three minutes and I'll call you back....

M: Yes sir, thank you.

- 2 -

H.M.Jr:because I - I just can't understand that.
M: All right.
H.M.Jr: Will you stay there three minutes?
M: I'll be right here waiting.
H.M.Jr: Thank you.

* * * * *

12 p.m.

H.M.Jr: Hello
O: Senator Moore.
H.M.Jr: Hello
O: Yes sir.
H.M.Jr: Well in the future if I want to know where one of my subordinates are I'll have to call you up.
M: (Laughs)
H.M.Jr: I talked to Guy and I said, "When did you get back?" He said, "Well I intended to call you up to-day and let you know I got back yesterday."
M: Yes.
H.M.Jr: "Well," I said, "in the future when I want to know when you're back I'll call up Senator Moore."
M: (Laughs)
H.M.Jr: And the other matter - while he was gone he sent over one of his assistants with a memorandum and I said I would not take that thing unless Helvering signed it himself.
M: Sure.

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H.M.Jr: And there is nothing here with Helvering's signature, see?

M: I see.

H.M.Jr: So Helvering said he would get busy and he'd bring it over himself and I said if he'll bring it over and he'll put his own John Henry on it why I'll act.

M: That's fine.

H.M.Jr: But I was correct that there was nothing in my office.

M: Yes, well he said that he had made the recommendation....

H.M.Jr: Yes, but on an important thing like this, frankly, I don't think that any subordinate of his should sign it except Helvering.

M: You're right.

H.M.Jr: Don't you think I'm right?

M: Absolutely right - he's the head of the department.

H.M.Jr: Well that's what I feel because it's too important and then if there's any comeback why Helvering and I will have to take it.

M: Why certainly.

H.M.Jr: And - but there's no document here from Helvering.

M: Oh well you're absolutely right.

H.M.Jr: But after you get to know me better you know that if I say I'll do a thing I'll do it and.....

M: That's your reputation anyway.

H.M.Jr: And I'll never kid you.

M: (Laughs) All right.

-4-

H.M.Jr: But in the future when I want to know when Helvering's back I'll call you up.

M: (Laughs) Well I.....

H.M.Jr: You can tell your friend up there in Jersey City that not later than tomorrow that thing will be signed by me.

M: That's fine.

H.M.Jr: I promise you that not later than tomorrow if I've got to go over to Helvering's office you'll get it.

M: I appreciate that an awful lot.

H.M.Jr: You just tell him that not later than tomorrow.

M: All right, sir, thank you.

H.M.Jr: I'm sorry but on account of Helvering being sick....

M: Yes sir.

H.M.Jr:and - is what tied it up but I - I just couldn't take a subordinate's word on it.

M: Yes sir. All right, thanks I appreciate that a lot.

H.M.Jr: You can - you can tell your friend that not later than tomorrow it will be taken care of.

M: All right, thanks.

H.M.Jr: Goodbye.

M: Goodbye.

March 10, 1937.
11:56 a.m.

O: Mr. Helvering. Go ahead.

H.M.Jr: Hello.

Helvering: Hello.

H.M.Jr: Guy?

H: Yes.

H.M.Jr: When did you get back?

H: I got back yesterday.

H.M.Jr: Well I didn't know that. Senator Moore knows more about your movements than I do.

H: (Laughs) I was going to call you to-day and tell you that I was back on the job now.

H.M.Jr: Well I didn't know it. He just called me up and said where's this thing on this fellow and I said I'm waiting for Helvering to get back.

H: Ah-ha.

H.M.Jr: Then he said that you told him that you'd sent it over here.

H: How's that?

H.M.Jr: He said that you said the letter is on my desk.

H: No I didn't - I told him that Mr. Russell had that in charge when I left and I understood that he was going to present it to you sometime while I was away.

H.M.Jr: Well I told him that I wouldn't act except over your signature.

H: No.

H.M.Jr: So - ah - I - I mean I told Russell I wouldn't act unless you signed it.

H: Well I went over with him the situation.

H.M.Jr: I know but I thought an important matter like that should have your signature.

H: Yes well that's perfectly all right (laughs) - I'm....

H.M.Jr: Yes, so when you sign it and send it over or bring it over why I'll act but I won't act unless you sign it.

H: Yes, well I'll - I'll get that up to-day then.

H.M.Jr: All right.

H: You bet.

H.M.Jr: And then you let me know when you're ready.

H: All right.

H.M.Jr: You better bring it over yourself if you don't mind.

H: Yes, all right.

H.M.Jr: Thank you, Guy.

March 10, 1937

After returning to his office from Cabinet meeting this afternoon, HM, Jr. said to Mrs. Klotz: "The President evidently was very much pleased with himself over the fact that Hull evidently was sending a very stiff note to the American Ambassador in Berlin to file a complaint with the German Government against remarks in Government-controlled newspapers about the Jews in America.

"They decided to make studies of increased costs in certain industries. The President asked for suggestions as to which industries to study. Someone suggested steel. Another person suggested copper. Whereupon I said, "How about silver?" and the President, out of the corner of his mouth, in a stage whisper, said, "Shut up. That is a forbidden subject," whereupon everybody howled.

March 10, 1937

HM, Jr. called Hester into his office today and said to him, "Contrary to your memorandum on the Antietam medal (copy of the memorandum addressed to the Secretary is attached), I recommended to the President that Congressman Lewis ought to have it because he is an old sweetheart."

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

138

DATE MAR 6 1937

TO The Secretary
FROM Herman Oliphant

Apropos your conference with Representative Lewis of Maryland relative to his bill authorizing the issuance of a coin commemorating the 75th Anniversary of the Battle of Antietam (H.R. 82) and your statement to Mr. Lewis that you would discuss the matter with the President on Monday, I desire to call your attention to your memorandum of February 18, 1937, in which you advised the President that the American Numismatic Association has proposed, as a substitute for the commemorative medal bill, legislation which would authorize the issuance of ten commemorative coins annually, to be selected by a Commemorative Coin Commission on the basis of the national importance of the events sought to be commemorated, and would repeal all outstanding coin authorizations. Senator Maloney has now introduced this bill in the Senate (S. 1628) and the Senate Banking Committee intends to consider it at the same time it takes up the commemorative medal bill. At the request of that Committee we are preparing a report on this bill.

I desire also to inform you that Representative Cochran, ranking member of the House Coinage Committee, recently suggested to one of my assistants, that he believes, in view of the pressure being brought to obtain the enactment of Mr. Lewis' Antietam Bill,

-2-

Senator Glass' Norfolk Bill, and one or two others of the more than 30 bills which have been introduced in Congress this session, it would be a happy solution of the matter if the Administration would approve a bill authorizing the issuance of five commemorative coins during this session of the Congress, the events in commemoration of which the coins would be issued to be determined by the Congress upon recommendation of the Secretary of the Treasury. Mr. Cochran's proposal would also include a provision which would repeal all outstanding authorizations for the issuance of commemorative coins, effective at a specified date after the enactment of the Act. His proposal would not limit the events to those that occur this year, so as to permit the Congress to include a coin commemorating the 1939 World's Fair at New York City. This would be the last coinage legislation and following its enactment, the Committees would take up consideration of the commemorative medal bill.

By Lester.

Lester Cochran

MAR 10 1937

MEMORANDUM FOR THE SECRETARY OF STATERe: Pittman and McReynolds
Neutrality Bills.

During the course of the Department's routine examination of all bills submitted to the Congress, the above-named bills came to the attention of my staff. In the light of this Department's experience with the problems of foreign exchange and foreign loans, it seems possible that the following points might be worthy of further consideration:

1. With some \$8 billions of foreign investments now in this country, it is impossible to foresee the effects on our domestic economy and our status as a neutral of a general European war, with a sudden rush to liquidate such investments and to use them for all manner of unpredictable purposes. In consequence, there might well be a present need, in addition to existing powers of exchange control, for emergency authority in the President to institute some system of seizure, control and rationing of the investments of belligerents and the proceeds thereof, comparable to that exercised through the Alien Property Custodian under the Trading with the Enemy Act.

