

DIARY

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MM

GRAY

PARIS

Dated May 1, 1937

Rec'd. 9:10am.

Secretary of State

Washington, D.C.

564, May 1, 10am. (Section One).

FROM COCHRAN.

B I S friends have provided me confidentially with advance copy of report which President Trip will make to seventh annual meeting of B I S shareholders at Basel on May 3rd. I quote herewith scattered excerpts therefrom which touch upon the points of most interest to the United States:

(One). In the year which has passed since the last general meeting great monetary changes have occurred. In France a new economic and financial policy was adopted in the spring of 1936 and in the early autumn a debt was taken to readjust the value of the French currency. On 25th September 1936 simultaneous declarations were issued by the French, British and United States Government in which the three governments declared their intention to continue to use appropriate available resources so as to avoid as far as possible any disturbance of the basis of international exchange resulting from the proposed readjustment.

(Two). The technical measures taken in the various

countries

mm 564, May 1, 10am. Section 1. from Paris. -2-

countries and the arrangement agreed upon by the different monetary authorities will be referred to later in this report. Here it may be noted that the changes in the values of the currencies concerned were carried out with a minimum of disturbance to the foreign commodity and capital markets and that no setback was caused to the upward trend of world affairs.

BULLITT

CSB

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GRAY

Paris

Dated May 1, 1937

Rec'd 8:10 a.m.

Secretary of State

Washington. . .

564, May 1, 10 a.m. (section two)

(Three) When in the course of the depression commodity prices and costs began to fall the world's gold production gradually increased. This increase became accentuated after 1931 when in terms of depreciated national currencies the price of gold rose suddenly by 40% or more. From 1929 to 1936 gold production rose from under 20,000,000 ounces to over 35,000,000 ounces or by nearly 80%; and at the London gold price of about 140S point per ounce the output of gold attained an aggregate value of pounds 245,000,000 in 1936. In recent years the industrial demand for gold has been met largely by the recovery of gold from the public. Furthermore not only did

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Dated May 1, 1937

Rec'd 9:15 a.m.

Secretary of State,
Washington.

564. May 1, 10 a.m. (SECTION THREE).

the hoarding of gold in Europe for private account which had assumed large proportions during the depression came to an end in 1936 but some dehoarding set in; and shipments of gold were still received from India, China, and other eastern countries.

On balance the whole new production of gold in 1936 was available for monetary purposes; instead of the 50,000,000 pounds per annum available ten years ago fully 245,000,000 pounds of newly mined gold was available in 1936 at the price ruling on the London market. The whole situation has radically changed in comparison with the post war decade, there is now an abundant--even a too abundant--supply of gold.

(Four). It is now possible to sum up the changes that have occurred with regard to various adverse elements responsible for the depression. In most cases there has been a distinct change for the cyclical movement of

industrial

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JR #564, May 1, 10 a.m. (SECTION THREE) from Paris.

industrial activity has turned and is now moving in an upward direction; the supply of gold has risen to the point of abundance; the currencies which have been subject to depreciation have been brought into better relation to one another; and interest rates on domestic borrowing last July reduced though there still

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Paris

Dated May 1, 1937

Rec'd 11:05 a.m.

Secretary of State,
Washington.

564. May 1, 9 a.m. (SECTION FOUR).

exists a substantial volume of unadjusted foreign indebtedness. As regards agriculture the position is relieved for the moment by increased prices but this relief is to some extent though not wholly the accidental result of unfavorable weather conditions. Some important progress has been made in the adjustment of debts by means of conversions and other operations but the burden of indebtedness is still heavy in many countries and many foreign debt problems have still to be tackled. As regards tariffs and other trade restrictions the situation is very much worse than before the depression and this set back is at the core of some of the most difficult problems with which the world has to grapple at present.

(Five) Whatever may be said for a policy of public works in times of depression there can be no question about the undesirability of increasing government outlay once the expansion of business is in full swing for then there is the danger that the extra stimulus may produce an unhealthy boom. From this point of view the present rise in armaments expenditure is to be deplored.

(Six) In the years of depression the main objectives

JR

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Paris

Dated May 1, 1937

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Secretary of State,
Washington.

564. May 1, 10 a.m. (SECTION FIVE).

of monetary policy have been on the one hand to facilitate as far as the conditions on each market permitted a downward adjustment of interest rates and on the other hand to restore orderly conditions in international monetary relationships by an increased exchange stability and the gradual abolition of exchange restrictions. Taking the world as a whole these objectives have as yet been only partially achieved; and already new problems have arisen out of the change in business conditions. One important element in the present monetary situation is the budget policy of the various governments. Inevitably governments at present must be concerned with the monetary questions of the day and consider these questions in conjunction with the central banks which possess special machinery for the execution of the monetary policy to be pursued and for gathering the knowledge required in dealing with the

monetary

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JR #564, May 1, 10 a.m. (SECTION FIVE) from Paris.

monetary problems. The daily management of the exchange funds that have been established has been entrusted to the central banks and this arrangement makes contact necessary. Far wider problems than the policy of these funds, however, must also be considered by the governments in consultation with the central banks.

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PARIS

Dated May 1, 1937

Received 1:15 p.m.

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Washington

564, May 1, 10 a.m. (SECTION SIX)

for it is increasingly necessary to take into account the monetary and financial repercussions of general political measures. To achieve and maintain orderly conditions in public finance and on the money and capital markets is still of fundamental importance and no technical measures of exchange intervention can avail so long as basic equilibrium is lacking. Nothing can be more dangerous than to overlook the conditions essential for an improvement in the belief that purely technical arrangements will suffice as correctives to an unbalanced position.

Seven. As became known later - the secret having been well kept - the French Government had for some time been discussing with the governments of the United States and the United Kingdom the arrangements to be made in case of a change in the value of the French franc and on 25th September, 1936, five years and four days after the suspension of the gold standard by Great Britain in 1931 the French Government made known its decision to propose to its

EDA - 2 - #564, May 1, 10 a.m. from Paris Section six.

to its parliament a readjustment of the value of the franc. This announcement was made in a declaration which will be found in Annex 7, together with the simultaneous declarations made by the British and

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Dated May 1, 1937

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564. May 1, 10 a.m. (SECTION SEVEN).

United States Governments embodying the so-called tripartite agreement.

The most important point to retain from these declarations is that the readjustment of the French franc were welcomed by the other two governments; it was regarded by them as a set-back to collaboration but as a means of establishing more solid foundations for the stability of international economic relations. In conformity with the attitude thus adopted the Governments of the United Kingdom and the United States not only abstained from taking any active counter measures against the action of the French Government but joined with that Government in declaring their intention to continue the use of appropriate available resources so as to avoid as far as possible any disturbance of the basis of international exchange resulting from the proposed readjustment and to arrange for consultation for this purpose whenever necessary. While there was no

pooling

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pooling of resources it was made clear that efforts would be made to maintain orderly conditions on the exchange markets. Moreover the three governments emphasized the importance they attached to the developments of international trade and especially to

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PARIS

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564, May 1, 10 a.m. (SECTION EIGHT)

action being taken to relax prohibitive quotas and exchange controls with a view to their abolition. Finally other countries were invited to cooperate and the hope was expressed that no currency depreciation would be undertaken in order to obtain unreasonable competitive exchange advantages which would hamper the efforts to restore more stable economic relations. In the declarations there is an implied distinction between a currency adjustment likely to produce a more stable basis for international economic relations and the reduction of the exchange value of a currency to such a low point as to be regarded as a measure of competitive exchange depreciation.

Eight. If comparison be made between the currency changes in the autumn of 1936 and the wave of depreciation which swept over the world in the autumn of 1931 some very marked differences are to be noted. In 1931 when the gold standard was suspended in Great Britain and a number of other countries the exchange values of the currencies were

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as a rule left to find their own level in the markets with little or no support from the most depleted reserves of the central banks. There followed a period of often violent and highly

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564, May 1, 10 a.m. (SECTION NINE).

disturbing fluctuations which were only gradually brought under control. In 1936 on the other hand provisions were made in almost every case for the maintenance of the exchange rates at a certain point or within certain limits and special funds were instituted or other steps taken to avoid undue fluctuations.

(Nine). By these various arrangements the monetary authorities in the six countries which have adopted the principles of the Tripartite Arrangements extended to one another technical facilities for the changing of their respective currencies into gold. The United States, Belgium and Switzerland have indicated the price in their respective national currencies at which they will for the time being accept and part with gold while the other countries have not gone so far in fixing a price in advance. The monetary authorities in countries which have not adhered to the Tripartite Arrangement have not the same

clearly

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clearly defined rights to obtain gold against currency. Apart from such arrangement as may be made with regard to individual transactions gold can be obtained by them only against the belga as the National Bank of Belgium is bound to redeem its notes with gold.

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PARIS

Dated May 1, 1937

Received 11:55 a.m.

Secretary of State
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564, May 1, 10 a.m. (SECTION TEN).

which in fact may be exported, and against sterling as gold can be bought at the current price on the London market within the limits of the available supply.

It would contribute to the smooth conduct of international monetary relations if technical facilities similar to those agreed upon by the countries which have adhered to the principles of the Tripartite Agreement were more generally adopted especially as gold is being used increasingly for the settlement of exchange balances.

(Ten). The conclusion of the Tripartite Agreement was a recognition of the fact that no country can alter the external value of its currency without affecting the relative position of other currencies and that the exchange fluctuations of one currency, particularly an important one, are the chief concern of all nations. The agreement also recognized that the basis for exchange equalization must be gold and by technical arrangements provided a mechanism for the settlement of balances.

(Eleven).

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(Eleven). The Swiss National Bank in its annual report for 1936 finds the importance of the Tripartite Agreement to lie particularly in the fact that it created a basis for collaboration in the monetary

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PARIS

Dated May 1, 1937

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564, May 1, 10 a.m. (SECTION ELEVEN)

field. In a declaration on 30th September the President of the Reichsbank explained inter alia that the German Government and the Reichsbank would not add to the uncertainty of the international monetary situation by any change in the value of the Reichsmark. Though the shortcomings of a system of exchange control as practised in Germany were recognized this system could not be abolished simply by the devaluation of the mark. The German Government would, however, be ready at any time to take part in efficacious international negotiations aiming at greater freedom of international trade and payments on the understood condition emphasized in the three power declaration of the safeguarding of national interests.

While, therefore, the underlying conditions vary from country to country and there is a diversity in the emphasis laid on different aspect and in the precise interpretation of the measures taken there is undoubtedly a common desire to construct a monetary basis which will provide the greatest possible equilibrium in the system of international exchange and thus facilitate the development of international trade

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Dated May 1, 1937

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564, May 1, 10 a.m. (SECTION TWELVE).

Twelve. World gold production again reached a new high figure in 1936 registering an increase over 1935 of 4.3 million ounces which is the largest absolute annual increase ever known. It corresponds to a percentage increase of $13\frac{1}{2}$ which has only been surpassed at times of great new discoveries of gold deposits, that is in the forties and fifties of the last century when gold was found in California and Australia and in the nineties after the discovery of the gold fields in the Transvaal. Shipments of gold from India and China representing de-hoarding in the east still continued in 1936 although at a reduced rate. For the first time since the beginning of the depression not only did hoarding in the western world come to an end but there was in the last quarter of the year a substantial disgorging of gold. Moreover, the consumption of gold in the arts remained at a low figure taking not more than 5 per cent of the total gold production. Consequently a very large amount - at least 5,000 million gold francs or pounds 335 million at the present

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present market price of gold in London - was available for monetary purposes. Whether abundant supply of gold has radically changed the situation which

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existed in the post war decade and raises a number of new problems which are engaging the attention of the monetary authorities to an increasing extent.

Thirteen. Of the world's total output of gold in 1929, 72 per cent was produced in countries belonging to the British Empire and in 1936 only 53 per cent by these countries. The fall is due to the reduction in the share of South Africa whose in 1929 amounted to 53 per cent and in 1936 to 32 per cent of the world production.

Fourteen The movement out of hoarding has continued during the opening months of 1937 reflecting, it may be stated, a change in the attitude of the public towards the holdings of assets in the form of gold. More attention is being paid to the fact that gold not only earns no interest but that its hoarding involves the payment of charges by the hire of safe deposits etc; another consideration is the increased possibilities of making profits on investments at a time of rising quotations on the world's stock exchanges. Moreover, gold is no longer

regarded

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regarded as providing the same measure of safety as it did in the past. Under the legislation passed in the United States in 1934.

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PARIS

Dated May 1, 1937

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564, May 1, 10 a.m. (SECTION FOURTEEN).
gold held in the country had to be surrendered to the Government and was paid for only at the old par value. In France after the devaluation in 1936 gold held by all persons or corporate bodies domiciled in the country had to be surrendered at the previous par rate of the franc while holders of foreign exchange for instance were subject to no such obligation. Though the full market price was later paid to the French holders (*) gold the memory of the original provision remains and it is not surprising that those who seek protection against monetary risks at present prefer the holding of notes and money on deposit in foreign banks to the hoarding of gold. In this connection it may be mentioned that during 1936 the note circulation of the Bank of England rose by about 50,000,000 pounds of which it is estimated that perhaps 25,000,000 pounds were hoarded abroad and in addition there has been some hoarding of United States dollar notes in Europe.

Fifteen.

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Fifteen. In these circumstances the countries that already possess large monetary reserves will presumably continue to be faced with the task of absorbing large and increasing amounts of new gold; and
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(* Apparent omission

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564, May 1, 10 a.m. (SECTION FIFTEEN)

continuation of the policy of sterilization will involve them an ever increasing expenses. It is not surprising that the problems that have thus arisen are being seriously considered and that alternative solutions are being put forward. For instance the suggestion has been made that gold production should be controlled and reduced; but the adoption of such a measure which deserves further consideration has become more difficult in recent years owing to the increase in the number of producing centers. It has also been suggested that gold coins should again be put into circulation. In some countries it might be possible to do so but experience shows that once the public has lost the habit of carrying gold coins it is difficult to reintroduce them into active circulation. And even if it were possible it would not solve the whole problem. There would certainly be no increase in the commercial banks' balances at the Central Bank so long as the gold went into circulation but the new coins when not hoarded
might

EDA - 2 - #564, May 1, 10 a.m. from Paris Section 1B.

might also constitute an addition to the existing volume of purchasing power while gold production would not be reduced. It is pertinent to remember that in the years before the war

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Dated May 1, 1937.