2. The bills envisage a "cash-and-carry" policy. They provide for the prohibition of loans to belligerents. They do not, however, purport to restrict loans to individuals and corporations who are nationals of belligerents, although such loans might well become an inducing factor to commerce with belligerents in time of war. To amplify:

Both bills provide that, when the President shall have issued his proclamation, it shall be unlawful to purchase or sell the obligations of a belligerent government, or of any person acting for it, or to make any loan to any "such government or person". Both bills provide also that the President may, under certain circumstances, issue a further proclamation making it unlawful to export certain products "until all right, title, and interest therein shall have been transferred to some foreign government," etc.

Such provisions do not, however, appear to place any limitation on the making of loans, even directly, to a person who is a national or resident of a belligerent state. It would be quite normal for goods, other than arms, ammunition and implements of war, to be purchased by persons who are nationals or residents, but are not acting on behalf, of a belligerent state; and the mere fact that no American citizen can have any right, title or interest in the product exported would not prevent an American vendor or other American from making a loan or extending credit to a person who is a national or resident of a belligerent state, but not acting on behalf of his government.

Secretary.

added 3-11

23 Wall Street
New York

March 10, 1937

Dear Mr. Secretary:

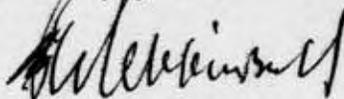
I suppose it is quite unnecessary for me to tell you that there is not a word of truth in the newspaper stories being passed about, associating us with French financing. We have not for a moment thought of floating a loan for the French Government or for its benefit, or making, soliciting, receiving or transmitting subscriptions to it. Neither the law nor the market would permit. We have made it abundantly clear that the Johnson Act is not only the law of the land but has the fullest support of public opinion. We have also made it clear that, in our opinion, the uncertainties abroad are such that there is no desire among banks and investors here to invest money in a French loan.

The suggestion of our acting as paying agents for the coupons of such a loan, which it now appears was submitted to you last week by the French Government, had not previously been discussed with us. It was submitted without our knowledge or consent. Your adverse ruling had, unknown to us, settled that question in the negative two or three days before an inquiry about it from Morgan & Cie., Paris, on their own initiative, had reached us and we had returned a cautionary reply. That ruling of yours with which, under all the circumstances, I am in fullest accord, incidentally, relieved us of what might otherwise have been an embarrassing question since the

arrangement, though lawful, would have been under all the circumstances both inconvenient and inexpedient.

I am, my dear Mr. Secretary, with great respect,

Faithfully yours



The Honorable
The Secretary of the Treasury
Washington, D. C.

LMS

GRAY

London

Dated March 10, 1937

Rec'd 3:05 p. m.

Secretary of State,
Washington.

130, March 10, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

The British Treasury states that such information as it have thus far received from Rowe Dutton indicates that "the atmosphere in Paris at the present moment seems clear and good".

The British press has continued to take a favorable view of the French monetary developments and there is some reason to believe that word has been passed to them to do so, to counteract in some measure the stiff character of the final British refusal on the payment agent question. I was shown a copy of this reply on Monday evening and at the same time was told that British Embassy in Washington had been instructed to transmit it direct.

The city likewise has received guardedly favorable reports from their French correspondents. There are indications that liquidation of French holdings in isolated instances in the British stock market is taking
place

LMS 2-No. 130, March 10, 6 p. m., from London.

place with a view to transferring funds to France. Some French nationals are however taking the precaution of arranging for their purchases of the forthcoming loan through foreign banks.

The franc has continued bid most of the day.

BINGHAM

CSB

March 10, 1937.
4:08 p.m.

H.M.Jr: Hello - I don't know any Zimmerman.

Magill: You don't, eh.

H.M.Jr: No.

M: Well they all recommend - I talked to Morrison Shaffroth personally and they all recommend that we go ahead and settle the case on this basis.

H.M.Jr: Well I - as far as I know I never heard of the fellow.

M: Well then I - that's that - I guess there's nothing. Its one of those cases that sort of smells but I think we are getting a good deal.

H.M.Jr: O.K.

M; All right, thanks.

LMS

GRAY

Paris

Dated March 10, 1937

Rec'd 4:23 p. m.

Secretary of State,
Washington.

336, March 10, 5 p. m.

FROM COCHRAN.

Market contact informed me at 3:30 this afternoon that Bank of France had enjoyed satisfactory acquisition of sterling this forenoon at around 106.83. Rate had weakened this afternoon to 107 with bank not operating. Decline in franc was attributed to (one) rumor that Bank of France statement tomorrow will show gold loss, indicating that the gold and foreign exchange resources of the stabilization fund must have been exhausted and more gold taken from the bank before the close of business last Friday; (two) report that in the Senate debate this afternoon Blum is refusing to respond to questioners demanding a statement as to his future policies. I have not confirmed either one or two. Rentes are only slightly up and French stocks share the nervousness which just now pervades the exchange market.

Yesterday

LMS 2-No. 336, March 10, 5 p. m., from Paris.

Yesterday evening the market was optimistic over the loan following reports that the Government was giving assurances as to its future general policies. Text of yesterday's Chamber debate fails to reveal such clear promises as market expected.

Nevertheless, the market was encouraged this afternoon by the Chamber's overwhelming vote and by the prospect of the present bill requiring a parliamentary act before exchange control could be applied at any future date. The bill would limit the amount of the loan to the authorizations embodied in the finance law of December 31, 1936, for national defense expenditures which amount to nine billion francs for army, navy, and air in the ordinary budget and nine and one-half billions in the special or extraordinary budget for armament.

END SECTION ONE

WILSON

SMS:EMB

LMS

GRAY

Paris

Dated March 10, 1937

Rec'd 4:40 p. m.

Secretary of State,
Washington.

336, March 10, 5 p. m. (SECTION TWO)

Messrs. Reynaud and Pietri criticised the proposition of the Government to provide exchange guarantee and option in the coming loan. The point was made that not only subscribers to this loan but all French citizens should have the definite guarantee that there will be no further devaluation of the franc. Reynaud considered the Government's plan as revealing its own doubt as to ability to hold the franc within present legal limits.

In his interpellation Flandin raised the question as to the mechanism of the exchange option. He remarked that the speakers preceding him had not entered into the details of the proposed operation. He said that if he had clearly understood the thoughts of the Minister of Finance the latter sought by the mechanism of the exchange option not only to attract the French investor and French capitalist but also to attract the foreign subscriber. Flandin continued: "I hope that the

Government

LMS 2-No. 336, March 10, 5 p. m., Sec. 2, from Paris.

Government may obtain within the spirit of the tripartite agreement, a sufficient collaboration of the governments, and especially British and American capitalists, of such a character that a procedure will be found which will permit foreign subscribers to be assured that the payment of coupons and reimbursement of capital may effectively be made in the foreign currencies in question." There is no record in the official report that any attempt was made by the Government to answer Flandin in this respect.

While I have not seen any definite arrangement on either side

WILSON

SMS:NPL

LMS

GRAY

Paris

Dated March 10, 1937

Rec'd 4:50 p. m.

Secretary of State,
Washington.

336, March 10, 5 p. m. (SECTION THREE)

in the premises, I quote herewith from an article in the LONDON FINANCIAL TIMES of March 10, (which parallels an item in LE TEMPS) wherein its Paris correspondent refers to the guarantee of exchange clause:

"According to an official explanation given to the press of the meaning of 'guarantee and option of exchange', the guarantee of interest is intended to safeguard the bondholder from a possible eventual fall in the value of the French currency by comparison with one or several foreign currencies.

Should the case arise that guarantee will permit of the bondholder obtaining in French francs both as regards interest and redemption the amount equal to the exchange value of the foreign currency for which an option of exchange will have been requested.

Thus for the four per cent 1925 loan that exchange guarantee was based upon sterling. For the issue about

to be

LMS 2-No. 336, March 10, 5 p. m., Sec. 3, from Paris.

to be made the basis of the guarantee will not be fixed upon any single foreign currency but on several currencies.

Payment of interest and redemption will therefore be made to the bondholder at the exchange rate of the highest value or most favored of any one of these foreign currencies.