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564, May 1, 10 a.m. (SECTION SIXTEEN)

when gold was effectively in circulation to an extent that it would be difficult to attain again, the increase in the South African gold production brought about an appreciable rise in prices.

It has also been suggested that the price paid per ounce of gold should be lowered from the high figures to which it has risen in terms of depreciated currencies; in that way the amount of monetary purchasing power produced by a given weight of gold would be reduced and a restraining influence would also be exerted on the output of gold for gold mining would become less profitable. It can hardly be doubted that at present a lowering of the price of gold would help to cope with the serious problems resulting from the over abundant production. It would, however, cause certain difficulties with regard to valuation of existing gold reserves and the relative position of currencies (the latter insofar as equilibrium has already been attained should be disturbed as little as possible).

It

EDA - 2 - #564, May 1, 10 a.m. from Paris Section 16.

29

It would, moreover, involve the danger of manipulation of currencies in the future which would add an element of instability and distrust to the monetary structure.

BULLITT

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GRAY

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PARIS

Dated May 1, 1937

Received 3:31 p.m.

Secretary of State

Washington

564, May 1, 10 a.m. (SECTION SEVENTEEN).

In the discussion of a reconstruction of the world's monetary system these various questions difficult though they may be cannot be deferred. Also from the point of view of the gold producers it is important to establish conditions that will render gold continuously useful as a basis for currencies instead of concentrating attention on immediate profits.

Sixteen. The most important (capital) movement has been in the direction of the United States and it can be followed as in the case of no other country with a large degree of accuracy - thanks to the statistical information made available by the United States Department of Commerce and recently also by the United States Treasury.

Seventeen. The continued stagnation of International lending is partly the result of technical difficulties (such as the clearing systems) and partly due to a feeling of uncertainty as to general monetary and political development. Actually the influence of the different factors is closely intertwined. It would seem, however, as if there were a growing realization of the losses imposed upon the world by the insufficient use made of the existing credit

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Regraded Unclassified

PARIS

Dated May 1, 1937

Rec'd 5:40 p.m.

Secretary of State,
Washington, D.C.

564, May 1, 10 a.m. SECTION EIGHTEEN

apparatus in international intercourse. In recent years great emphasis has often been laid on the part that appropriate credit conditions may play in assisting recovery in the various national economies. But the same necessity is found internationally; and at a time when the development of foreign trade is urgently needed to maintain a balanced recovery this factor should not be minimized.

Eighteen. It has recently been pointed out that almost the whole of the state government debt will come to maturity within 25 years whereas in England about seventy per cent of the internal government debt is either uncallable by the holder, or of longer maturities, a further factor which makes international comparison of long term interest rates extremely difficult.

Nineteen. Nowhere in the world are there any real signs of a revival of new long term capital issues for foreign countries. Not only lending to public authorities but also direct investment in new enterprises have remained at minimum figures. In the United States new foreign issues amounted to 20,000,000 in 1936 as compared with 1,350,000,000 in 1927.

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PARIS

Dated May 1, 1937

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Secretary of State

Washington

564, May 1, 10 a.m. (SECTION NINETEEN).

Twenty. A situation has now arisen in which the redemptions, repayments, and repatriations of old foreign loans greatly exceed the amount of new issues on foreign account on the American, British, and probably other lending markets. There have indeed been large capital movements as described in the previous chapter for the purchase of bonds and shares on foreign markets but this involves merely the acquisition of existing capital assets. Such transactions do not unfortunately give rise to a movement of commodities to the countries receiving the capital funds to the same extent as do new issues on foreign account whether for public works or for industrial investment. The small volume of foreign issues is therefore one of the reasons for the depressed level of international trade.

Twenty-one. Conclusion. A year ago recovery was well on its way and spreading; now it has reached the stage where strong upward forces dominate world economy and

threaten

EDA - 2 - #564, May 1, 10 a.m. from Paris (Section 19)

threaten even to produce in some branches a too rapid advance in costs and prices suggestive of boom conditions. It may not be sufficiently realized how rapid the change has been and there may be a tendency still to hold fast to certain pessimistic ideas which

BULLITT

EMB:RGC

JS

Gray

34

PARIS

Dated May 1, 1937

Rec'd 4:55 p.m.

Secretary of State,
Washington, D.C.

564, May 1, 10 a.m. SECTION TWENTY.

may have been appropriate during the depression but are out of date now that conditions have changed. Account must be taken of the fact that there has been an almost complete reversal of many of the problems before us and the policy to be pursued must be modified accordingly. To mention only one example: as far as Government finance is concerned not only has the need for extraordinary spending to stimulate general business activity disappeared but such spending may be directly harmful to healthy development.

On the whole it may probably be assumed that, mindful of the violent economic changes during the post war period, not only those in authority but also the public are more fully aware of the dangers arising from the development of an unbalanced position. It is important, however, to concentrate attention not on the symptoms but to deal with the more fundamental causes liable to produce a dangerous disequilibrium. During the difficulties that prevailed in the black days of the depression it was perhaps unavoidable that many hasty measures should be

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rom Paris #564, SECTION TWENTY

should be taken but these although understandable in an
emergency situation tended to increase rather than reduce
the state of

BULLITT

E/B RGC

EDA

GRAY

PARIS

Dated May 1, 1937

Received 5:18 p.m.

Secretary of State

Washington

564, May 1, 10 a.m. (SECTION TWENTY-ONE). Uncertainty. It is to be hoped that in a period of relative prosperity more calm and more caution will be observed and that efforts will be made to build up a more enduring stability both in the economic and monetary sphere.

There still remains the pressing need of reducing trade barriers and particularly those extraordinary hindrances to trade in the form of quotas and prohibitions built up in the past seven years; the other acute problem is that of establishing a monetary system that will combine an international stability of exchanges with a policy both national and international directed as far as possible towards the maintenance of a sound credit and currency position. In addition the burden of international financial obligations must be alleviated where this has not yet been done by conversions to a level of interest rates more in conformity with present conditions. Without attacking these fundamental problems of world economy and finance little hope can be held out as to the chances of achieving a lasting improvement in the various national economies. It

EDA - 2 - #564, May 1, 10 a.m. from Paris Section 21.

It cannot be denied however that a mastering of the problems involved in business

BULLITT

RGC:EMB

PARIS

Dated May 1, 1937

Rec'd 5:20 p.m.

Secretary of State,
Washington, D.C.

564, May 1, 10 a.m. SECTION TWENTY TWO

fluctuations in connection with the question of government
expending particularly in view of the recent increase in
outlay on armaments; and this connection is only one
example on the political aspects of the problems before us.
It would be vain to think that purely technical arrange-
ments can guarantee sound economic developments and make
an improvement in the standard of living possible if the
underlying conditions for a peaceful interchange of goods
and a balanced position in the different countries are not
fulfilled. All economic activity must reckon with the future
and if there is a continued lack of stability the soundest
businesses will be forced either into a curtailment of their
operations or compelled to take speculative risks. Instead
of embarking upon expedients that would bring little or
no advantage and might easily hamper normal economic devel-
opment, an attempt should be made to get to the root of the
matters responsible for the present difficulties. World
opinion is beginning to demand that a serious effort be made
towards the solution of the great outstanding problems and
this task must be attacked with the understanding courage
and good will necessary to achieve satisfactory results."

End message.
RC: EEB

BULLITT

JR

GRAY

London

Dated May 1, 1937

Rec'd 9:55 a.m.

Secretary of State,
Washington.

257. May 1, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

Today's London financial press emphasizes that the fact that Higham Brothers is to meet its obligations in full appreciably helped to revive confidence on the London stock exchange and that the fact that the market closed firm yesterday afternoon means that the worst is past. The London stock exchange is as usual closed today and all activity in the city is considerably diminished by the bus strike which began this morning.

An article in today's ECONOMIST on the recent stock exchange crisis concludes as follows: "It is unfortunate that the major reaction marks a turning point. Until the dust has settled on the national defense contribution controversy, and until current technical difficulties are appeased, the most careful predication may easily be falsified. Yet of one thing the investor may be quite certain. It will take some time before the stock exchange is able to report 'business as usual'. The present may not

be

-2-

JR #257, May 1, 1 p.m., from London.

be a sensible time for selling; but national investors will probably prefer to wait until the present uncertainty has subsided before tackling the long range problems associated with the continuation of industrial recovery, which the national defense contribution has thrown into such high relief".

BINGHAM

CSB

JR

GRAY

London

Dated May 3, 1937

Rec'd 2 p.m.

Secretary of State,
Washington.

260, May 3, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

Conditions on the London stock market more nearly approached normal today than at any time since the budget speech and both ~~stock~~ and commodity markets closed firm. It is now hoped that the settlement on May 6th can be concluded without further failures but this cannot yet be definitely ascertained.

It is perhaps interesting to record that it is said in the city that the British fund made gold purchases for its own account on Saturday and today and it is suggested that this action has been taken so as to indicate that Washington is not being left to bear alone the whole burden of absorbing the excess supply of gold.

The franc strengthened in terms of sterling on an inactive market.

BINGHAM

KLP:CSB

LMS

GRAY

Paris

Dated May 3, 1937

Rec'd 2:35 p. m.

Secretary of State,
Washington.

566, May 3, 4 p. m. (SECTION ONE)
FOR TREASURY.

Comparatively moderate and reassuring tone of week-end speeches by leaders of the Government appears to have made a favorable impression. On the exchange market rates moved in favor of the franc in a very small turnover. The pound is quoted at 109.85 and the dollar at 22.26.

On the security market rentes moved up 75 centimes to one franc. Other securities showed gains with internationals being especially favored.

Reasons for the recent upheaval of the French security market are analyzed by Jenny, the financial editor LE TEMPS in today's issue of this paper. Jenny first of all points to the unhealthy upward movement of raw material caused at the outset by the natural effect of American economic recovery and later by such abnormal stimulation as excessive buying of raw material following monetary manipulation in various countries and later on the announcement of British rearmament.

Turning

LMS 2-No. 566, May 3, 4 p. m., Sec. 1, from Paris.

Turning to uneasiness caused to the American authorities by the rising movement Jenny observes that after having encouraged speculation through monetary devaluation and distribution of proceeds of enormous loan issues the Administration at Washington became alarmed and successfully brought about a reaction through alarming the speculators. In this respect Jenny appears to suggest that the stories of a possible revaluation of the dollar and new gold regulation may have been inspired and that Washington was not displeased by the publicity given to these stories by the international press. Nevertheless Jenny agrees that the President's intentions were excellent and that it was less damaging to apply the brake now than later on. At the same time he seizes the occasion once more to condemn the principle of managed economy to which he attributes general instability and uncertainty.

Turning to the French market this authority remarks that it was naturally influenced by the weakness of foreign markets. Furthermore that various reversed securities

(END SECTION ONE)

BULLITT

GSB

LMS

GRAY

Paris

Dated May 3, 1937

Rec'd 4:17 p. m.

Secretary of State,
Washington.

566, May 3, 4 p. m. (SECTION TWO)

on this market had risen far out of proportion to the devaluation of the franc and for this reason the downward movement here was more marked than on foreign markets. A further influence related to the uneasiness which has developed here regarding the ability of commerce and industry to carry on and support the burden and handicap placed on it by the new social regulations. Jenny attributes the weakness of rentes to the unfavorable situation of French public credit affected by the enormous requirements of the Treasury and public collectivities. This can only be corrected in his view by substantial economies on the part of the Government. Jenny appears to believe that taking into consideration present circumstances and conditions and the recent correction of speculative accounts and excesses the French security market is now in a fairly sound position technically.

Referring to last week's slump the financial sheet

"CAPITAL"

LMS 2-No. 566, May 3, 4 p. m., Sec. 2, from Paris.

"CAPITAL" of today irritably comments that the administration at Washington has precipitated a veritable crash and asks "cannot the world markets avoid being eternally in the tow of the United States and forever on the alert for true or false observations of the President".

No comment has yet appeared regarding cabled extracts of story from the Washington correspondent of the NEW YORK TIMES that while on vacation the President will study a six point plan of world reconstruction on the basis of comprehensive Anglo-American agreements covering war debts, armament, commercial arrangements, monetary policy, convocation of world conference and a gold policy. End of Section Two and End of Message.

BULLITT

CSB

RECEIVED
MAY 4 1918
TREASURY DEPARTMENT
WASHINGTON

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 3, 1937

to Secretary Morgenthau
FROM Acting General Counsel

For your information -

Since the Supreme Court today decided the Philippine coconut oil case which may require the Treasury to pay out upwards of \$40 million dollars, we are examining the situation carefully to see what, if any, other preliminaries will be necessary before payment can be approved.

The Court of Claims today decided the Smyth case. This was a liberty bond coupon case, like the Dixie Terminal, and Taft was the lawyer also in this case. The Court of Claims adhered to its earlier decision in favor of the Government and stated that it was not impressed by the decision, which had been handed down in the meantime, of the Fifth Circuit Court of Appeals in the Machen case. This makes the score of 4 cases of this kind decided for the Government and 1 against.

CNO

MEMORANDUM

May 3, 1937

To: Secretary Morgenthau
From: Dr. Burgess



Treasury bond market was firm and very quiet today. Prices on the board tended gradually to rise and closed at their highs. The majority of the long Treasury bonds were 4/32 or more up from last Saturday's close; the rest of the list showed gains of 2/32 to 6/32. Guaranteed bonds firmed with Treasuries but there was very little trading in them. Turnover of Treasury bonds on the board for the day totaled only \$247,000. The note market was quiet and quotations tended easier in the latter part of the day. At the close the majority of the issues were 1/32 to 2/32 down from last Saturday.

Domestic bonds were dull and prices of both high and second grade bonds finished unchanged to small fractions up from last Saturday.

Foreign bonds were quiet with no price changes of consequence.

No purchases for Treasury today.

May 3, 1937

Since Ralph Reed, of Internal Revenue, had not been able to furnish the Secretary the information wanted on an investigation of devices or practices which were employed last year by taxpayers for the purpose of reducing their income taxes, the Secretary instructed Mr. Magill to take the midnight train Thursday night and to visit the Collector's office in New York City to find out where the difficulties were.

The Secretary spoke to Mr. Magill on the telephone on Friday and Magill reported that he had found nothing and was of the opinion there was no use to look further into the matter. HM, Jr., however, disagreed and insisted that Magill spend Saturday there.

While on the Farm on Saturday the Secretary called Magill and the latter said he felt he had found a clue. He also reported that he thought Reed was very incompetent. He made the suggestion that Irey come to New York to assist in the investigative work. The Secretary told Magill to get in touch with Irey, but Irey gave many excuses for not being able to come, whereupon HM, Jr. telephoned Irey himself and told him to take the midnight train on Sunday to work with Magill.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 4, 1937

To Secretary Morgenthau

FROM A. Lochhead

Re: Disposition of proceeds of recent sales of securities by foreigners in this market.

In accordance with your request I have made a checking on this subject direct by telephone with several of the New York banks. In the Chase Bank I spoke with Mr. Stern, Vice-president; in the Bank of Manhattan with Mr. Moran, Vice-president, and in the National City Bank with Mr. Hogeboom, Assistant Vice-president.

The result of these inquiries leads to the general belief that a considerable portion of the proceeds of recent sales of securities by foreigners remains on deposit in the United States. Some stock exchange houses engaged in executing orders for foreign clients did remit proceeds of such sales to their clients, especially in England and Holland, but such transfers constituted only a portion of the sales effected here. In the majority of cases it seems that the foreign investor or speculator, after disposing of his stocks, held the proceeds in the United States

- (a) So as to have money handy to get back into the market if it was decided that the present decline was only a temporary one;
- (b) To take advantage of the lower rate for sterling and other foreign currencies which would occur if the United States lowered the price of gold.

Not all the foreigners purchased stocks outright, so that in some cases the sale of securities merely resulted in reducing their debit balances with brokers. In some cases loans incurred by foreigners from banks were liquidated with the proceeds of stock sales. The Chase Bank mentioned this in connection with some orders for the sale of securities received by them from Shanghai.

It will probably take some time for the results of these operations to show up fully in the "Balance of Capital Movements" prepared by the Research Department from figures received by the Federal Reserve Banks, owing to the inevitable lag caused by various reasons. For instance, some securities have been sold, but the proceeds will not be transferred back

Re: Disposition of proceeds of recent sales
of securities by foreigners in this market.

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to London until May 6, the date of the London stock exchange settlement. In other cases, sales were made in this market by foreigners but as the certificates had to be sent over from the other side, the payment for these securities will not be made until the arrival of the mail, making a delay of from 7 to 10 days.

It must also be kept in mind that although foreigners sold securities on balances here during the past week or ten days, the total volume of such sales is comparatively small, and unless this movement continued for some considerable time, it would not show up very strongly in the total figures of the "Balance of Capital Movements".

AL: ek

May 4, 1937

Secretary Morgenthau

A. Lochhead

Re: Treasury Bills

Federal Reserve Bank of New York advised that dealers in New York purchased about 43 million of this week's offering of 100 million dollars Treasury Bills. 17 million of these were Short Bills and 25 million Long Bills. In replacing maturities, the Federal Reserve took 16 million of these Bills from the dealers, and in addition, the dealers have disposed of about 5 million dollars worth of Bills in the open market. This leaves the dealers about 28 million dollars of Bills on hand.

The Federal states that they are not taking over any more of the Bills from the dealers this week as they feel the market situation is satisfactory, and the dealers are not worrying about their Bill decision as at the present interest level these Bills about carry themselves.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: May 4, noon

NO.: 569

SECTION ONE.

By mail from Cochran at Basel prepared Monday night.

An informal meeting was held Sunday afternoon by those B.I.S. directors who are central bank governors. The subject of their discussion was correspondence exchanged with the Federal Reserve Bank of New York with regard to Hungarian credits. The suggestion of President Tripp that the monetary department of the Bank be instructed to study carefully the various phases of the current gold problem met with their approval. Jacobbson was complimented by Tripp on his work in preparing the seventh annual report; Tripp referred particularly to the comprehensive chapter on gold therein.

Schacht thanked the retiring President Tripp for his services to the bank at the regular monthly meeting of the directors on Monday morning. A report was given by Director Vogue who heads the Suez Canal Company that recent figures for east bound traffic through the canal surpass predepression level. ^{Schacht} ~~XXXX~~ hoped that even after arms shipments cease, the heavy traffic would keep up.

The

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The seventh annual meeting which was held Monday afternoon followed routine agenda which included voting of the usual six percent dividend and reserves on the gold franc basis. Of the twenty-six central banks or banking groups holding B.I.S. shares, twenty-four had sent representatives. The two countries were Latvia and Greece. American shares were voted by Weldon. Tripp's annual report was well received, and there is general impression that this is the best report which has yet been prepared. I cabled extensive excerpts from the report on Saturday, touching upon questions discussed widely in press accounts and upon points of special or current interest to the Government.

An extraordinary meeting of the shareholders was held after the annual meeting of Monday afternoon which approved amendments to the statutes dividing the functions of the BIS President and the Chairman of the Board. Thus the three-year appointments of Beyen and Niemeyer respectively were confirmed for these positions. Fifteen hundred gold dollars per year plus fees for attending meetings has been fixed as the salary of the Chairman.

I submit herewith summaries of remarks of BIS officers and visiting delegates - I had opportunity to talk with practically all of them.

Criticism was still voiced by Trip because France got into such a bad internal situation, He attributes the gold

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- 3 -

bloc collapse to this situation in France. Fear and inflation which promise to become world-wide have developed he said since the gold bloc is gone and none of the major currencies are fixed definitively and permanently. The "shake out" in commodity prices he believes had considerable merit, since prices had been driven too high by speculators. The uncertainty as to the price of gold worries him, however. So long as the "24-hour policy" is followed, he does not see how it is possible to promise not to change the gold-buying price in the United States. A next step, in his opinion, would be to implement and extend the tripartite agreement. He said he would like to see the two leaders, the American and British Governments, confer with a view to solving the gold problem. Sterilizing newly produced and dehoarded gold cannot go on indefinitely, in his opinion; the British do not want to absorb too much gold.

Trip said that he favors some sort of international control of gold production, and an agreement between the central banks and governments as to the limits of newly produced gold which they will purchase. Should a change in the price of gold be made now, Trip thinks it would be bad policy, as it would cause too-sudden deflation and heavy losses to treasuries, and set a precedent for altering the price of gold whenever a national economy is out of [omission].

Trip

- 4 -

Trip does not believe that a reduction in the price of gold would have a checking effect on Russia, because in that country gold is produced under Government monopoly and the cost of it is much below the price on the market. He expressed a desire to see the United States, the large holder and actual gainer of gold, offer to sell gold to all monetary authorities which want to purchase gold. This would be a helpful and hope-inspiring gesture in the right direction, he said, without involving any big transactions in the near future.

The Netherlands is getting too much gold, Trip told me. He raised the florin against the dollar this past week, in spite of strong opposition on the part of the Government, which does not like any step suggestive of deflation. Lately, he said, Amsterdam has had to bear a lot of arbitrage; he had purchased 21 million dollars one day. Trip explained to the Government officials that he had to let the florin follow sterling somewhat or his market would be flooded. The French situation, with its costly social reforms, rising prices, labor troubles, in Trip's opinion, is hopeless.

I had a conversation with officials of the Swiss National Bank - Bachmann, Schynder and Pfenninger. The Bank President, Bachmann, said that the Tripartite Agreement

ment

- 5 -

ment needs strengthening through better cooperation between the United States, British, and possibly French Governments. Bachmann made the remark that except for its psychological effect, the French franc does not now have much world influence. In Switzerland they are having a good tourist trade. In the Chaux-de-Fonds watch industry there was one strike, but nothing widespread or serious resulted. Bachmann told me that increased demand direct from countries which are rearming is benefitting Swiss manufacturing industries, including chemicals, instruments of precision, and so on. In addition, general Swiss exports are on the increase, as countries which are rearming are not in a position to supply their own usual foreign customers.

The French financial and monetary situation is a source of worry to Cობbold - in charge of the Bank of England's foreign business - and on May 4 he is going to Paris to spend a few days there. The checking of the speculative commodity markets pleased the British. Serious labor troubles may be experienced by England, he believes, but in both the United States and England there has been too much real recovery for present developments to cause a set back of significance. He asked two questions: (1) whether there is any limit to the charges which the Treasury could impose on imports of gold without resort to further legislation; (2) whether under existing legislation there is any possibility of altering the purchase

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- 6 -

price of gold any further than would be involved in re-valuing the dollar the small margin up to 60 percent of the value it previously had.

I also had conversations with Schacht, Hulse, Vocke, and Hechler of the Reichsbank. Schacht is very hopeful that German relations with our country will be improved through ~~Dickhoff~~. Lowering the gold price on the part of the United States at present is out of the question, in Vocke's opinion. Frere's visit to Berlin was enjoyed by German officials, he said, but as for anything concrete coming from it soon, ~~xxxxx~~^{they were}/not very optimistic. How the United States responds to Van Zeeland will mean a great deal.

Raising German Government funds is in Hulse's hands; he said he contemplates an early issue of another Reich loan at 4 1/2 percent interest. The disturbing factor still is the gold-buying price, according to Hechler. Hechler remarked that after the last war, the British followed a policy of taxing so heavily to pay for the war that a distaste for war was created, and that they are taxing all the profit out of rearmament now so that it is finally decided that it is necessary to rearm.

I had a second talk with Schacht, and remarked that the press had given a good account of his recent statements at Brussels. Schacht reminded me that for many months he had been expressing to me the same thoughts which were put into words at Brussels. Hitler, he assured me, had

approved

Regraded Unclassified

- 7 -

approved to the fullest extent the remarks and policies involved. Schacht has postponed his visit to Paris until about May 25 or May 26, since the opening of the Paris ~~Exposition~~ Exposition has been delayed.

It is the opinion of Quesnay, the French General Manager of the BIS, that the world's two chief concerns are the French social problem and the American gold problem. The French Minister of Finance, he believes, should have been more frank, after the fashion of his British colleague, in disclosing the general needs of the French Treasury to the Finance Committees of the Chamber and the Senate last week. At the time the Finance Committees refrained from too severe an attack upon Auriol, Quesnay believes, because they do not want the Government to fall over a financial reason which might conceivably lead to a consolidated labor party with Blum in it. Some days ago, Quesnay said, there was some discussion of a vacancy in which Steeg would be the premier, and such leaders as Chautemps, Daladier and Delbos would be in the Government. However, it was decided that it would be premature to push for such a set-up. Hope is held out by the backers of this idea that within the next few months labor will become so disorderly that Blum's sympathies may move more toward the center and he may fit into the new arrangement rather than lead the
opposition

- 8 -

opposition. Some months ago a suggestion was made to the Blum Government by Quesnay regarding the public works, involving repairs and modernization of residential buildings in Paris, and action on this may be taken. However, now it may be too late, he said, to make much of a success of the idea.

The Bank of Japan representative, Yanagita, referred to the recent shipments of gold from Japan to the United States, and insisted to me that these sales of gold had nothing to do with the "gold scare". His Bank merely was trying to hold the yen steady. This task is becoming increasingly difficult with the growth in expenditures by the Government.

I was told by the Governor of the National Bank of Yugoslavia that his bank had not been able to get gold from the American authorities through the BIS. I told him that since his Bank has an account with the New York Federal Reserve, if he applied directly to that Bank for the necessary license, the Bank would refer the matter to Washington. I told him that he should make clear the details of the transaction, showing that the gold was for central bank monetary purposes, and prompt - and I hoped sympathetic - consideration would then be given to the question.

I was informed by President Kienboesk of the Austrian National Bank that steady but not too rapid progress is being made by Austria. They hope to be further helped by

- 9 -

a good American tourist season this summer. The Hungarian National Bank Governor, Imredy, and the governors of the central banks of some of the other smaller agricultural countries in the Balkan and Baltic States were happier than last year, because the price of farm products has gone up, but they were made a little nervous by the market upset of the past few weeks. It was reported by Governor Rygg that Norway has showed improvement but nothing brilliant.

Butter is an important item in the exports of Denmark and because the price of it has not risen correspondingly with other agricultural products, Governor Bramsnaes of the Danish National Bank was unhappy. I was told by Hartogsohn, Secretary of the Danish Bank, that consideration had been given to conversion of one City of Copenhagen and one Danish State loan on the American market. However, for the time being the effort was dropped because the monetary situation is so unsettled.

I was told by Governor Ryti of the Bank of Finland that before autumn nothing would be done towards revising the value of his currency upwards. Any action at that time would depend much upon the trend of prices in the meantime, and upon the extent to which some solution of the gold problem may have advanced in the other countries.

The Finnish National Bank Governor and Governor Rooth of the Swedish Central Bank were seeking as definite information as possible regarding the gold policy of the

- 10 -

United States. The Swedish economists who had been urging Rooth to revalue his crown, because of the rise in prices and particularly the inflation discerned in Great Britain and in the United States, have practically stopped such advocacy of such a step now that the American and British booms have suffered a set back. He expects prices to move the other way again and thinks the question of revaluing the crown may then recur. It is being arranged for the Swedish Treasury to open a deposit in New York in the near future to finance purchases made on the American market. Rooth is anxious particularly to see official American members on the B.I.S. board, which he has rejoined recently.

It is believed by Governor Franck of the National Bank of Belgium that there should be a control of the production of gold. He thinks low grade deposits will be developed to such an extent that an overwhelming amount of metal will come onto the markets should the present pace continue. In addition, the threat of this and of lowering the gold price is accelerating dehoarding in such a way as to increase the movement of gold to one or two high bidders - principally the United States. Governor Franck thinks that Russia could be persuaded to come into a production agreement rather than see the market for her important product demoralized. With

regard

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regard to Van Zeeland's studies, the Governor reminded me that they were undertaken at the instance of France and England. Van Zeeland and Frere will do everything they can but they will naturally not seek to initiate a world conference doomed in advance to failure if they find the outlook hopeless after making their investigations. Franck was more optimistic than were his colleagues from the other important central banks as to economic recovery and the Paris exposition saving France from a monetary and financial crisis by autumn.