The option of exchange means the right of the bondholder to receive his interest not only in French currency but at his choice in any of the foreign currencies stated on the face of the bond. But it is specifically pointed out that this clause does not necessarily imply an "option of choice of markets" - that is the right to receive payments in foreign

WILSON

SMS:NPL

LMS

GRAY

Paris

Dated March 10, 1937

Rec'd 6:05 p. m.

Secretary of State,
Washington.

336, March 10, 5 p. m. (SECTION FOUR)

markets or at banks abroad. There are objections which preclude that at present although it is not impossible that such an 'option or choice of markets' may mature later on".

The financial expert of the PARIS-MIDI who yesterday wrote of Bonnet's expected broadcast on the loan today speculates as to the probable interest rate of the issue. Using a "tripartite" theme which some other French papers have also followed in boosting the loan, he concludes:

"If it is possible to assure to this tripartite loan large facilities of negotiations and of circulation, that new 'international currency' method of investing capital, that new instrument of internal payments does not require an interest rate of 4% and if London and New York raise difficulties regarding the quotation on their markets, the choice of a moderate
rate

LMS 2-No. 333, March 10, 5 p. m., Sec. 4, from Paris.

rate of compensation may be a means of breaking down this resistance. And after all there exist other important financial markets outside of London and New York.

If, furthermore, to this maximum of security is added the advantage of a high interest rate of compensation these new bonds may dangerously compete with the other French rentes.

Finally this "tripartite currency" of this "tripartite loan" should not cost the French tax payer too much".

END OF MESSAGE

WILSON

SMS:NPL

RECEIVED
MAR 11 1919
DEPARTMENT OF STATE
WASHINGTON

March 10, 1937.
4:43 p.m.

154

O: Mr. Hopkins - go ahead.

H.M.Jr: Hello Harry.

Hopkins: This is Harry.

H.M.Jr: Harry.

H: Got the French government out of your office?

H.M.Jr: Yes.

H: Henry.

H.M.Jr: Yes.

H: I've got the letter that I sent to you a day or two ago.....

H.M.Jr: Right.

H:about those two proposals we talked about the day I was in the office with Dan.

H.M.Jr: That's right.

H: Now would you be disposed to talk about those with Dan and us tomorrow?

H.M.Jr: Surely.

H: What time would be convenient for you?

H.M.Jr: Just a moment - just a minute - 11 o'clock.

H: Yes.

H.M.Jr: What?

H: Yes.

H.M.Jr: O.K.

H: Fine Henry.

H.M.Jr: All right.

H: Goodbye.

H.M.Jr: Goodbye.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 10, 1937, 5 p.m.

NO.: 335

I refer to the Embassy's telegram of March 10, No. 334.

Yesterday afternoon's Chamber debate on the loan bill of the Government was cut and dried. During the time that I was there the principal impression I got was that the Left groups intended to avoid anything which might provoke partisan discussions and take away from (omission) the impression of practical unanimity of support for the loan which the Government hopes to obtain and obtained in large measure as a matter of fact.

The opposition's moderate elements went on record in support of the proposed loan. However there were efforts made on the Extreme Right, particularly while Blum was speaking, to provoke political incidents which might have caused the Chamber to divide on the issue. The Premier stated flatly, however, that he refused to be drawn into a political discussion, and that the matter was one of national interest, and he was appealing for the unanimity of the Chamber as well as for the unanimity of the country on it.

The only point in the Chamber's debate which might throw further light upon the nature of the "pause" and of
the

- 2 -

the Government's new policy was in connection with the effort made by Reynaud to get as definite a statement on economic policy from Blum as was given regarding exchange control last Friday. Blum limited himself in this regard to remarking that it was reported the Government had renounced part of its aspirations, such as nationalization of basic industries. Blum reminded them, however, that on February 26 in debate he had stated definitely that the only program binding the Government was that of the reassemblément populaire resulting from a definite agreement between the political parties concerned, and that unless the unanimous consent of those parties were obtained, the program could not be modified or extended.

I was told last night by a person very close to Blum that few people realize what it has meant to Blum to be obliged to change his policies in the economic and financial field. My informant said that his decision in this field was comparable to the decision which he had taken with respect to non-intervention in Spain. His innermost beliefs and sympathies in both instances had urged him to courses after soul-searching debate with himself, he had become convinced would have to be abandoned because different policies were demanded by the best interests of the country. My informant told me that once Blum had gone through this period of doubt and debate, there would be no going back on his decision, once reached.

EA:LWW

WILSON.

LMS

GRAY

Paris

Dated March 10, 1937

Rec'd 6:14 p. m.

Secretary of State,
Washington.

334, March 10, 4 p. m.

Embassy's telegram 320, March 7, 11 a. m.

The Chamber last night passed the Government's bill for a national defense loan by a vote of 470 against 46 with 94 abstentions.

An amendment proposed by Marin (Republican) for the setting up of a special committee of control to supervise the utilization of the proceeds of the loan and to see that they will not be used for purposes other than national defense was rejected by the Government and voted down by 368 against 228.

Another amendment proposed by Pinelli (Republican independents) that the loan be limited to a net amount not exceeding the necessary appropriation required for national defense expenditures for the current fiscal year was accepted by the Government since it was practically the same wording as that contained in the preamble

LMS 2-No. 334, March 10, 4 p. m., from Paris.

preamble to the bill on this point and was adopted by the Chamber.

An analysis of the final vote on the bill shows that Marin's Republican federation voted against while such Center groups as that of Reynaud and Flandin voted for the bill. The Communists voted en bloc for the bill.

END OF SECTION ONE

WILSON

SMS:EDA

LMS

GRAY

Paris

Dated March 10, 1937

Rec'd 6:20 p. m.

Secretary of State,
Washington.

334, March 10, 4 p. m. (SECTION TWO)

In the debate Right and Center speakers, while not criticising the bill or its necessity, took delight in sarcastically complimenting the Popular Front Government for its reversion to Rightest orthodoxy in finance which was that of Laval, Doumergue and others of their predecessors.

Deputies Dommange (Independent Republican Union) and Reynaud (alliance of Left Republicans) voiced the hope that Blum would now extend his financial principles to economic policy. Reynaud referred to what he termed Ambassador Bullitt's recent warning against the peril of autarchy (Washington's birthday speech).

Deputy Pietri (alliance of Left Republicans) said that if he did not congratulate the Government on its proposal he would at least vote for it.

WILSON

WDL:SMS

LMS

GRAY

Paris

Dated March 10, 1937

Rec'd 6:33 p. m.

Secretary of State,
Washington.

334, March 10, 4 p. m. (SECTION THREE)

Flandin (alliance of Left Republicans) stressed that it was not his party which asked the Government to take the very steps which it is now proposing but that it was the Government which had chosen a policy of appealing for confidence. He called attention to Blum's statement that after the "pause" one would start again as soon as circumstances permit. He said that this was natural but that it was also natural to know what was meant by starting again. He also called attention to Paul Faure's statement in a speech made on February 14, 1937.

"Measures for public welfare will have to be taken very soon. If men are mobilized, fortunes should also be mobilized".

Blum who more than Auriol undertook the defense of the Government did not

WILSON

SMS:RGC

LMS

GRAY

Paris

Dated March 10, 1937

Rec'd 6:30 p. m.

Secretary of State,
Washington.

334, March 10, 4 p. m. (SECTION FOUR)

allow himself to be drawn into a controversy of political discussion but confined himself to placing emphasis on the success of the loan and to affirming that the prejudiced financial policy did not mean a reversal but on the contrary the natural sequence of his previous policies.

Duc(?) (Communist) stated that if France today is obliged to take such costly measures to insure delivery her security "menaced by international Fascism" it is because the French foreign policy followed by previous reactionary governments has resulted in France's isolation and putting her independence in peril. He attacked the capitalists, called attention to the necessity of carrying out the already proposed social reforms concerning old age pension and so forth, and stated that the Communists would vote for the bill but hoped that his comments would be

WILSON

SIS:TWB

LMS

GRAY

Paris

Dated March 10, 1937

Rec'd 6:40 p. m.

Secretary of State,
Washington.