A conversation was held between Jacobsson, Swedish economist of the B.I.S., Schacht and others regarding Van Zeeland's undertaking. Jacobsson informed me that he found Schacht skeptical - hesitating to believe that the Premier of Belgium will have enough force to draw up a definite program and to get the forceful support for it on the part of France, the United States and Great Britain. In this matter Jacobsson thinks Europe must look to the United States for leadership. Our willingness to fit in, he says, is not enough. One of the principal reasons for the failure of the London conference was ^{that} ~~not~~ the United States was unable at that time to subscribe to a general doctrine which most of the other powers could not accept. Jacobsson informs me that the United States has become such an important figure in the world's set-up that no

important

-12-

important plan can succeed without American initiative and agreement. He also said that it is not enough for us to tell Europe to settle her own problems before approaching the United States. He says that such matters as gold and commodity markets and world trade cannot possibly be worked out with Europe acting alone. Jacobsson believes that Van Zeeland must not be content to let Frere try to find the points on which the countries could agree in advance. He does not think the field would be large enough to base a successful program on it. A bold plan must be conceived and presented by Van Zeeland, he said, and the leading and very active support of the United States ~~is~~ must be secured for the program. The program, Jacobsson says, should not involve any splitting of the world into democracies and other groups, and the same manner and spirit of equality should be used in the approach to all of the powers. He thinks that one of the major steps should be the writing down of the gold purchase price for example to thirty dollars an ounce in the United States - after consultation and agreement between the leading powers concerned. He would like to see the general lowering of tariffs for example from 33 to 25 percent in Great Britain as the second step.

END SECTIONS ONE TO TWELVE INCLUSIVE

BULLITT

PARAPHRASE OF TELEGRAM RECEIVED

NO.: 569 (Section thirteen)

DATE: May 4, 1937

FROM: American Embassy, Paris.

He said that it would be necessary for Germany's to be reduced to a level and to an interest that it would be possible to bear. It is Jacobsson's belief that it would be a concrete help to China and a very comforting demonstration to the world if an international loan to China were to be arranged, with the United States, Great Britain, Japan, and other countries participating. It would please Jacobsson to see the leading powers give proof that it is still possible for them to cooperate in some big material way. It is his opinion that changing the price of gold at a time when the laws of supply and demand show that such a move is desirable is less artificial than imposing production control. As head of the Bank's research, it will be Jacobsson's job to make the gold investigation which Trip suggested. There may therefore continue to be some interesting observations by Jacobsson along the lines indicated above.

The next B I S meeting will be held on June 14. I am going to Geneva Tuesday morning. END OF MESSAGE.

BULLITT

RB
A portion of
this telegram must be
closely paraphrased be-
fore being communicated
to anyone. (B)

LONDON

Dated May 4, 1937

Rec'd 2:40 p. m.

Secretary of State

Washington.

265, May 4, 5 p. m. (GRAY)

FOR TREASURY FROM BUTTERWORTH.

Confidential. Phillips began the meeting-at the British Treasury today by remarking that the stock, commodity and gold markets seemed to have settled down and buyers have come in to give them natural support. He said that he supposed in due course we might be able to look back on recent events and conclude that on the whole they had had a beneficent effect; there was no doubt that things had had a rather severe shake out and at the weak points of course the pressure was felt strongest. Since the British Treasury has been considerably criticised here in connection with recent events it seemed desirable not to pursue this aspect of the conversation further.

However, led into the field of commodity prices Phillips was more specific than ever before in defining the British Treasury's attitude. He expressed the opinion

that

RB

-2-, 265, May 4, 5 p. m. from London

that recent events would merely delay and would not prevent a further rise in the prices of raw materials; prices should continue to rise and "in fact we wish them to rise for after all they are only a little above the 1930 level and not yet up to the 1929 level". Questioned as to whether 1929 constituted the desideratum level Phillips pointed out that the different conditions which prevailed in the United States and Great Britain in that year must of course be taken into consideration in this connection, that 1929 was not a year of excessive activity in Great Britain and it was not a period of "inflation" whereas in the United States at that time a boom had reached its height. Questioned about the level of food prices Phillips emphasized that foodstuffs were not unduly expensive in 1929 and from memory he cited that the index number of foodstuffs in that year was 162 as compared with 151 at the present time. Incidentally he mentioned in passing that after four bad wheat seasons it seemed not unlikely that the time had come for a good year in which case bread prices should decline considerably.

Phillips said that the gold market seemed now to be losing its nervousness and the discount on the dollar was disappearing. In view of the information contained in the

next

RE

-3-#265, May 4, 5 p. m. from London

next to the last paragraph of yesterday's telegram and the fact that the Chancellor of the Exchequer is today being asked a question in this general connection in the House of Commons I inquired whether he expected gold to continue to flow in formidable proportions to the United States where it would have to be sterilized at the tax payers expense. He said he had not given very careful study to how far Wall Street had recently declined but doubtless the English market was more attractive to the investor than it had been some weeks ago. He also said "we too have in effect been sterilizing gold" and he mentioned that there had been some purchases on the fund's behalf recently; "furthermore in November the problem of that wretched 40,000,000 pound French loan will arise; if France is on her feet she will be able to repay in sterling but seems to be every likelihood that conditions will be such that she will have to repay in gold so that we are now in effect buying gold in advance." Phillips continued that the crux of the immediate problem with regard to the supplies of gold lay in the French situation; if confidence could be restored in France, French capital would return in important quantities; unfortunately it was impossible to predict the course of events in France but it seemed

- 4 -

seemed clear that it was no longer a question of financial measures but of whether or when the French Government could politically command confidence and authority. In this connection he referred to the fact that in the quarter following the conclusion of the monetary agreement Holland's gold had increased 20 percent, Switzerland's 40 percent while France's had declined by 8 percent.

I venture to mention, as of possible interest, that the tenor of Phillips' conversation left me with the feeling that the British authorities are more aware now than ever before of the importance to the United States of the problems connected with the incoming gold, and that they wish to indicate a cooperative attitude to us. It is not altogether clear whether this is merely to play for time or to play for active cooperative action. [I refer to my telegram No. 266 of today's date].

BINGHAM.

RECEIVED
1941
THE TREASURY DEPARTMENT
WASHINGTON, D. C.

EA:LWW

LMS

GRAY

London

Dated May 4, 1937

Rec'd 3:08 p. m.

Secretary of State,
Washington.

266, May 4, 5 p. m.

FOR TREASURY FROM BUTTERWORTH.

Asked in the House of Commons this afternoon whether he was aware that since December of last year the United States Treasury had bought and sterilized at considerable expense over \$500,000,000 of gold and whether, with a view to stabilizing world currencies and prices and reviving international trade, the British Government was prepared to cooperate with the Government of the United States in the purchase of such fresh supplies of gold as were available for monetary purposes, the Chancellor of the Exchequer replied: "The answer to the first part of the question is in the affirmative. In reply to the second part general cooperation is maintained with the Government of the United States and other parties to the Tripartite Agreement for the purpose of maintaining as far as possible equilibrium in currencies; in pursuance of this policy gold is purchased when necessary and no change in the system is contemplated".

Asked whether the Tripartite Agreement was not
intended

LMS 2-No. 266, May 4, 5 p. m., from London.

intended to be only a temporary measure and left something more to be desired and for an assurance that the British Treasury would keep in close touch with the American Treasury with a view to obtaining the maximum cooperation between the two countries, Chamberlain answered "it does keep in touch".

Asked whether the British Government contemplated entering into negotiations with the American Government for the conclusion of an economic agreement covering a wider field than the recent currency agreement the Prime Minister referred the questioner to the answers reported in my No. 212, April 13, 8 p. m. Further asked if he was unaware that an economic agreement of some kind with the United States was inevitable and whether it would not be advisable to make a start now Baldwin replied "I cannot recognize anything in this world as inevitable. The Chancellor of the Exchequer has said that explorations in the matter are still proceeding. Exploration implies digging and the ground has to be well prepared".

The question put to Chamberlain was framed by Boothby a rising conservative member of Parliament who also represents the First National Company in London. On his own initiative Boothby called on me yesterday and particularly invited
attention

LMS 3-No. 266, May 4, 5 p. m., from London.

attention to these questions. He explained that his purpose was to mention that 80% of his parliamentary colleagues were in favor of an extension of the monetary agreement with the United States and that he had even received letters from the leader of the opposition and the leader of the opposition liberals expressing appreciation of his questions and stating that they were in accord with his views which he implied therein; that opinion in Parliament and in the city had undergone considerable change during the past two months. He also said that it was beginning to be realized that a real sense of security could not be invoked except by means of a stabilization agreement and in this connection he mentioned the old parity figure and he added that the importance of a debt settlement was now fully understood and the majority of his parliamentary colleagues were in favor of making a definite attempt to settle this question, since it was a barrier to close cooperation with the United States.

While Boothby is no doubt far ahead of general opinion it is true that there is more general support for cooperation with the United States even at the price of some concessions on the part of Great Britain.

BINGHAM

CSB

LMS

GRAY

Paris

Dated May 4, 1937

Rec'd 4:22 p. m.

Secretary of State,
Washington.

571, May 4, 6 p. m.

FOR TREASURY.

Exchange market today was rather nervous and hesitant at the opening. The franc showed further strength but buying for commercial needs quickly brought the rate back and quotations are now approximately the same as yesterday's closing. The exchange fund apparently stayed out of the market. The security market was irregular with rentes showing slight losses. The JOURNEE OFFICIEL of today published decree announcing the issue on May 5 of one-year Treasury bonds to aid in financing requirements on the war pension fund which was created for a trial period of two years by Article 113 of the Finance Law for 1937. It is provided that the rate of interest shall be fixed by a decision of the Minister of Finance and that the bonds will be exempt from taxation. The amount of the issue is not indicated in the decree but according to apparently reliable estimates the requirements of the fund will amount to at least two billion francs over and above the credit of four thousand

LMS 2-No. 571, May 4, 6 p. m., from Paris.

thousand five hundred millions authorized by the Finance Law.

On account of Ascension Day banks will be closed here tomorrow Wednesday afternoon and all day on Thursday.

BULLITT

CSB

RECEIVED

MAY 8 1941

TREASURY DEPARTMENT
OFFICE OF THE SECRETARY
INTERNAL SECURITY - R

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: May 5, 9 a.m.

NO.: 573

By mail from Cochran at Geneva.

I had a final and last minute conversation with Governor Norman of the Bank of England before leaving Basel. Therefore, the following supplements the message in which I reported the meeting of the B.I.S.

Governor Norman brought up the question which Cobbold had asked me (as set forth in my telegram under reference) regarding the possibility of the United States authorities taking some action on the net gold buying price without necessitating further legislation. Norman told me that the central bankers meeting at Basel had been questioning him as they had me with respect to the outlook for gold and particularly as to where there is any exchange of views between the tripartite governments on this matter and if not why not?

Norman thinks this is a matter which should be the subject of tripartite consultation before any one of the member countries takes any new step with regard thereto. The Governor is convinced that the development above referred to ~~it~~ is bound to require some action on our part. No one, he said, wants gold at the present except the

United States

-2-

United States Treasury and the supply that is now and will be made available through dehoarding, production and dumping by holders who fear that the price will inevitably go lower will surely be greater than our demand. He insists that America will make a non-monetary metal out of gold as it has out of silver should the present trend continue. I questioned him as to whether my people were in touch with London on the subject of gold. Norman replied that he did not think that they were but that there was urgent reason for both of our Governments to welcome an exchange of views. Since Governor Norman believes the French Treasury situation will eventually wreck Blum, He is all the more anxious that we, the United States and Great Britain, should stand together.

RECEIVED

THE STATE

DEPARTMENT OF THE TREASURY

EA:DJW

Gray,

London,

Dated May 5, 1937,

Received 11:20 A.M.

Secretary of State,

Washington D.C.

268. May 5, 4 P.M.

FOR TREASURY FROM BUTTERWORTH.

There is every reason to believe that the London stock exchange settlement tomorrow will pay off uneventfully and in this expectation both stock and commodity markets have been firm today.

In the course of a conversation Thomas Lamont, who has just returned from a visit to France where he saw aside from private bankers and industrialists, Auriol, Delbos, Rueff, and Rist, expressed the opinion that "the situation would have to get worse before it gets better". He took the same view as that quoted in No. 265 of May 4, 5 p.m., that the problem had gone beyond the financial field and was/a now essentially political one. As for immediate events he was convinced from conversations that a real attempt would be made to adjust the workings of the 40 hour week so as to reduce its disruptive effect on certain commercial and industrial enterprises. As to the long term situation he said his pessimism over the outlook would be greater if he were not firmly convinced of the innate sensibleness of the French people whose capacities to pull themselves back from the brink of the abyss was often underestimated.

BINGHAM

GSR.

LMS

GRAY

Paris

Dated May 5, 1937

Rec'd 4:32 p. m.

Secretary of State,
Washington.

577, May 5, 1 p. m.

FOR TREASURY.

There was a fairly active demand for dollars and sterling in trading this morning and the rate moved up to 22.33 and 110.15 respectively with the fund out of the market according to our contact.

With regard to the Treasury bill issue announced yesterday the interest rate has been fixed at four per cent "until further notice". It may be mentioned that the interest is payable in advance since it is deducted from the purchase price as for national defense bonds. The bills will also resemble national defense bonds in another respect in that interest will vary according to the bank rate and general money market conditions. They will be sold in denominations ranging from 500 francs to 1,000,000 francs.

Last evening an official notice was published announcing the closing "under satisfactory conditions" of the City of Paris loan issues of 900,000,000 francs opened on April.16.

According

LMS 2-No. 577, May 5, 1 p. m., from Paris.

According to the financial press, the French Government has renewed the British credit of 40,000,000 pounds which was paid over in five installments between February 2 and 26, last, and was for three months with the option of two renewals.