334, March 10, 4 p. m. (SECTION FIVE)

taken into account. While the Communists voted for the bill they showed a distinct lack of enthusiasm.

In commenting upon yesterday's debts LE TEMPS says that if the loan should prove a failure it will be entirely the fault of the Communists who keep insisting upon the execution of further social reforms.

LE MATIN does not believe that the acts of the Communists are serious since to disturb their present good position would mean the renunciation of their hope of fusion of the Socialist and Communist parties (see Embassy's despatches Nos. 400 of March 3 and 418 of March 9).

Both L'ÉCHO DE PARIS and LE JOUR are bitter in stating that Blum's appeals for the loan contained nothing to inspire confidence.

LE NOUVELLE, Herriot organ, calls upon all Frenchmen as a matter of patriotism to ensure the success of
the

LMS 2-No. 334, March 10, 4 p. m., Sec. 5, from Paris.

the loan.

REPUBLIQUE, POPULAIRE and HUMANITE while supporting the loan, contain attacks on the Right deputies for lack of patriotism in having voted against the loan.

(END OF MESSAGE)

WILSON

NPL:WMB

RECEIVED
MARCH 11 1918
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.



DEPARTMENT OF STATE
WASHINGTON

March 11, 1937.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury, and encloses for his information two copies of telegram No. 334 of March 10, 1937, transmitting a report on the vote by the French Chamber on the French national defense loan.

RECEIVED
9:35am
MAR 11 1937
TREASURY DEPARTMENT
Office of the Secretary
Technical Assistant to the Secretary,

BT.

10-00
MAR 10 1937

165

~~ADD~~ DOW JONES MORNING GOSSIP ITEMS
LONDON MARKETS ARE STILL WORRIED ABOUT
THE FRENCH SITUATION AND INTERNATIONAL BROKERS
ARE BY NO MEANS SURE THAT FRANC TROUBLES ARE
OVER - PRICES IN LONDON WERE FIRM IN MANY
INSTANCES BUT TRADING WAS RESTRICTED

MAR 10 1937

STOCK MARKET GOSSIP

1212
THERE IS HINT THAT THE FRENCH GOVERNMENT
IS PROGRESSING IN ITS FINANCIAL PLANS IN CABLES
FROM LONDON THAT THERE HAS BEEN FRENCH SELLING
OF OUR SECURITIES

MAR 10 1937
IN PARIS THE PRICE OF GOLD WAS FIXED AT 24
442 FRANCS PER KILO THEN DROPPED TO 24 408 ^{8.50}
FRANCS WITH CORRESPONDING DECLINES IN STERLING
AND DOLLARS TO 106 82-106 84 AND 21 845- THERE
WAS A FURTHER SHRINKAGE IN STERLING PREMIUMS TO
35-40 CENTIMES AND 105-115 CENTIMES- THE
CONTROL SOLD FRANCS HEAVILY ALL MORNING- AMER-
ICAN BANKERS RIDICULE THE REPORT OF A 50 000
000 DLS SUBSCRIPTION TO THE NATIONAL DEFENSE
LOAN- THE AGENCE ECONOMIQUE STATES THAT THE
LOAN WILL RUN FOR 50 TO 60 YEARS WITH ANNUAL
DRAWINGS- THE RECENT DECREE CLASSIFYING GOLD
AS CONTRABAND HAS BEEN ABROGATED- BANK OF FRANCE
REPORTED GROWING VOLUME OF SALES OF COINS AND
BARS OVER-THE-COUNTER- TRANSACTIONS IN COINS
TUESDAY NUMBERED 81 AND THIS MORNING ALONE
REACHED 87- ON TUESDAY 3 000 000 FRANCS IN GOLD
BARS WERE PURCHASED FROM INDIVIDUALS- COINS ARE
NOW ACCEPTED AGAINST IMMEDIATE PAYMENT AT ALL
BRANCHES OF THE BANK OF FRANCE- THE LARGEST PART
OF THE COIN TAKEN IN IS MADE UP OF EAGLES

MAR 10 1937

ADD FRENCH SENATE APPROVES LOAN

726

106

PARIS -UP- THE SENATE AMENDED THE BILL AS PASSED BY THE CHAMBER OF DEPUTIES MAKING THE MAXIMUM AMOUNT OF THE LOAN 10 500 000 000 FRANCS

BECAUSE OF THE AMENDMENT THE CHAMBER WAS CONVOKED TO RE-PASS THE BILL

-0-

MAR 10 1937

225

FOREIGN EXCHANGE

PARIS - FOREIGN EXCHANGES REVEALED AN IRREGULAR TENDENCY IN THE OFFICIAL SESSION - THE MARKET WAS A BUYER ALTERNATELY OF FRANCS AND STERLING AND STERLING PREMIUMS TIGHTENED SOMEWHAT

SENATE FINANCE COMMITTEE-S INSISTENCE UPON INSERTING THE AMOUNT OF THE LOAN AS 10 500 000 000 FRANCS IN THE DEFENSE LOAN BILL CAUSED AN UNFAVORABLE IMPRESSION

THERE IS NO EVIDENCE OF LIQUIDATION OF FRENCH HOLDINGS OF AMERICAN SECURITIES PENDING ANNOUNCEMENT OF THE LOAN - IT IS DOUBTED WHETHER EVEN IF THE TERMS OF THE LOAN ARE ALL THAT COULD BE DESIRED BY THE FRENCH CAPITALIST ANXIOUS TO ESCAPE FRENCH TAXATION THERE WILL BE ANY CONSIDERABLE LIQUIDATION SO LONG AS WALL STREET REGISTERS A RISING MARKET

-0-



LONDON FOREIGN EXCHANGE 11-22

LONDON- IN THE FOREIGN EXCHANGE MARKET
 FORWARD FRENCH FRANCS IMPROVED WITH THREE
 MONTHS DISCOUNT 1 1-2 FRANCS AND ONE MONTH 1-2
 FRANC- SPOT FRANCS WERE FIRMER

IT IS UNDERSTOOD FRENCH AUTHORITIES ARE
 SELLING FRANCS SPASMODICALLY IN ORDER TO STEADY
 RATES- FRENCH SALES OF AMERICAN SECURITIES WERE
 RESPONSIBLE FOR WEAKNESS IN AMERICAN DOLLARS-
 THE TURNOVER WAS SMALL

MAR 10 1937

-0-

MAR 10 1937

2-25- SLIGHT SELLING OF AMERICAN ISSUES

LONDON - BANKERS HERE REPORT THAT SOME
 FRENCH HOLDERS OF AMERICAN SECURITIES DEPOSITED
 IN LONDON REALIZED ON THESE HOLDINGS TODAY
 BUT SUCH TRANSACTIONS CAN ONLY AMOUNT TO SMALL
 SUMS

IT IS IMPOSSIBLE TO SAY WHETHER THE FRENCH
 SOLD AMERICAN SECURITIES FROM PARIS IN LONDON
 AS THERE IS NO PROPERLY CONSTITUTED AMERICAN
 SECURITY MARKET IN PARIS AND THEREFORE NO
 REGULAR ARBITRAGE IN AMERICAN SECURITIES BE-
 TWEEN THESE TWO CENTERS

-0-

MJD

GRAY

Paris

Dated March 11, 1937.

Rec'd. 9:15 a. m.

Secretary of State,
Washington.

339, March 11, noon. (SECTION ONE)
FROM COCHRAN.

The bill containing three articles authorizing loan and providing for modifications of the monetary law of October 1, 1936, was passed by the Senate last evening by 262 votes to 1 with 46 abstaining. The Chamber then accepted Senate's text by 479 votes to 30 with 85 abstaining.

The text of Article III of the law as transmitted in my telegram 329, March 9, 1 p. m. remains unchanged. Changes of importance were made in Articles I and II.

Article I was modified by the Chamber to insure the application of the proceeds of the loan to national defense expenditures. The Senate then limited the issue authorization to the national defense expenditures of $9\frac{1}{2}$ billion francs authorized in the special budget for 1937 and to new military works of one billion francs authorized in the ordinary budget for 1937, makes a total of $10\frac{1}{2}$

BILLIONS.