BULLITT

SMS:CSB

RECEIVED
MAY 6 1947
TREASURY DEPARTMENT
OFFICE OF THE ASST. SEC. FOR
INTERNATIONAL AFFAIRS

MEMORANDUM

79

May 5, 1937

To: Secretary Morgenthau
From: Dr. Burgess

Government securities market was firm but rather quiet today. Treasury and guaranteed bond quotations tended to improve as the day progressed. Treasury bonds closed approximately at their highs, generally $1/32$ to $4/32$ better than yesterday. In the guaranteed group, the F.F.M.C.'s were $2/32$ to $4/32$ better and the H.O.L.C.'s were $2/32$ better. Turnover of Treasury bonds on the board was small at \$528,000 but there was some activity reported in the over-the-counter market. Note market closed off slightly from its highs, with the majority of the 1939 through 1941 maturities $1/32$ up from yesterday.

Domestic bond market was moderately active and prices of both high and second grade bonds showed fractional gains. It is understood that the new \$45,000,000 Southern Bell Telephone $2-1/4\%$ 25-year debentures, offered today at $96\ 1/2$, were well received. At 3 P. M. the market for this issue was $97\ 3/8$ bid, $97\ 5/8$ asked. We are also informed that the new \$6,490,000 Northern Pacific Railway $2-3/4\%$ Equipment Trust Certificates due serially up to 1947, offered this morning, were well received at the offering prices. Also, that subscriptions to the \$25,000,000 1-year $1-1/2\%$ consolidated debentures of the Federal Home Loan Banks were very heavy, books having been closed at 11 A. M.

Foreigns were quiet with no significant price changes.

No purchases for Treasury today.



OFFICE OF
THE ATTORNEY GENERAL

MICHAEL E. IGOE
C. W. COURT HOUSE
CHICAGO

May
5
1937

Hon. Joseph B. Keenan,
The Assistant to the Attorney General,
Washington, D. C.

My dear Mr. Keenan:-

I am enclosing herewith a clipping from the Chicago American of April 30th, 1937, and particularly direct your attention first to that part of the article referring to William Johnson, wherein it is stated that Johnson always has included in his income returns the item "profits from gambling". Following such quotation, you will also see a statement of the approximate tax which Johnson has paid. It must be quite apparent that this information was secured from some agent of the Treasury Department, and it is also quite apparent to me that both the giving of such information and the publication of the same, constitute a direct violation of Section 3167 Revised Statutes as reenacted by Section 1115 - Revenue Act of 1926. I await your advice as to how I should proceed in this matter.

The entire article appears to be taken mainly from facts set forth in my letters to you of March 25th and March 29th last. It would appear that the information I sent to you was transmitted to officials of the Treasury Department and by such officials transmitted to other persons who were under investigation. Personally, I do not see how an investigation can properly be conducted by having the person under investigation conduct the work of investigation. There were only four persons who knew of the conversation had at the Senate Restaurant on March 19th last. They were Messrs. Oliphant, Helvering, you and myself. By process of elimination, it is not difficult to determine the manner in which the information I transmitted to you was received by the Treasury Agents in Chicago.

Hon. Joseph B. Keenan - - - #2.

In connection with the enclosed article, you are advised that the same was written by the personal and intimate friend of both E. Riley Campbell, of the Revenue Counsel's office and A. P. Madden, in charge of the Treasury Intelligence Unit at Chicago. It was current gossip about this building for almost three weeks before the article was published that the same would appear in print and of course when it did appear it was neither a surprise nor a shock to me.

In conclusion, I merely want to draw your attention to two paragraphs contained in my letter to you of March 25th last.

" At the out-set I must impress upon you the fact that I have had two experiences with the officials of the Treasury Department in Washington and the conclusion of each of them left me with the distinct impression that I was wrong because the officials of the Treasury Department must be up-held at all hazards.

There are many other matters that I could bring to your attention, but I simply do not have the time to prepare such information for you. I am sending the above information to you because you have requested me to do so and not, I am sorry to say, because I think proper action will be taken by the officials of the Treasury Department, for the reason that my experiences with officials of that department have never been pleasant nor satisfactory in the past whenever difficulties have arisen between this office and their local officials."

Yours very truly,


MICHAEL L. IGOE
UNITED STATES ATTORNEY.

MLI:E.

MEMORANDUM

82

May 6, 1937

To: Secretary Morgenthau

From: Dr. Burgess

Government securities market was quiet but firm again today. After remaining more or less stationary most of the day quotations tended higher in the last half hour or so, finishing at the highs of the day. The long Treasury bonds were unchanged to $2/32$ up from yesterday, while other Treasuries were generally $1/32$ to $3/32$ better, with the exception of the three highest coupon bonds which were up about $1/4$ of a point. Guaranteeds were also higher, closing unchanged to $6/32$ above yesterday. Note market was steady, and the middle and long maturities closed $1/32$ up from yesterday. Turnover on the board was \$361,000 compared with \$703,000 yesterday.

Domestic bonds were quiet and firm. Some buying interest, particularly in the rails, developed in the final half hour. In the second grade group, rails made advances of up to 1 point, while industrials and utilities closed small fractions better. High grades were firm to yesterday's close, except for railroad bonds which advanced fractionally. The Southern Bell Telephone $3\ 1/4$ s offered yesterday at $96\ 1/2$ were quoted $97\ 3/8$ bid, $97\ 5/8$ asked. This issue went very well.

The issue of Home Owners Loan 11-months $1\ 1/2\%$ bonds were largely over-subscribed and are quoted at a premium of $1/4$ to $3/8$ ths.

Foreigns were quiet with no price changes of consequence.

No purchases for Treasury today.

May 6, 1937.
9:05 a.m.

Taylor: Hello

O: Hello - Mr. Taylor.

T: Yes.

O: I'm going Mr. Eccles back for the Secretary in a minute and he wants you to make a record of it when he talks to him. I'm going to let you all listen.

T: He wants to make a record of it?

O: That's right.

T: All right.

O: I'll put the Secretary on.

T: Yes.

O: Wait a minute.

H.M.Jr: This is an awful wire.

O: Terrible.

T: Hello

H.M.Jr: Hello Wayne.

T: Yes Henry.

H.M.Jr: I'm calling Marriner Eccles and I'm going to tell him that you're listening.

T: Yes.

H.M.Jr: I got a very bad wire this morning. Don't know if I can hear or not.

T: Well we can hear you all right.

H.M.Jr: Hello

T: Hello

H.M.Jr: Just hold on till I see if I can clear this. (Clicks his receiver up and down)

- 3 -

H.M.Jr: Ah-ha. I wonder if Miss Spangler is getting Eccles.

T: (Aside to someone in the room: "Is Miss Spangler getting Eccles?")

H.M.Jr: Hello

T: Hello

H.M.Jr: Buzz that white buttone there - you know the one?

T: Yes.

H.M.Jr: See why she doesn't get Eccles.

O: Hello

H.M.Jr: Yes - where is Eccles?

O: His extension is busy. I'm trying to get him on the other line.

H.M.Jr: Well is he at his office?

O: No he's at home.

H.M.Jr: Oh. Is he busy.

O: I think I'll have him in just a minute.

H.M.Jr: Allright, Miss Spangler. Hello

T: Yes.

H.M.Jr: Anything you want to tell me?

T: Ah (Aside: The Secretary wants to know if there is anything you boys want to tell him) No, nothing in particular.

H.M.Jr: Well what I'd like - is the loud speaker on?

T: Loud speaker on?

H.M.Jr: Well what I want Miss Chauncey to do is to go through my diary and put down the dates that we - ah - discussed this open market operation business, see? And have it marked in my diary so I can read it myself when I get in.

- 4 -

H.M.Jr: Has anybody called up from the Hill to ask me to come down?

T: Ah - not as far as I know. Senator King was in yesterday afternoon.....

H.M.Jr: Yes.

T:and he saw Ros Magill and then he dropped in to see me afterwards.....

H.M.Jr: Ah-ha.

T:and - ah - talked about his resolutions, gold, silver and what else - ah - for an hour and a half.

H.M.Jr: Yes.

T: But it may be that I frequently confuse women myself so that that would settle it.

O: Hello

H.M.Jr: Yes.

O: Mr. Morgenthau I found that Mr. Eccles is in New York and I think I can reach him through the Federal Reserve. Do you want me to get him there?

H.M.Jr: Oh. I'll tell you what I'll do. I'll let Mr. Taylor talk to him. I won't bother.

O: Oh, all right.

H.M.Jr: And we'll handle it that way.

H.M.Jr: Hello - Wayne?

T: Now there's one - yes, Henry.

H.M.Jr: Will you call up Marriner and ask him if he can tell us us along what line I can prepare myself and then tell Haas and White, will you?

T: Well I think I can give you some idea on that.

H.M.Jr: Have you talked to Marriner?

T: Ah - I talked to him two days ago just after he'd been up on the Hill.

H.M.Jr: I see.

T: And - ah - Finance Committee has been trying to get him to go up there for two weeks.

H.M.Jr: Yes.

T: He said that he wouldn't go up or asked not to go up until after May 1st.....

H.M.Jr: Yes.

T: So they finally - he couldn't stall it any longer.....

H.M.Jr: Yes.

T:and he said that they discussed everything in the world but the fin..... - one thing that he said he wouldn't discuss was gold.

H.M.Jr: Yes.

T: And that - I'm perfectly sure that that's what it's about.

H.M.Jr: Well call him up in New York and find out so that they can be working on it before I come back.

T: I will.

H.M.Jr: Will you do that?

T: I'll do it.

H.M.Jr: All right. Now - ah - the bond market is all right, isn't it?

T: Yes, acting very nicely.

H.M.Jr: Did they sell any bills? Do you know how the dealers are?

- 6 -

T: Ah - I don't know how they are to-day.

H.M.Jr: Ah - ha.

T: They - ah - let's see I think the dealers had about five million bills or something like that.

H.M.Jr: Well write me a letter tonight and let me know what the dealers have left of this week's bills.

T: O.K.

H.M.Jr: See?

T: Right.

H.M.Jr: Now if everything is all right I take it that you'll go ahead and sell the same things next Monday.

T: Yes.

H.M.Jr: Now is Bell there?

T: Yes he is.

H.M.Jr: What's our working balance as of to-day?

Bell: Hello

H.M.Jr: Hello Dan.

B: It was 317 million the night of the 4th. We'll get 50 million dollars in - ah - got 50 million in the Treasury bills yesterday.....

H.M.Jr: Yes.

B:and then we'll get about 25 million on these Home Loan Banks. I don't know just when that will come in but our balance will go up to-day to around 350 or 55.

H.M.Jr: Three what?

B: 350.

H.M.Jr: Gosh it's getting pretty low.

- 7 -

B: Down to 317 - ah - 317 on the night of the 4th.

H.M.Jr: It's getting awful low, isn't it?

B: Getting pretty low but - ah - I don't think we'll worry about it yet.

H.M.Jr: Well how much lower will it go?

B: Ah - well I can't tell you right off the bat. I'll have to look at my figures.

H.M.Jr: Will you have something for me Monday?

B: Yep.

H.M.Jr: I don't like to see it get down below 300 - awful low.

B: Well, of course, the closer you approach your June why your all right.

H.M.Jr: I know but - ah - it's a long way off.

B: Oh not very.

H.M.Jr: Well -

B: You've got a month till you're going to get income taxes.

H.M.Jr: What?

B: In another month we'll begin to get income taxes.

H.M.Jr: Yes, but I mean will the 50 a week hold us?

B: Ah - might not hold us at the 350 level but I think it will hold us, yes sir.

H.M.Jr: Well supposing you make the survey and let me have it Monday, will you?

B: All right, fine.

H.M.Jr: What?

B: Yes sir, I will.

- 8 -

H.M.Jr: Because - ah - getting, as I say, awful - because there's - I guess there's no more big gold shipment on the water, are there?

Taylor: No, that's pretty well down.

H.M.Jr: What?

T: That's pretty well down.

H.M.Jr: Yes.

T: Ah - and not much engaged.

H.M.Jr: Ah-ha. Well I think Monday we'd better go over it and take a look at the thing.

Bell: Because if this gold shipment stops - ah - our 50 million dollars will run our balance up a little.

H.M.Jr: It will?

B: Yes sir. It's the heavy expenditures.

H.M.Jr: What?

B: This is the 6th, isn't.

H.M.Jr: Yes.

B: This is the 6th - our heavy expenditures will be over to-day or tomorrow.

H.M.Jr: What?

B: Our heavy expenditures will be over in a day or two.

H.M.Jr: How do you mean, Dan?

B: What?

H.M.Jr: How do you mean?

B: Ah - we get big expenditures in the first seven days of the week..... -

H.M.Jr: Oh.

- 9 -

B: - payrolls, etc. - the first seven days of the month.

H.M.Jr: Well you think with the 25 from Home Owners Loan and the 50 a week that we'll gain a little bit?

B: Ah - yes.

H.M.Jr: What?

B: Yes sir, I think we will.

H.M.Jr: Ah-ha.

B: I think we'll end the - probably by the week-end with a gain in the balance.

H.M.Jr: Do you know anything about what they want on the Hill? Have you heard anything?

B: What they want?

H.M.Jr: From me.

B: No - no nothing except what I saw in the papers. They're going to quiz you on the gold stabilization.

H.M.Jr: I see. Well Haas and White can prepare something for me.

B: Yes.

H.M.Jr: All right.

B: All right.

T: Do you want me to call you back after I've talked to Marriner.

H.M.Jr: No, thank you.

T: Just -

H.M.Jr: No.

T: Right.

H.M.Jr: Just turn it over to the boys.

T: O.K.

H.M.Jr: What else?

T: Ah - that's about all I know.

H.M.Jr: That's enough.

T: A lot in the papers about Davis' activities in London but that - you've probably seen that in the Times.

H.M.Jr: Well isn't that all trade treaty?

T: Ah - covers the known world apparently.

H.M.Jr: Well you remember I called Mr. Hall and asked him.

T: Yes, well no I don't - I don't think it's anything specific in regard to our activities but it's - ah - ah - he's putting out his own publicity apparently and it's rather complete.

H.M.Jr: Yes, well if we get anything it will be all to the good.

T: Right.

H.M.Jr: Tell me - anything new on the Russian State Bank?

T: Not a word.

H.M.Jr: I mean - well have they - did they pass it through?

T: Ah - well there were certain technicalities you know.

H.M.Jr: Well, yes, but I mean - ah - did they get off - answer their cable?

T: They answered their cable - ah - in the affirmative but asked for certain information, you see?

H.M.Jr: I see. But I mean - they gave them 24 hour service.

T: Oh yes.

- 11 -

H.M.Jr: All right.

T: All right, Henry.

H.M.Jr: That's all I've got. Does Miss Chauncey want anything?
Hello -

T: Hello

H.M.Jr: Does Miss Chauncey want anything?

T: I'm just trying to find out.

H.M.Jr: Is she there?

T: No she 's in the other office.

H.M.Jr: Oh - oh.

H.M.Jr: Hello

T: I'll ring the buzzer.

H.M.Jr: Well if I want - I'll be switched through to her
on the phone.

T: All right.

H.M.Jr: Thank you all.

T: Goodbye.

H.M.Jr: Goodbye.

Athens, Greece,
May 6, 1937.

MEMORANDUM FOR THE SECRETARY:

Subject: Narcotic Smuggling - Europe.

Am in Athens to-day, having dropped down here from Paris, via Sofia, to see if I can get Christides started producing, and to have a quick look at the general situation.

I found Christides quite willing (he is a good character) and anxious to do something. However, due to his inexperience he was somewhat off the track and needed orienting, in that he was spending too much time trying to get information about narcotics moving out of Greece to other countries with a very hazy possible destination the United States, instead of keeping his eye on the ball as to narcotics moving without question to the United States, principally by steamer direct. He was also much in need of advice as to how to handle informers. I talked with one of his two informers with him, showed Chris how to handle payment, took the informer off European country-to-country narcotics, put him on to narcotics to the United States, with particular attention to American Export Line and tramp charter steamers, Greek and others, calling at United States ports and in general diverted his activity into proper lines.

Christides and I had an interesting talk with an alleged narcotic trafficker (he claims he is a big shot) whom we encountered while batting around Athens. He is one Abdul Hassan (Egyptian passport 19-19) and has lately been put on our local suspect list. He is in business in connection with the red light district here and claims to be able to supply any amount of narcotics. He says it is moving to the United States both direct and over north European ports. (He says he has an office in Berlin and can supply out over Hamburg.) We got him started talking by asking him to direct us to where we could get a pipe of hashish. He readily agreed to do this, and quoted the price as 50 drachmas (50 cents approximately). I told him I was American, in the business, had a man in the crew of one of the ships and wanted to buy a supply to put into New York. He then started talking, claimed he could supply any number of "pieces" (kilos) on quick notice, etc. I think he is a bluff and a liar, but Chris will contact him again and if he looks worth while, possibly line him up as an informer. We find it is not hard to line up a trafficker as an informer on somebody else (a competitor), meanwhile carrying on his own business as before. The thing is how to evaluate his information knowing him to be a crook first and last.

There is undoubtedly a considerable narcotic traffic here connected with smuggling. The boys are lying somewhat low due to the recent knock-off

by the Greek police of the big Voutsimas illicit factory, but will do business when they can see the money.

Both Christides and the Consul General, Mr. Schantz, tell me that the Greek police are "lousey." In that connection, Schantz feels that we had better not supply our black list to the local authorities for fear it will not be properly handled and the crooks will have access to it as before.

I called on the Minister, Mr. McVeagh. He is very willing to help. Both he and Schantz and the rest of the staff have been very good to Christides.

In Salonika, the second port of Greece, where I was stuck for six hours due to the airplane service from Sofia breaking down at that point, I looked the general lay-out over quickly, found it somewhat of a port, lined up a catch-as-catch-can informer for Christides when he visits there (this to get Chris in the proper channels quickly). This individual claims that narcotics are moving to the United States via the American Export Line, and that Americans make short visits there to line up shipments of narcotics.

I am going to Istanbul (Constantinople) immediately, taking Christides with me (flying part way to save time). I want to see Christides have a chance to try his hand in Turkey also, since he speaks the language, and not be stuck in Greece for all his time over here, which I am afraid might have happened if I had not come down here to put steam behind the proposition. We ran up against a snag in getting him a visa (his father was a Turk who had to leave Turkey) but we have that ironed out now. I will not be able to stay long at Istanbul, as I must go back to Paris at once to contact Anslinger. Christides may stay on at Istanbul for a couple of weeks to effect a line-up there, informers, etc.

At Sofia, I consulted the Chargé d'Affaires (the Minister is away). The Chargé says that while opium is grown in Bulgaria and there is a legal export trade, there is no smuggling problem to the United States because the national authorities have the matter under strict control. I hope he is right, as I have other information that there may be smuggling. We shall see. The Chargé also said that nothing moves out of Varna or Burgas, the Black Sea ports.

Here are some figures on Bulgarian opium production:

Average annual production-	8,000 to 10,000 kilos
1936 production-	7,000 "
Stock on hand end of 1936-	9,000 "
Estimated 1937 production-	5,000 to 7,000 "
(Due to rains)	

Cultivation in southeastern Bulgaria, known as "Macedonian" opium, is high grade, 14 per cent morphine content or more.

-3-

Legal shipments in 1936 --5,300 kilos to England and 1,300 kilos to Sweden. Part of the London shipments probably transhipped to the United States.

There are two legal opium derivative factories, both in Sofia. They are for local use only. They are:

Labor Company
Pharmacists Cooperative Association

All manufacture under government control.

Best regards, Sir.

Respectfully,

THOMPSON.

P.S. The Balkan countries have strict currency regulations, to prevent capital leaving the country. They check you in when you enter with regard to funds carried, and check you out when you leave, the traveler not being allowed to take out any more money than he brought in. Exchange of money in Bulgaria and Greece can only be made at the National Bank (not at hotels, Cook's, etc.) On leaving Bulgaria you may bring out only 300 levas (about \$2.40) in Bulgarian currency. On leaving Greece you may bring out only 250 drachmas (about \$2.25) in Greek currency. They also check you in and out of Yugoslavia.

FEDERAL RESERVE BANK
OF NEW YORK

Mr. Lockhead 27

OFFICE CORRESPONDENCE

DATE May 8, 1937.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

L. W. Kneke

BANK OF ENGLAND.

I called Mr. Bolton at 9:40. I inquired how the settlement was coming along and Bolton replied that everything seemed to be going off very well; there was no suspicion of trouble anywhere at the moment.

Discussing the gold market next, Bolton stated that it was quite evident that there was steady disboarding going on, something like £500,000 a day. I asked whether he would venture a guess as to how much was still privately held in London and he replied "£100,000,000 to £140,000,000." (This is about £50,000,000 down from the figure given Governor Towers in London last September.) A large proportion of this gold, he thought, belonged to Frenchmen. As to Russian gold, Bolton said that he had probably bought most of it, partly for the Fund, partly for earmark for Belgian and Dutch account. Some of it, he thought, was probably getting to New York, possibly in remelted form. A fair amount of the total of £27,000,000 actually received from Russia so far, had not as yet been sold and was being accumulated in London. There had been no shipments from Russia for ten days now and the Russians did not seem to be very keen on selling at the moment. I mentioned that we had recently been ^{by the Russian State Bank} approached with a request to open an account and told him what we had done. He asked whether Moscow itself had communicated with us and suggested that we would probably find them pretty difficult to deal with. Altogether, he seemed to think that this development was all to the good. We discussed the amount of Russian balances in this and in the London market and Bolton thought that they might amount to about £2,000,000 in London. I mentioned the recent sale

OFFICE CORRESPONDENCE

DATE May 6, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knobe

BANK OF ENGLAND.

- 2 -

of gold of about \$4,500,000 by the Swiss National Bank to the Bankers Trust Company, which latter in turn had promptly resold it to the Bank of England, and asked why the Swiss National Bank did not get in touch with the Bank of England direct. Bolton was of course familiar with the transaction and kind of laughed it off as another example of the unwillingness of the Swiss to be cooperative. The Swiss National Bank from time to time seemed to prefer to deal with private banks in London which, of course, did not cause the Bank of England any real inconvenience. Nevertheless, the latter had, on frequent occasions in the past, reminded the Swiss that its services were at all times at their disposal.

Bolton then referred to my personal letter of April 20, 1937, which dealt with the low fineness of certain gold purchased by them for our account under our standing order. He explained that the matter was entirely due to an oversight on the part of their bullion section and requested that we write them an official letter and claim refund of expenses caused us by their oversight. I replied that I would think the matter over. (Subsequently, I discussed this matter with Mr. Lochhead who was not inclined to make this claim, with which I heartily agreed.)

LWK:EMC

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, London, England
DATE: May 6, 1937, 7 p.m.
NO.: 269
FOR TREASURY FROM BUTTERWORTH.

Today's London press give some prominence to General Smuts' speech in the South African House of Assembly particularly to his statements that "people feel that unless there is stabilization on a gold basis - and the sooner the better - the position is not safe" and that Havenga, the Minister of Finance, had gone to London partly to discuss this question and to see what could be done to make the position safer. Last evening Havenga issued a statement (presumably after conferring with the British authorities) on the gold position in which he expressed his conviction that basically the outlook for the gold mining industry continues to be sound.

In this general connection the following comment appended by the city editor of the DAILY TELEGRAPH, the owners of which are important factors in the Conservative Party; may be of interest.

"While Britain may hesitate to return formally to the gold standard this country is working in fact a kind of gold standard and it is reasonable to assume that the price of the metal will remain around the present level of 7 pounds per ounce.

What would happen if America ceased to buy foreign-mined
gold

- 2 -

gold is a contingency that has not been overlooked. The monetary policy of this country as well as that of France, is based on gold and United States policy could not be reversed without causing disturbance.

Nevertheless the abundance of gold from increasing production throughout the world may make it necessary for a common policy to be pursued by France, Britain and America."

With reference to the suggestion in paragraph four of my telegram No. 221, April 16, 7 p.m., and the authorized reply made thereto - paragraph two of my telegram No. 241 of April 23, 6 p.m. - it may be well to mention that a discussion of monetary policy will form an important part of the Imperial Conference. There will undoubtedly be brought forward an interpretation of American policy from the point of view of the British Treasury. Finance Ministers and Prime Ministers of the Dominions will be engaged in such discussions, as well as representatives of the Dominion central banks, who are to meet informally with their opposite British members.

BINGHAM.

EA:LWW

LMS

GRAY

Paris

Dated May 7, 1937

Rec'd 2:05 p. m.

Secretary of State,
Washington.

. 592, May 7, 5 p. m. (SECTION ONE)
FOR TREASURY.

The franc weakened in early trading on the exchange market due apparently to conflict relating to understanding which Blum has attempted to promote between the General Confederation of Employers and the General Confederation of Labor to extend the present collective conventions for six months. However, last minute reports of improved outlook for agreement resulted in strengthening of French currency and sterling is now quoted at 110.05 (after 110.30) and the dollar 22.29 (after 22.32). The exchange fund intervened this morning to a slight extent but did not interfere this afternoon according to our market contact.

The security market showed gains generally. Rentes closed about 85 centimes up. (END SECTION ONE)

BULLITT

KLP

RB

GRAY

Paris

Dated May 7, 1937

Rec'd 2:10 p. m.

Secretary of State
Washington.

592, May 7, 5 p. m. (SECTION TWO)

The report of the Bank of France dated April 29 issued today shows no change in gold holding, the commercial portfolio decreased by 546,000,000 francs, 30 day advances up 129,000,000, note circulation up 1,900,000,000, deposits down about 1,000,000,000, the Treasury account decreased by about 1,000,000,000 francs, ratio of gold cover decreased from 55.19 to 54.71 per cent (END SECTION TWO)

BULLITT

KLP

CSB

RB

GRAY

Paris

Dated May 7, 1937

Rec'd 3:04 p. m.

Secretary of State

Washington.

592, May 7, 5 p. m. (SECTION THREE)

In the Chamber today the Government will be interpellated on its general policy and particularly with respect to its financial and social policy. The financial press appears to consider that Premier Blum will be conciliatory and that he will urge a truce between the different parties. With this in view the Premier has conferred during the last two days with the General Confederation of Employers and with the General Confederation of Labor. The result is according to official communiques that the idea of the truce has been accepted in principle and that the collective agreements near expiration are to be renewed for six months. According to the official statement Labor accepted on the condition among other things that the compensatory and social provisions of the monetary law of October 1 last will be prolonged. It seems that misunderstanding relating to these conditions was responsible for the weakening of the franc in today's market referred to above. (END MESSAGE)

BULLITT

MEMORANDUM

May 7, 1937

To: Secretary Morgenthau
From: Dr. Burgess

In the Treasury bond market today the volume of trading was small, prices tended higher and the tone of the market was firm. The long bonds closed 1/32 to 4/32 better on the day and the others were 2/32 to 8/32 better generally. Volume of trading in Treasury bonds on the exchange totaled \$257,000. Guaranteed bonds were unchanged to 4/32 better than yesterday. Note market was quiet and quotations improved slightly. At the close the 1939 through 1941 maturities generally showed a 1/32 gain on the day. The 1 3/8s of 1941 were up 2/32.

Domestic bond prices tended higher in fairly active trading during the first hour. Principal interest and activity were in the railroad group, both high and second grade issues showing gains on the day of about 1/2 of a point. Utility and industrial bonds showed small fractional gains.

Foreigns were moderately active, but generally unchanged as to price.

No purchases for Treasury today.

The Government Security Market

Week ended May 8, 1937

- - * - -

The government security market during the past week was steadier and quieter than in any week since last February. A good tone prevailed and the trend was upward throughout the week as prices advanced small fractions in small lot trading. Demand was particularly good for the intermediate and high coupon issues and these issues were scarce in the market. The 4 1/4s of 1947/52 advanced 28/32nds, the 4s of 1944/54 21/32nds, the 3 3/4s of 1946/56 one point and 5/32nds, while the other short and intermediate issues - with the exception of the 3 3/8s of 1940/43, which were about unchanged - made gains ranging from 10 to 25/32nds. The five longest issues finished the week 7 to 13/32nds higher. In the average, Treasury bonds (those not due or callable within five years) advanced 19/32nds to 104.28 and the average yield declined 0.07 per cent to 2.56 per cent. This places the average price about 1 1/4 points above the year's low recorded on April 1st.