-2- No. 339, March 11, noon (Section One) from Paris
billions. As pointed out in my telegram 336 of yesterday
the bill as passed by the Chamber

WILSON

WNC
RR

RECEIVED

MAR 11 1919
TREASURY DEPARTMENT
WASHINGTON, D. C.

RR

GRAY

Paris

Dated March 11, 1937

Received 11:25 a. m.

Secretary of State,
Washington.

339, March 11, noon (SECTION TWO)
in its first reading authorized loan issue to cover all national expenditures during 1937 which in reality amount to almost 20,000,000,000 francs.

Article two as adopted contained the important modification introduced by the Chamber Finance Committee to provide that any measure designed to establish exchange control must be authorized by Parliament.

Articles one and two thus modified read in translation as follows: "Article one. Within the limit of authorizations given by the Finance Law of December 31, 1936, the Minister of Finance is authorized to issue a loan providing for exchange guarantee and option as concerns both capital and interest for the purpose of financing national defense expenditures.

This loan may be issued in several series up to a net amount which may not exceed expenditures during the budgetary year 1937, directly concerning national defense, either under the heading of ordinary expenditures for new

work

339 from Paris (Section two)

-2-

work or under the heading of expenditures of investments in capital, the whole within the limit of 10,500 millions. This authorization is not in addition to that given in Article 25 of the Finance Law of December 31, 1936 under section one (national defense) relating to the account of investments in Capital.

Article two. The Provisions of Articles 8, 10, 11 and 12 of the Monetary Law of October 1, 1936, are abrogated.

Any measure designed to establish exchange control can only be effected by a law."

The law is promulgated in the Journal Officiel of today and is dated March 10, 1937,

(END MESSAGE).

CSB

WILSON

RECEIVED
MAR 11 1937
TREASURY DEPARTMENT
WASHINGTON, D. C.

Thursday
March 11, 1937
9:22 a.m.

H.M.
Cochran: Hello, Mr. Morgenthau -
HMJr: Hello, Cochran?
C: Yes, good morning, sir.
HMJr: Good morning - I just wondered what was going on -
C: I'm at my home now and when the Ambassador called me -
HMJr: Yes
C: - I got in touch with the Bourse -
HMJr: Yes
C: - my contact there. And he told me that a communique
was just out at that minute.
HMJr: Yes
C: Giving the terms of the loan.
HMJr: Yes
C: It's four and one half per cent, - issued at ninety-
eight and to run for sixty years.
HMJr: What? I'm sorry, I didn't hear.
C: I say, it's four and one half per cent -
HMJr: Yes
C: Ninety-eight -
HMJr: Ninety-eight?
C: Sixty years -
HMJr: What?
C: Sixty - sixty years.
HMJr: Sixty years?

-2-

C: Sixty, yes.

HMJr: Now, wait a minute - it's -

C: - years -

HMJr: It's four and a half percent? -

C: Yes

HMJr: Sixty years?

C: Yes - issued at a price of ninety-eight.

HMJr: Ninety-eight?

C: Yes

HMJr: O. K.

C: And - my friend has not seen the communique -

HMJr: Yes

C: He said there was some reference in there for some basis of exchange -

HMJr: Yes

C: - figuring the dollar -

HMJr: Yes

C: - Twenty-one ninety -

HMJr: Yes

C: And sterling at 106.93.

HMJr: Wait a minute - sterling at what?

C: At 106.93.

HMJr: 106.93?

C: Yes

HMJr: And anything about the dollar?

-3-

C: Dollar - twenty-one point ninety.

HMJr: Twenty-one point nineteen?

C: Ninety- ninety -

HMJr: Ninety - yes.

C: Yes

HMJr: I see.

C: And he said there was some reference in the communique to the B. I. S.

HMJr: Yes

C: And just as soon as I came home at noon -

HMJr: Yes

C: - and heard the gossip that they were, I think, trying to get the B. I. S. again -

HMJr: Yes

C: - to make arrangements for a payment in foreign currency.

HMJr: I see.

C: And I am going to call Trip when I go back to the Embassy.

HMJr: Yes.

C: It isn't clear in the communique.

HMJr: Yes

C: I'll get the communique when I get downtown.

HMJr: Well, I guess it'll be on the wires by then.

C: Yes, it should be, because they're turning it out and Havas started wiring it.

HMJr: Well, Lochhead's here, he's giving it - no, he hasn't got as much as you've given me.

C: No -

H.M.Jr: No - well, all right.

C: And you saw - the Bank of France statement did not show any gold loss today.

HMJr: They didn't?

C: No, but it showed the borrowing of another three hundred million francs from the banks.

HMJr: Well, they've got good bookkeepers.

C: They didn't have this time.

HMJr: Yes - well, when Archie Lochhead does something now that I don't like, do you know what I say to him?

C: What's that?

HMJr: I say, "Don't - don't pull a Bonnet on me."

C: (Laughs) My, that's good.

HMJr: (Laughs) What?

C: Yes - and tonight at seven o'clock -

HMJr: What?

C: I say, tonight at seven o'clock, -

HMJr: Yes

C: President LeBrun -

HMJr: Yes

C: - will give a radio appeal.

HMJr: Yes

C: But there's been nothing more in the paper about your - your friend there.

HMJr: I see.

C: - about his ratio.

HMJr: Well, our loan was a success.

-5-

C: It was all right, then?

HMJr: Yes

C: Fine! - first rate -

HMJr: Yes, yes.

C: And I sent you one telegram this morning -

HMJr: Yes

C: - which just summarizes - giving the exact terms
in English how the monetary law was quoted -

HMJr: All right.

C: And another one giving information about their
gold statement.

HMJr: Yes

C: So - they ought to both be there in a little while.

HMJr: O. K.

C: All right - and I'll get this business
straight during the afternoon.

HMJr: All right.

C: Fine

HMJr: Thank you.

C: All right, sir.

Thursday
March 11, 1937
9:28 a.m.

HMJr: Hello
Treas.
Operator: Mr. Knoke -

HMJr: Hello -
L. W.
Knoke: Good morning, Mr. Secretary -

HMJr: Hello, Knoke?

K: Yes, sir.

HMJr: I just got through talking to Cochran and it's a four and a half year, sixty year - four and a half percent sixty year bond at ninety-eight.

K: Ninety-eight - yes -

HMJr: And they mention in the thing sterling at a hundred and six decimal ninety-three -

K: A hundred and six decimal ninety-three -

HMJr: And the dollar - twenty-one decimal nine oh -

K: Twenty-one decimal nine oh?

HMJr: Yes

K: I see.

HMJr: What does that mean?

K: Well, that is - (Laughs) It will take time to figure that one out. One-0-six - well, I'm afraid I'll have to call you back, that will probably take a little while.

HMJr: Well, don't bother. I wanted to get it to you fast, though.

K: Yes, thank you. That is much better than what the ticker said. The ticker didn't mention any rates at all and said those rates were variable.

HMJr: No, this is better than what the ticker said.

-2-

K: Yes - oh yes, decidedly.

HMJr: Because the ticker didn't have it, that's why I called you.

K: It's four and a half, sixty years at ninety-eight?

HMJr: Yes - Sterling at a hundred and six n inety-three, and the franc twenty-one ninety.

K: Twenty-one ninety - Well, we'll figure it and give Archie the figures in a moment.

HMJr: Well, Archie's figuring it now.

K: I see.

HMJr: He's mumbling to himself.

K: (Laughs)

HMJr: All right.

K: Thank you very much, sir.

HMJr: Goodbye.

March 11, 1937

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Dear Mr. Leffingwell:

Thank you very much for your letter of March 10, both for the information contained therein and also for the spirit in which it is written.

Yours sincerely,

Mr. R. C. Leffingwell,
25 Wall Street,
New York, New York.

March 11, 1937
9:57 a.m.

H.M.Jr: George?

Harrison: Good morning, Henry.

H.M.Jr: What's on your mind?

H: Well I - two things - first, I was just noticing on the ticker the terms of these French bonds

H.M.Jr: Yes.

H:and talking to about it.

H.M.Jr: Yes.

H: There's nothing to indicate that they've fixed the rate of exchange at all.

H.M.Jr: Well, I spoke to Cochran and I gave those figures to Knoke.

H: Oh, you did.

H.M.Jr: Yes, we got a rate.

H: Oh well that's all right then.

H.M.Jr: But it doesn't sound right because it works out just exactly the present rate.

H: Oh.

H.M.Jr: I mean with a few fractions.

H: Yes.

H.M.Jr: I gave it to Knoke immediately.

H: All right.

H.M.Jr: But there's no variation in it and it works out approximately the same as ours. I threw it away. I gave it to Knoke and he and Archie have been working it over.

H: I see.

H.M.Jr: But it seems impossible that they would fix the rate of today's prices practically for 60 years.

H: Yes.

-2-

H.M.Jr: No - when they came over the ticker like that I called Cochran and he had the communique and he gave it to me.

H: Yes, I see.

H.M.Jr: Ah - our own stuff I understand went very well - the conversions - we had 460 million without any mail.

H: Well I think that's pretty good.

H.M.Jr: I think it's damn good.

H: Yes I do too. And you ought to be very thankful you did what you did - pricing it as you did.

H.M.Jr: Doing what?

H: In pricing it as you did.

H.M.Jr: Pricing it and then what I did yesterday morning.

H: Yes, you mean - an - bidding on the Board.

H.M.Jr: Well I mean taking - offering to take everything that the dealers had.

H: Yes, sure.

H.M.Jr: I mean I think I took their breath away.

H: Yes.

H.M.Jr: You know.

H: Yes.

H.M.Jr: Burgess.....

H: Well anyway it's gone very nicely and under the circumstances I think you should be very pleased about it.

H.M.Jr: I am because I don't think anybody realizes how sloppy the going was.

H: Yes, quite sloppy.

H.M.Jr: Yes.

H: Appert the French. . .

H.M.Jr: Yes.

H:called up to ask this morning
whether he'd made an appointment for Bonnet with
me tomorrow afternoon.....

H.M.Jr: Yes.

H:at 2:30 or 3:30. Now in the natural course
of business I would say yes. I've always done that
in the past with any of those fellows.....

H.M.Jr: Yes.

H:if they ask. But I just wanted to let you -
not what I was trying to do but I wanted to let
you know the circumstances before I did anything.

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

H: There's no reason why I shouldn't. I - I knew him
over at the London Conference.....

H.M.Jr: Yes.

H: ...and his being in New York + think it's quite natural
to tell me what he's doing.

H.M.Jr: well we've got a new saying in the Treasury around
here - it's "Don't pull a Bonnet."

H: (Laughs) I won't pull a Bonnet.

H.M.Jr: I - I - I'm very proud of it - I created that.

H: (Laughs) Yes, I think it's very good.

H.M.Jr: what?

H: Very good (laughs). I didn't know you were turning
numorous.

H.M.Jr: Well is that a sufficient warning (laughs)

H: What?

H.M.Jr:to you?

H: That's sufficient warning what I should not say.

H.M.Jr: O.K.

H: But I - I see no objection why I should refuse to see him.

H.M.Jr: No - no I think it would be a mistake not to see him.

H: Yes, I think so but I just wanted to let you know that I was going to.

H.M.Jr: Well I appreciate the courtesy.

H: All right, Henry. (laughs)

H.M.Jr: All right (laughs) Goodbye.

H: Goodbye.

March 11, 1937.
10:20 a.m.

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O: Go ahead.

H.M.Jr: Hello

Homer
Cummings: Hello Henry.

H.M.Jr: Good morning.

C: Good morning.

H.M.Jr: Well you certainly deserve to be congratulated on the job you did and I read the papers; you certainly got a wonderful press.

C: Did I? I haven't seen the local papers.

H.M.Jr: Well the New York papers - I mean I haven't seen anything but what I would say is favorable.

C: Isn't that good. I'm awfully glad - the - our friends up there tell me that it did a lot of good.

H.M.Jr: You got a swell press. Ah - Homer, what I'm calling about is - ah - ah - what may or may not prove to be embarrassing to both of us....

C: Yes.

H.M.Jr:and that is it seems as though - I mean I'm putting it it seems as though your United States District Attorney at Chicago is investigating the Treasury, see? Now of course we've had other cases like your man in New York and Baltimore and when they have any question about any Treasury employees you kindly sent them over to me and then we've offered them cooperation and the thing has worked out beautifully.

C: Who are the invest - who are they investigating?

H.M.Jr: Well it looks as though Igoe was having a Grand Jury investigation of Yellowley.

C: Of who?

H.M.Jr: Yellowley and his whole Bureau.

C: Yellowway?

H.M.Jr: Yellowley.

C: How do you spell it?

H.M.Jr: It's - well - Y-e-l-l-o-w-l-e-y.

C: Oh yes. Is Yellowley your man out there?

H.M.Jr: Yes

C: I see.

H.M.Jr: Now the thing is they're going ahead with it tomorrow and I - I - - I know this is something that neither of us want - I mean...

C: Yes.

H.M.Jr: You don't want your people investigating the Treasury.

C: Good Lord, no.

H.M.Jr: And.....

C: But I'll - I'll find out what's going on.

H.M.Jr: Well if you could do this - if you would simply tell Erien McBray - Erien McMahon - is that his name?

C: McMahon, yes.

H.M.Jr: To get in touch with Guy Helvering and let - after all this man is under Helvering, you see?

C: Yes.

H.M.Jr: And let's find out what there is to it.

C: All right.

H.M.Jr: But on account of the Grand Jury meeting tomorrow I think we'll have to move fairly fast.

C: All right (laughs) I should say so.

H.M.Jr: Is that entirely agreeable to you?

C: Oh yes.

-3-

H.M.Jr: As I say - because I can't say positively that Igoe is back of this, see? But our people think he is, see?

C: Oh, well I wonder who called the Grand Jury or whether - is Igoe back of it is the question.

H.M.Jr: Well that's what they think and they're terribly excited and I want to.....

C: Yes.

H.M.Jr: I - I - I - I.....

C: I'll find out all about it.

H.M.Jr: And, as I say, if McMahon could work directly with Helvering I'd appreciate it.

C: Yes, fine. All right, Henry.

H.M.Jr: Thank you.

C: Goodbye.

OFFICE CORRESPONDENCE

DATE March 11, 1937.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH
BANK OF FRANCE.

L. W. Knobe

I called Mr. Cariguel at 11:35. He reported that the market in Paris was pretty quiet today; they had bought £1,137,000. Dollars were scarce today, he said, and he had managed to get \$950,000 only.

I told him that I called up in connection with a statement by the French Ministry of Finance which was reported on the Dow Jones ticker as follows:

"The French Ministry of Finance announces that a fixed ratio will be established later between the French franc and sterling and the dollar.

"However, the ratio between the French franc and the Swiss franc, as well as between the Swiss franc and sterling and the dollar will be variable."

I asked him whether he could explain to me the second part of this statement, namely, that the ratio between the French franc and the Swiss franc as well as between the Swiss franc and sterling and the dollar would be variable. Cariguel replied that he did not know what the conversion rate for sterling and dollars would be nor what the meaning was of the reference to a variable ratio, since all these matters were handled at the Ministry of Finance. However, he promised he would look into this question of a variable ratio and let me know either today or tomorrow. Meanwhile he said it looked to him as though there was something wrong in that statement.

I inquired what the feeling was in Europe with reference to this loan. He said it was well received in London; in Paris the market seemed to feel that the issue price of 98 was a little too high.

March 11, 1937.
10:20 a.m.

O: Go ahead.

H.M.Jr: Hello

Homer
Cummings: Hello Henry.

H.M.Jr: Good morning.

C: Good morning.

H.M.Jr: Well you certainly deserve to be congratulated on the job you did and I read the papers; you certainly got a wonderful press.

C: Did I. I haven't seen the local papers.

H.M.Jr: Well the New York papers - I mean I haven't seen anything but what I would say is favorable.

C: Isn't that good. I'm awfully glad - the - our friends up there tell me that it did a lot of good.

H.M.Jr: You got a swell press. Ah - Homer what I'm calling about is - ah - ah - what may or may not prove to be embarrassing to both of us.....