Guaranteed issues advanced about 1/2 of a point in the average during the past week.

Treasury notes, as in the previous two weeks, were very quiet and trading was mostly on a "swap" basis. However, a firm tone prevailed on all but one day and the net results were small gains ranging from 1 to 4/32nds by the long maturities and losses of 1 and 2/32nds by the short maturities. The small losses by the short issues may be contributed to the movement of these issues toward maturity.

Corporate bonds also moved higher during the week; the News Bureau average which is made up principally of high grade issues advanced about $1/2$ of a point while the Standard Statistics average which does not include as many high grades as the News Bureau advanced about $3/8$ of a point. The only change of importance during the week in the money market was a reduction from $1/16$ th to $1/8$ th of 1 per cent in open market discount rates on bankers' acceptances by dealers to attract additional offerings into the market to meet a rising demand.

J. H. Harris

JR

GRAY

London

Dated May 8, 1937

Rec'd 10:15 a.m.

Secretary of State,
Washington.

272. May 8, noon.

FOR TREASURY FROM BUTTERWORTH.

The concluding portion of John Martin's speech in Johannesburg at the annual meeting of the Rand Mines may be of interest particularly as Martin has recently become a director of the Bank of England and his opinions are I know highly regarded by it.

"The question preoccupying attention at present concerns the future price of gold and the future position of gold in the monetary systems of the world. They are questions which admit of no explicit answer. It being asked whether the Governments will continue to absorb gold in excess of their requirements to prevent the monetary situation from getting out of hand as would happen if they permitted an enlargement of the cash reserves of commercial banks to a point where credit would be available for any and every project at the level of prices. There might therefore be a limit under the conditions now existing to the capacity for absorption of new gold at rising prices

— or

-2-

JR #272, May 8, noon from London.

or even at the present level of prices. The price of gold depended chiefly on the course of events in the United States which had lately been the only large buyer of gold. It would have been better for America and the world if it had been possible to effect the immense transfer of funds by the sale to America of goods and services but this fact was insufficiently realized by America which preferred and welcomed the incoming streams of gold which are now claimed in some quarters there to be an embarrassment. The higher price of gold and other commodities lifted the world from the depression and suddenly to reverse that upward movement would be a calamity. A revolutionary measure should not be needed to cope with the situation. Government authorities could permit a further gradual rise of prices to a level at which the existing gold holdings could be utilized for monetary purposes without the present scale of redundancy. The lesson which might also be drawn from the difficulties of recent years was that must larger gold reserves than ever before were needed against international movements of capital. Not all influxes of foreign capital could or need be permitted to enlarge the cash bases for the domestic credit system

-3-

JR #272, May 8, noon from London.

system. Confidence in non metallic currencies depended on confidence in the Governments that created them or authorized their creation and that confidence was not always forthcoming. The problem was a world problem beyond the determination of South Africa alone. It was fortunate that at this juncture there should be assembled in London the Prime Ministers and leading representatives of the Dominions and colonies of the Empire--so vitally concerned with the position of gold. There was thus afforded almost everything for the fullest consultation under conditions where all relevant facts and tendencies could be properly assessed. It might be, let us hope it would be, that with the widest cooperation a further effective approach might be made towards a form of stabilization on a gold standard, the full realization of which would relieve and solve so many acute economic problems that now beset the world. There might be changes in the situation but we in South Africa must take the longer view and meet without alarm such difficulties as undoubtedly lie ahead".

In connection with the suggestion that this and kindred monetary problems will be considered at the Imperial Conference it is perhaps noteworthy that no mention has as yet been made of the desirability of the Dominions holding on their own behalf larger stocks of gold thus easing correspondingly the position of the

United

jr #272, May 8, noon from London.

United States although the recent report of the B.I.S. shows that the sterling resources of nine members of the sterling area amounted at the end of February last to 300,000,000 pounds an increase of some 50,000,000 on the corresponding date of the preceding year. Incidentally today's STATIST after allowing for members of the sterling group which appear in the chart given in the B.I.S. report computes that the holdings of short term sterling assets by overseas banks and currency authorities are well in excess of four hundred million pounds.

Today's clearing banks statement indicates that during April they increased their deposits more than in the same month of either 1935 or 1936. The Banks have used the additional deposits mainly for increasing advances which are up by pounds 13 million in the month and they have reduced both their bill and their investment portfolios while increasing the cash reserve and still more the call money fund. The cash reserve is still considerably nearer the conventional 10 per cent minimum than a year ago. Total bank deposits are now more than pounds 2,250,000,000.

BINGHAM

CSB

MM

GRAY

PARIS

Dated May 8, 1937

Rec'd. 12 noon

Secretary of State

Washington, D.C.

602, May 8, 3pm. (SECTION ONE).

FOR TREASURY.

Exchange transactions between banks this morning were on a small scale. Sterling closed at 109.95 (after 109.75) and dollars at 22.27 (after 22.25).

Criticism of the Government made in the Chamber yesterday as concerns financial and economic policies resembled closely that already (#) from time to time in the lower house since the beginning of the year.

Replying to his critics Premier Blum belittled recent manifestations "of alarm and preoccupation about the financial situation of the country and that of the exchange fund" and insisted that the position was stable and that calm tributes continue reign. The social conflicts predicted had not materialized, neither had the state become bankrupt and the paying offices of the Treasury would continue to function. He recognized, however, that "the Treasury problem remained serious" but not worse than preceding governments had had to face. He assured the Chamber that the exchange fund remained "in a perfect position

mm 602, May 8, 3pm. Section One. from Paris. -2-

position to observe and direct the market".

Referring to the tripartite monetary arrangement
(while?)
"he thought it necessary to indicate that which
remaining strictly and entirely faithful to the
principle of monetary liberty embodied in the arrange-
ment we assume the right and shall take it upon ourselves
if necessary to oppose certain calculated misuse of
liberty".

BULLITT

WWC
CSB

(#) Apparent omission.

MM

GRAY

PARIS

Dated May 8, 1937

Rec'd. 12:10pm.

Secretary of State

Washington, D.C.

602, May 8, 3pm. (SECTION TWO).

The Premier insisted that indications of a resumption of economic activity were definite and incontestable but perhaps not sufficiently ample or decisive as to force a financial recovery. It was true also, he said "that the Treasury did not yet enjoy affluence" and that the renewal of Treasury or monetary difficulties naturally retarded recovery. Furthermore, public opinion remained sensitive and for all these reasons the Government continued to believe that "the pause was necessary". The Government would continue to oppose any new reform projects which would tend to add to the burdens of private economy or of public finance. It would not make any more long term loan issues during the rest of the year apart from the balance of the National defense loan authorized.

The Premier also announced that in order to obtain additional resources the Government may ask the Chamber before the end of the ordinary session of Parliament to authorize the increase of certain taxes and tariff rates with the view as concerns the latter of combating dumping.

In

mm 602, May 8, 3pm. Section Two from Paris. -2-

In any case, he said, a project of law would be laid before the Chamber in a few days relating to full customs powers required by the Government.

The debate was resumed in the Chamber this morning and it appears to be a foregone conclusion that the Government will receive a vote of confidence before the end of the day.

(END OF MESSAGE).

BULLITT

KLP
CSB

RECEIVED
MAY 10 1941
FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE
WASHINGTON, D. C.

KLP

GRAY

Paris

Dated May 10, 1937.

Rec'd. 1:05 p.m.

Secretary of State,
Washington.

605, May 10, noon. (Section one).

FROM COCHRAN.

Reference Department's 186, April 24, noon; and 191, April 29, 3 p.m. I returned Saturday night from Geneva where I attended unaccompanied as substitute for Reuben Clark the seven half day sessions of the Committee on International Loan Contracts which were held from Wednesday morning until Saturday noon. The delegates were Termeulen for the Netherlands, chairman; Niemeyer and Fachine for Great Britain; Basdevant and Moreau-Neret for France; Jansen for Belgium; Golay for Switzerland; Baranski for Poland; Rospisil for Czechs. Tumedei of Italy was absent. Vischer von Planta was present as observer for the International Institute of Rome for the Unification of Private Law.

The meetings were strictly private and no publicity is being given to the subjects discussed. There was a
study

- 2 -

605 from Paris - May 10, noon (section one)

study of documents and an exchange of views on various topics. The talks centered principally (End section one)

BULLITT

WTC:CSB

ddm

GRAY

PARIS

Dated May 10, 1937

Rec'd 1 p.m.

Secretary of State

Washington

605, May 10, noon (SECTION TWO)

about: (1) machinery for settling disputes of a legal character with particular reference to (a) the inclusion of an arbitration clause in loan contracts, and (b) the setting up of an international loans tribunal; (2) the question of law to be applied and the desirability of indicating definitely in the loan contract what this law is to be; (3) the position of trustee and the feasibility of either suppressing such position or giving another name to the "stake holder" and defining his functions and responsibilities clearly in the loan contract, and (4) representation of bondholders.

No decisions were taken and no documents signed. Various members were assigned topics to be studied and developed before the next meeting. At that time the remainder of the points on the agenda also will be taken up. These include (1) types of contracts, (2) concordance of various loan documents, (3) relation between the free exchange of capital and that of goods, (4) gold clause, (5) option of exchange
and of

Page 2 from Paris No 605 (section two)

and of place, (6) pledges, (7) questions of priority, (8) transfer difficulties, (9) risks generally not covered in loan contracts, and (10) examination by creditors of financial situation of debtor state (end section two)

BULLITT

KLP CSB

RECEIVED
MAY 10 1950
TREASURY DEPARTMENT
WASHINGTON, D. C.

LMS

GRAY

Paris

Dated May 10, 1937

Rec'd 2:42 p. m.

Secretary of State,
Washington.

605, May 10, noon. (SECTION THREE)

It was agreed to eliminate from the agenda two topics which the League Secretariat had inserted, namely (1) possibility of modifying contract during period of loan and (2) index for capacity of payment.

Mr. Clark's letter to Feis of April 26 was received and the text thereof circulated. In accordance with the suggestion in the final paragraph thereof there was added to the agenda the topic of responsibility of paying agents and issuing houses.

The next meeting of the Loan Committee will be held immediately before or after the next session of the Finance Committee of the League which is likely to convene in September or December of this year but the date had not yet been fixed.

I shall make full report by mail as soon as the minutes of the meeting are received which will perhaps involve a delay of one week.

BULLITT

LMS

GRAY

Paris

Dated May 10, 1937

Rec'd 3:50 p. m.

Secretary of State,
Washington.

609, May 10, 5 p. m. (SECTION ONE)
FROM GOCHRAN.

The Government's financial and economic policy was subjected to severe reproof when the debate was resumed on Saturday morning. Deputy Colomb observed that budgetary equilibrium which was now apparently being sought would be impossible in view of burden imposed by new social laws. Referring to Blum's reference to the tripartite monetary agreement on Friday Colomb asked to be advised what sort of exchange control was envisaged and wondered what "subtlety" the Premier would use "in getting around" the tripartite agreement of September last. This deputy predicted that the monetary problem would eventually overwhelm the administration.

The most telling and objective criticism came from Paul Reynaud who mercilessly exposed the weak spots in the financial and economic situation. Notably Reynaud forcefully denounced the policy of "pause". Insisting that

LMS 2-No. 609, May 10, 5 p. m., Sec. 1, from Paris.

that the country needed action he proposed to prove that French economy was in regression whereas the Netherlands and Switzerland which had devalued at the same time as France were on the way to prosperity. For instance the gold reserves of the Netherlands had doubled and the tonnage of merchandise transported in Switzerland had increased 30%. As an example of credit conditions 3% government bonds in the Netherlands and Switzerland were around par. On the other hand 4½% bonds in France were around 70.

BULLITT

CSB

LMS

GRAY

Paris

Dated May 10, 1937

Rec'd 4:05 p. m.

Secretary of State,
Washington.

609, May 10, 5 p. m. (SECTION TWO)

More serious, however, in the views of Reynaud was the future to which the present policy of "pause" was leading France. He advised the Chamber that from March to April orders had decreased in the metallurgic trade by twenty per cent and thirty per cent in textiles because French prices had become so high that the French market was invaded by foreign merchandise.

France, he held, had built up its social edifice on sand and that explained its collapse. Devaluation had failed because French prices had exceeded world prices and also because it had not resulted in the repatriation of capital. An increase of customs duties would still further hamper international trade and it was only an excuse to say that the increase was directed against dumping.

Reynaud showed considerable curiosity about the intentions of Blum regarding the tripartite monetary agreement and monetary regulations and recalled the Premier's promise

not

LMS 2-No. 609, May 10, 5 p. m., Sec. 2, from Paris.

not to institute exchange control. Replying to Reynaud's questioning about what he envisaged doing Blum replied textually that "it concerned nothing more than what was practiced daily in England". Reynaud observed that if it were a question of nothing more than the correction of surface movements of the currency that the control practiced in England and in France Blum would agree that his statement of Friday "was somewhat obscured". The Premier answered that "he was delighted to dissipate the obscurity".

BULLITT

CSB

LMS

GRAY

Paris

Dated May 10, 1937

Rec'd 2:21 p. m.

Secretary of State,
Washington.

609, May 10, 5 p. m. (SECTION THREE)

Reynaud went on to explain his understanding that the objection of the different exchange funds was to suppress or level slight surface movements of exchange and not to go deeper and act as an instruction directed against any sort of speculation. To this observation Blum insisted that the role of the different funds was to combat certain speculative movements and added that in this respect the government "had at its disposal the exchange fund as well as the Bank of France". Reynaud thanked Blum for making it clear he did not have exchange control in mind.