C: Yes.

H.M.Jr:and that is it seems as though - I mean I'm putting it it seems as though your United States District Attorney at Chicago is investigating the Treasury, see? Now of course we've had other cases like your man in New York and Baltimore and when they have any question about any Treasury employees you kindly sent them over to me and then we've offered them cooperation and the thing has worked out beautifully.

C: Who are the invest - who are they investigating?

H.M.Jr: Well it looks as though Igoe was having a Grand Jury investigation of Yellowley.

C: Of who?

H.M.Jr: Yellowley and his whole Bureau.

C: Yellowway?

H.M.Jr: Yellowley.

- 2 -

C: How do you spell it?

H.M.Jr: Its - well - Y-e-l-l-o-w-l-e-y.

C: Oh yes. Is Yellowley your man out there?

H.M.Jr: Yes.

C: I see.

H.M.Jr: Now the thing is they're going ahead with it tomorrow and I - I - - I know this is something that neither of us want - I mean...

C: Yes.

H.M.Jr: You don't want your people investigating the Treasury.

C: Good Lord, no.

H.M.Jr: And.....

C: But I'll - I'll find out what's going on.

H.M.Jr: Well if you could do this - if you would simply tell Bryen McBray - Bryen McMahon - is that his name?

C: McMahon, yes.

H.M.Jr: To get in touch with Guy Helvering and let - after all this man is under Helvering, you see?

C: Yes.

H.M.Jr: And let's find out what there is to it.

C: All right.

H.M.Jr: But on account of the Grand Jury meeting tomorrow I think we'll have to move fairly fast.

C: All right (laughs) I should say so.

H.M.Jr: Is that entirely agreeable to you?

C: Oh yes.

H.M.Jr: As I say - because I can't say positively that Igoe is back of this, see? But our people think he is, see?

C: Oh, well I wonder who called the Grand Jury or whether - is Igoe back of it is the question.

H.M.Jr: Well that's what they think and they're terribly excited and I want to.....

C: Yes.

H.M.Jr: I - I - I - I....

C: I'll find out all about it.

H.M.Jr: And, as I say, if McMahon could work directly with Helvering I'd appreciate it.

C: Yes, fine. All right, Henry.

H.M.Jr: Thank you.

C: Goodbye.

March 11, 1937.
10:23 a.m.

H.M.Jr: Hello

O: Mr. Helvering.

H.M.Jr: Hello

Helvering: Hello

H.M.Jr: Guy.

H: Yes.

H.M.Jr: I have sitting in my office Harold Graves and Clarence Oppen.

H: Yes.

H.M.Jr: It's in regard to this Grand Jury investigation of Yellowley.

H: "h-ha.

H.M.Jr: Now I just called up Homer Cummings. I said I'm sure that he wouldn't want anybody in the Department of Justice investigating the Treasury without first talking to us, see?

H: Yes.

H.M.Jr: I said we thought that Igoe was back of it; we didn't know. I asked him to have Brien McMahon get in touch with you at once, see?

H: Yes.

H.M.Jr: I said that we were very much upset and that we had to act quickly, see?

H: Yes.

H.M.Jr: Now I felt - the reason I asked him to get in touch with you - after all it's an investigation really of a part of your organization.....

H: Yes.

H.M.Jr:and I felt that you'd want to handle it. Am I right?

-2-

H: Yes.

H.M.Jr: What?

H: Well, of course, I think (laughs) this fellow Igoe has gone wild up there.

H.M.Jr: Well now - Harold Graves - what I would suggest, if you think well of it, is that you have Brien McMahon come to your office, see?

H: Yes.

H.M.Jr: And Harold Graves and - will come over there, see?

H: Yes.

H.M.Jr: And be - render you whatever assistance he can.

H: Yes.

H.M.Jr: Now I understand that Morrison Shafroth knows all about this and Clarence Opper knows all about it, see? But I felt inasmuch as it was part of Internal Revenue the meeting could take place at your office. Do you agree with me or not?

H: Yes, that's all right.

H.M.Jr: Or would you rather have it over at my office?

H: Well, of course, I - I'd like - I could come over there if you want to have it there - I'd be glad to do that.

H.M.Jr: Well - ah - I've taken it up with Homer Cummings and let him know of my interest and, frankly, I'm so pressed for time....

H: Yes.

H.M.Jr:that I'd rather have you handle it.

H: Well I'd be glad to do that.

H.M.Jr: But I mean I've told Homer Cummings of my interest.....

H: Yes.

-3-

H.M.Jr:and asked him to have Brien McMahon contact you. Now I - I think that - what I'd like to do is to let you run through the gauntlet - if you can't get cooperation; if you can't stop this thing then you call me and I'll call Homer Cummings again.

H: Yes, all right.

H.M.Jr: How's that?

H: Fine.

H.M.Jr: Now wait a minute - let me ask the boys here whether they want to add anything (pause) - What I would suggest.....

H: I'd like to have Graves here though because he.....

H.M.Jr: Well he wants to be there.

H: What?

H.M.Jr: He wants to be there.

H: Yes. And now - ah -.....

H.M.Jr: If you.....

H:I should call McMahon and ask him for an appointment and then to advise me where it was.so we could all.....

H.M.Jr: Well no - McMahon will call you.

H: Oh he will.

H.M.Jr: If he doesn't call you by 12 o'clock then I'd call him.

H: All right.

H.M.Jr: I'd wait until 12.

H: Yes.

H.M.Jr: If you don't hear from him by 12 then I'd call him.

H: Yes.

-4-

H.M.Jr: But I got the Attorney General - he's still in bed. I just spoke to him now.

H: Yes.

H.M.Jr: So - but if you don't hear from him by 12 I'd call him.

H: Well I'll do that then.

H.M.Jr: Now if you'd rather - ah - I just thought that - the reason that I was putting it over to your office was I thought this was a branch of your office. Now - ah....

H: That's perfectly all right. I'll be glad to start it. I don't know - I've been following this case without any advice from Berkshire's office.....

H.M.Jr: Yes.

H:and it seems to me it was rather a raw deal.

H.M.Jr: Now - ah - when you have the appointment - Harold will come over to see you anytime you want.

H: Yes.

H.M.Jr: He's sitting here now. Do you want him to come over now? He'll come now.

H: Well maybe - maybe we'd better go over there and have a little.....

H.M.Jr: Well supposing he comes over now?

H: Well that's all right. We might have a little rehearsal beforehand.

H.M.Jr: Right - now just a minute. He says he's ready. (Pause while H.M.Jr. talks aside)

H.M.Jr: Clarence Oppen says he can come now or he can come later.

H: Well I - I just have a little matter here in my office - be through in ten minutes.

-5-

H.M.Jr: Well supposing we say the boys will be over there at 11 o'clock.

H: Yes, all right.

H.M.Jr: How's that?

H: Fine.

H.M.Jr: And they tell me Morrison Shafroth knows all about this.

H: Yes. Well better call him down with us, hadn't we?

H.M.Jr: I thought so.

H: Yes.

H.M.Jr: Now I wouldn't stand for any nonsense and I'd hit hard and I'll back you up.

H: Well, of course, the - I think we tried to - from all information we get from our side I think it's (laughs) absurd.

H.M.Jr: Well I - I - I'm even wondering whether somebody fairly high up in the Treasury shouldn't be there tomorrow. If - or else better than that if Brien McMahon would go out there.

H: Yes.

H.M.Jr: I think Brien McMahon ought to take the four o'clock train and go out there. I'd just raise hell about it. My God look what they did to me on Secret Service.

H: Yes.

H.M.Jr: I'd just would raise hell, Guy.

H: Well I can talk straight enough to them (laughs) if I get the facts.

H.M.Jr: Well the boys will be at your office at 11.

H: A 11 right.

-6-

H.M.Jr: But I wish you'd raise hell.

H: All right.

H.M.Jr: Now when are you coming over on that little matter of New Jersey?

H: Well I dictated those recommendations and they're being written right now. I was just - well what time would be convenient for me to drop over there?

H.M.Jr: Well why don't I say 4:30.

H: All right.

H.M.Jr: What?

H: All right.

H.M.Jr: To-day.

H: Yes.

H.M.Jr: But on this other thing I - I - I'll back you up the limit on this matter.

H: Well that's fine.

H.M.Jr: So - and we've got to take care of our own boys.

H: Sure - it looks to me - the whole thing is this fellow Igoe has got his head set to disrupt a very good running office at Chicago.

H.M.Jr: Yes. Well I don't know - as I say I just would raise hell and I think Brien McMahon better get on that 4 o'clock train out there and get into this thing himself because I don't know how long I'm going to sit here and take it.

H: Yes.

H.M.Jr: See.

H: Well we'll - we'll do that. If he don't call me by 12.....

H.M.Jr: Yes.

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H:I'll - ah.....

H.M.Jr: You call him.

H:call him.

H.M.Jr: Yep.

H: All right.

H.M.Jr: Thank you.

March 11, 1937

Hopkins was in at 11:30 today.

In connection with letter of February 23, marked "No. 1", we agreed to give him \$50,000,000 now and \$200,000,000 March 20th. No more money and no further conversation until May 1.

In connection with the question raised in the attached letter, marked "No. 2", I told him that we would try to include it in the bill which would carry a relief appropriation for the fiscal year 1937-1938.

WORKS PROGRESS ADMINISTRATION

WALKER-JOHNSON BUILDING
1734 NEW YORK AVENUE NW.
WASHINGTON, D. C.

HARRY L. HOPKINS
ADMINISTRATOR

February 23, 1937.

The Honorable,
The Secretary of the Treasury,
Washington, D. C.

My dear Mr. Secretary:

Reference is made to our recent conference, at which time the matter of allocating the entire amount of funds intended for the Works Progress Administration in the First Deficiency Act of 1937 was discussed. You requested that I submit to you a resume of the points covered at the conference, in order that you might further consider the matter.

The method of allocating funds to the Works Progress Administration on a hand to hand basis has greatly handicapped the operation of the Works Program, and has unquestionably proved costly.

I am aware of the necessity for sound budgeting, in order that funds appropriated for work relief may cover our operations through June 30, 1937. However, I feel that such budgeting should be the responsibility of the administrative office and thus allow the flexibility so obviously necessary in the financing and operation of the work relief program.

It has been the practice of the Works Progress Administration to control obligations of the respective States through the issuance of monthly budgets, which have the effect of limiting the obligations which may be incurred during the month. In the past seven months it has been extremely difficult to maintain such a monthly budget, since funds have been allocated to the Administration in such an irregular manner. For example, during the last seven months only two times have funds been allotted in sufficient amounts to allow complete coverage of one month's budgets; two times funds allotted were delayed to the extent that budgets could not be covered completely until the succeeding month, and three times allocations were received in such small amounts as to make necessary repeated distribution of funds to cover States' monthly budgets.

Cash shortages have made effective planning of project operation impossible, since in many cases funds authorized were not sufficient to allow procurement of supplies and materials, beyond the current month's needs. This resulted in increased administrative expense, since materials and supplies had to be ordered

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and reentered in small quantities. Quantity discounts could not be obtained and project costs were thus increased.

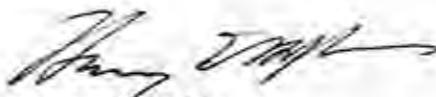
Inability to cover monthly budgets with cash authorizations was responsible, in the majority of cases, for payroll delays, and has resulted in the establishment of so-called "suspension" accounts. Thus, an additional set of books is required by both the Works Progress Administration and the Treasury Accounts Office.

Monthly allocation of funds to the Works Progress Administration has resulted in a tremendous amount of paper work to the Works Progress Administration both in Washington and in the States, and to the Treasury offices. For example, where it is necessary to distribute funds three times a month, approximately fifteen hundred adjustments must be made in accounts maintained in Washington. The effect in the State, however, is far more serious, since fund shortages require almost constant shifting of allotment accounts in amounts as small as \$100.00 from project to project, allotment account to allotment account, and appropriation to appropriation.

At least eighty percent (80%) of these transfers would be unnecessary if the total amount appropriated in the First Deficiency Bill of 1937, intended for the Works Progress Administration, were made available at one time rather than on a monthly basis.

It is now the intention of the Works Progress Administration to advise the respective States of their budgets three to five months in advance, since it is felt that only in this manner can the program be planned in an orderly fashion to bring about completed projects, or completed economic units of projects, by June 30, 1937. This long range planning cannot be accomplished unless the total amount intended for the Works Progress Administration is allocated at this time.

Sincerely,



Harry L. Hopkins,
Administrator.

February 23, 1937.

The Honorable,
The Secretary of the Treasury,
Washington, D. C.

My dear Mr. Secretary:

Reference is made to our recent conference, at which time the matter of allocating the entire amount of funds intended for the Works Progress Administration in the First Deficiency Act of 1937 was discussed. You requested that I submit to you a resume of the points covered at the conference, in order that you might further consider the matter.

The method of allocating funds to the Works Progress Administration on a hand to hand basis has greatly handicapped the operation of the Works Program, and has unquestionably proved costly.

I am aware of the necessity for sound budgeting, in order that funds appropriated for work relief may cover our operations through June 30, 1937. However, I feel that such budgeting should be the responsibility of the administrative office and thus allow the flexibility so obviously necessary in the financing and operation of the work relief program.

It has been the practice of the Works Progress Administration to control obligations of the respective States through the issuance of monthly budgets, which have the effect of limiting the obligations which may be incurred during the month. In the past seven months it has been extremely difficult to maintain such a monthly budget, since funds have been allocated to the Administration in such an irregular manner. For example, during the last seven months only two times have funds been allotted in sufficient amounts to allow complete coverage of one month's budgets; two times funds allotted were delayed to the extent that budgets could not be covered completely until the succeeding month, and three times allocations were received in such small amounts as to make necessary repeated distribution of funds to cover States' monthly budgets.

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Sincerely,

Harry L. Hopkins,
Administrator.

Put this question into next years bill. 203

WORKS PROGRESS ADMINISTRATION

WALKER-JOHNSON BUILDING
1734 NEW YORK AVENUE NW.
WASHINGTON, D. C.

HARRY L. HOPKINS
ADMINISTRATOR

February 23, 1937.

The Honorable,
The Secretary of the Treasury,
Washington, D. C.

My dear Mr. Secretary:

It is becoming increasingly apparent that the speed and efficiency in handling project approvals would be greatly increased, and the necessity for handling hundreds of thousands of financial documents would be eliminated if the procedure now in effect whereby Statewide blanket projects are approved by the President under Limitations F and G of the Relief Appropriation Act, is applied to other limitations.

A sample check of projects submitted by the State Works Progress Administrations during the months of November and December indicated that the average time consumed in the Washington Works Progress Administration office in reviewing projects was approximately four days, that approximately nine days was consumed between the time the project was given the approval of the Works Progress Administration and the time that it was signed by the President, and approximately eight days was consumed between the date of the President's signature and final action by the Comptroller General. Adding two or three days for the transmission from Washington to the State, it appears that under present procedure almost a month elapses between the submission of the project by the State and receipt of notice that it can be operated.

The approval of blanket Statewide projects will eliminate not only the delay caused by the present procedure, but will decrease administrative expenses caused by the triple review of projects in the Works Progress Administration, the Bureau of the Budget, and the General Accounting Office. There should be no question that the Works Progress Administration exercises sufficient control in its own review to eliminate the necessity of a check and recheck, since the General Accounting Office has found it necessary to delete only six projects out of 9,800 approved by the Works Progress Administration under the 1936 Appropriation during the past three months.

The procedure of approving Statewide blanket projects also effects an immense saving in connection with the rental of

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equipment and purchase of materials. Under the present procedure the General Accounting Office considers each official project as a separate appropriation account. Separate contracts for the purchase of materials and rental of equipment must be made for each project. This requires the preparation of hundreds of thousands of contracts, vouchers and encumbrance documents, a large proportion of which could be eliminated if contracts could be awarded under the Statewide blanket projects covering one or more project units.

Sincerely,



Harry L. Hopkins,
Administrator.