The reason why capital did not return to France in the view of Reynaud was because of social instability here and because French prices were very much higher than foreign prices. In spite of this the Government had announced its intention of increasing tariffs. He recalled his estimate of December last that the Government would have to borrow 40,000,000,000 francs during 1937 and predicted that it
would

LMS 2-No. 609, May 10, 5 p. m., Sec. 3, from Paris.

would need to borrow 50,000,000,000 next year. In his opinion it would be useless to attempt to bridge the gap through an increase of taxation. He was convinced that the desired result could not be attained unless the ensemble of the Government's policy was changed.

BULLITT

CSB

RECEIVED

MAY 11 1941

TREASURY DEPARTMENT

OFFICE OF THE ASSISTANT SECRETARY

FOR INTERNATIONAL FINANCE

LMS

GRAY

Paris

Dated May 10, 1937

Rec'd 2:52 p. m.

Secretary of State,
Washington.

609, May 10, 5 p. m. (SECTION FOUR)

The rest of the debate did not offer any particular interest from the financial point of view and after a significant warning by Campinchi (the President of the Chamber group of radicals of the Government majority) that his party would combat the closed shop demanded by the General Confederation of Labor and that the delay in the completion of the Paris exposition was a national humiliation, the Government received a confidence vote of 380 to 199.

Paris exchange market quiet today, Soviets buying sterling; market understands they want 2,500,000 pounds today. Forward franc more bid. Rentes down 1.30 to 1.80 francs. Currency shares declining heavily. Observers skeptical over long term French outlook and perturbed by London and Basel discussions of gold question. (END MESSAGE)

BULLITT

CSB

May 10, 1937
11:30 A.M.

H.M.Jr: Hello.

Operator: Mr. Haas. Go ahead.

H.M.Jr: Hello.

George Haas: Hello, Mr. Secretary.

H.M.Jr: Hello, George.

H: How are you today?

H.M.Jr: Fine.

H: That's good.

H.M.Jr: George, I wish that you and Seltzer would make a study this week...

H: Yes

H.M.Jr: ...of the sources of funds which will be available in June to invest in our - in our Governments, see?

H: Sources of funds.

H.M.Jr: I mean - and - and - ah - depending upon the source, what kind of a piece of paper will they be interested in.

H: You mean these Government trust funds around?

H.M.Jr: Well, I mean insurance companies, the banks - I mean what effect has the fact they cut down the excess reserves, I mean, had on the banks? Will they be able to sub-

H: Oh

H.M.Jr: ...subscribe as freely.

H: Yes, I get.....

H.M.Jr: What about insurance companies, what about corporates?

H: Un-huh.

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H.M.Jr: An - what about the banks themselves?

H: In other words, the question of our analysis of our bond market.

H.M.Jr: Well, our customers.

H: Yes, that's right.

H.M.Jr: I mean - ah - who are our customers today as against three months ago....

H: Or six -

H.M.Jr: ...or one month ago, and - and how much money have they got?

H: Yes. And what type of instruments you can sell to them...

H.M.Jr: Yes

H: ...they'd like.

H.M.Jr: See?

H: Uh-huh. I get it.

H.M.Jr: And if necessary, I - I'd have no objection to Seltzer going up to New York if it'd do any good.

H: Fine.

H.M.Jr: But I - I - I - put that down; I want that a week from today.

H: A week from today.

H.M.Jr: Yes

H: Fine.

H.M.Jr: See?

H: I'll have it.

H.M.Jr: But - do you get the idea?

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H: Yes, I get it now; I didn't at first. I get it.

H.M.Jr: No, I mean - I mean how much money is there available to go into Governments, and what kind of Governments will they buy?

H: Yes

H.M.Jr: See?

H: And who are the big institutions involved.

H.M.Jr: Yes

H: Uh-huh.

H.M.Jr: I'd think in a week you could do that.

H: Ah - we may not be able to do as good a job as you'd like, but we certainly can have something in a week.

H.M.Jr: Well, let's have something a week from today and we can take a look at it and....

H: Yes, sir.

H.M.Jr: But I mean I - I wanted to keep at this now right through the month.

H: Fine. Fine. Well, we'll have something Monday for you.

H.M.Jr: And let me see a preliminary next Monday.

H: Fine.

H.M.Jr: Thank you, George.

H: You're welcome.

May 10, 1937
11:53 A.M.

H.M.Jr: Hello?

Operator: Chairman Eccles. Go ahead.

H.M.Jr: Hello?

Eccles: Hello?

H.M.Jr: Hello, Marriner?

E: Good morning, Henry, how are you?

H.M.Jr: Oh, I'm fine.

E: That's good; did you have a nice rest?

H.M.Jr: The best I've had in months.

E: Well, that's - you - you needed it.

H.M.Jr: Yes, I did, and - ah - I took a suitcase full of reports home and didn't read a darn one.

E: (Laughs) Well, that's a good recommendation.

H.M.Jr: Yes; well, it's the first quiet week we've had in I don't know - in month - well, in months.

E: Well, it seemed to go along pretty well. I stuck around here all week - well, up 'til - I went up to New York Thursday, met with the Board up there, and then was also there Friday and met with some of those bankers.

H.M.Jr: Yes

E: Thought I'd go up and talk to them about the bill market and get a first-hand picture, so....

H.M.Jr: Well, the - the tone seems better, doesn't it?

E: Oh yes. Yes, it's - the whole - the whole - the whole market is entirely different.

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

E: Entirely different picture than it was - and - there -

-2-

I'd like to have a - a chat with you, though...

H.M.Jr: Well, we're going to get together tomorrow.

E: Well, that will be fine. I'll - I'll bring Ransom.

H.M.Jr: Well, I don't - I - I can't - I wouldn't normally say - it happens to be my birthday tomorrow and I'm going home to have lunch with my wife.

E: Oh yes.

H.M.Jr: So I'd like to call up - I wondered if - if - ah - you could make it in the morning.

E: Sure, any time.

H.M.Jr: Well, there's just one other appointment and I may call you a little later; I'll find out what time suits you.

E: Oh well, let's - I was just going to say, I've got a regular Board on - on Tuesday; if the afternoon would suit you just as well - if it does - if it doesn't, I'll pass the....

H.M.Jr: No, I'll tell you right now, if you want to make it the afternoon, would 3:15 be all right?

E: That would be fine.

H.M.Jr: What?

E: If that would suit you just as well, it would suit me better; then I wouldn't have to pass up the Board meeting.

H.M.Jr: No, entirely. And - ah - let's say 3:15 tomorrow.

E: 3:15.

H.M.Jr: Yes

E: All right.

H.M.Jr: You bring - you say you'll bring....

E: Well - ah...

H.M.Jr: Bring anybody you want.

E: Yes.

H.M.Jr: I'll just have Taylor here.

E: Yes. Now on - ah - I - I'd like to get the Executive Committee of the Open Market - ah - ah - down to - ah - about Wednesday and have it - a - a meeting so that we can discuss the - the Treasury shifting from your nine months bills to a shorter bill. I mean I think that we should really give a little thought and discussion to that -

H.M.Jr: Yes.

E: -not necessarily to apply next week but - but looking - looking ahead a little.

H.M.Jr: Well I'd be glad to discuss it but I - what I thought about is this. Ah - frankly I'd like to be able to run it through until the 15th of June and then change.

E: Yes.

H.M.Jr: But - ah - I'm open to argument but that's the way I feel and I'll tell you why. I think the less - if you and I could keep from making any moves, which are different from what we're doing, from now until we get through our financing - in other words not to get in the papers - I think it would be helpful.

E: Yes.

H.M.Jr: Now if I change from nine to six - why - see?

E: Well I think.....

H.M.Jr: Now what I had in mind - this is just between the two of us but I don't want to discuss it with your whole group. If I could get enough money in June then I'd like to discontinue the nine months entirely for a while and then when I start up again we'll start up with a six.

E: Yes.

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- H.M.Jr: You see, and cut down the bills.
- E: Well what I'd like to do is to - well I can do that tomorrow. I'd - I'd like to tell you.....
- H.M.Jr: Do you get the idea?
- E: Yes - I - I get the picture but the difficulty with your money market is they just - from what I can find out in dicussing this matter - they just want shorter bills.
- H.M.Jr: Well I - I - I'll sit down and discuss it. I'll be more than pleased to but I hope that we don't have to make any changes.....
- E: Yes.
- H.M.Jr:you see? Ah - just the way I - I hope that you people are going to keep your portfolio the same until the first of June.
- F: well you mean not decrease it.
- H.M.Jr: Not decrease it.
- E: The - ah - the - ah - (laughs) well we may have to increase it.
- H.M.Jr: Well no, I meant not to decrease it.
- E: Yes, well the - the - the - the - ah - I - I'm sure that there would be no arbitrary decrease in the portfolio. The only thought that has been expressed by the Committee was that - ah - that if - ah - certain particular issues were strong and there were none available, which sometimes is the case and you let a few of them run off, that - ah - we might go over a call period for - with a few million and always be ready to go back into the bill market with those funds.
- H.M.Jr: Ah-ha.
- E: The idea being that we wouldn't in any way change policy; no reversal of policy but merely a question of - of - of a - of a shifting maybe of a few million dollars back and forth.....
- H.M.Jr: Yes.

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E:so that they would get away from the idea of a fixed amount now that we have changed from the 430 million, you see?

H.M.Jr: Well I still believe what I said for three years - the thing should move up and down as the market requires it.

E: Of course, I'm rather of the opinion that - ah - as you go into June - into the financing and the tax period there's - there's huge shifts, of course, of funds.

H.M.Jr: Well now Marriner if you want your group - if they want to meet with me Wednesday - do you want to set a time now?

E: Yes I - ah - well what would - what would.....

H.M.Jr: Well we usually meet Wednesday at 11.

E: All right, that will be fine. Will that suit you?

H.M.Jr: Yes.

E: All right, I'll put down a meeting of the Executive Committee for Wednesday at 11 and I think at least it would be well inasmuch as we haven't - the Committee hasn't had a special^{show} for several weeks.

H.M.Jr: Well we meet at 11 here and then you come over tomorrow at 3:15.

E: That's right.

H.M.Jr: Atta boy.

E: All right.

H.M.Jr: Thank you.

E: Goodbye.

May 10, 1937.
11:58 a.m.

H.M.Jr: Hello

O: Your speaking engagement with Mr. Helvering is on Wednesday at 2 o'clock.

H.M.Jr: Well I'll fix that up. I'm not going to have any engagement. I'll talk to them in the morning; I won't talk to them in the afternoon.

O: Oh.

H.M.Jr: Tell Mr. Magill's Secretary that he should talk to me about that.

O: All right, I will.

H.M.Jr: That Magill should talk to me. I won't go over there Wednesday.

O: I see. All right.

May 10, 1937.
12:03 p.m.

H.M.Jr: Hello

O: Mr. Irey. Go ahead.

H.M.Jr: Hello

Irey: Hello Mr. Morgenthau.

H.M.Jr: Hello Elmer.

I: How are you this morning?

H.M.Jr: Fine.

I: Good.

H.M.Jr: Elmer - on that - ah - that Cleveland situation - anything new?

I: No nothing since that report that I told you of.

H.M.Jr: Yes but you were going to see whether that woman reported that \$5,000.

I: Ah - ah - the trouble was this. I tried to - I was over in New York Monday and Tuesday and when I got back Chris Macket had to go up to Boston because of the serious illness of his son. He has pneumonia.

H.M.Jr: Oh.

I: And I expected him back to-day and I get a letter from him saying he'll be in tomorrow so I haven't even had a chance to talk to him about it.

H.M.Jr: Well will you hit it hard tomorrow.

I: All right, I've got to go to Chicago this afternoon on that - there's an emergency come up - I was just talking to McReynolds about it - on that Yellowley matter and I think it's necessary for me to be out there tomorrow.

H.M.Jr: Who you?

I: Yes.

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H.M.Jr: But not Chris Mack.

I: No, myself.

H.M.Jr: Well tell Mack to write this thing up and as soon as he's ready let Mrs. Klotz know and.....

I: I'll do that.

H.M.Jr: See?

I: I'll get ahold of Chris Mack by 'phone to-day and see that you get something tomorrow from him on that.

H.M.Jr: Yes, because - ah - ah - I mean I don't want the Senator to call up and say, "I want to come down and see you", and then I not be ready.

I: No, I fully expected to be ready but this emergency coming up kept me from it.

H.M.Jr: Tell me - this woman's father supposedly bought a house for her?

I: Well they bought a house in 1935 and - that is Mr. and Mrs. - ah - Mr. and Mrs and they made a payment on it which is - the ^{shows he} advanced. It was about \$2200. And then he claims he's - he's advanced other monies to them but there were no other payments made on the house.

H.M.Jr: Yes.

I: Now he - he claimed that he had advanced her a total of \$4900. and that this stock was in return for that - those advances he had made.

H.M.Jr: Yes.

I: Now the stock was worth \$90. That's what it cost him in the first place so if she discharged indebtedness of \$4900. with \$90. worth of stock the difference between the two is profit to her.....

H.M.Jr: I see.

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I:and that was the thought that I had in saying that we probably had an income tax angle for 1936 there.

H.M.Jr: Has she made her return?

I: Yes she 's made a return except Mack has possession of that.....

H.M.Jr: Oh.

I:and I hoped before this - and, of course, she doesn't show any such profit as that. Now my theory may not be right. It may be that this man has said something to Mack that I don't know about which - which hurts that theory and that 's what I hoped to know before I talk with you.

H.M.Jr: Now one thing between us, I'd like you to think about and I'm not mentioning it to anybody else but you.....

I: Yes.

H.M.Jr:because they're your people.

I: Yes.

H.M.Jr: I have never been sold 100% on MacQuillan.

I: Yes.

H.M.Jr: Not that I have any doubts of his integrity.....

I: Yes.

H.M.Jr:but as to his aggressiveness.

I: Yes.

H.M.Jr: See?

I: Uh-huh.

H.M.Jr: I've never felt that with all that's going on in New York that he's the kind of fellow that goes out on his own and digs up stuff.

I: Yes.

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H.M.Jr: Is that a fair statement?

I: I - I don't think it is and I'd like to talk with you about it sometime.

H.M.Jr: I wish you would because I - I'm under that impression.

I: Yes, well I believe that I can disabuse your mind of that because I've kept so closely in touch with that situation I think I know the situation.

H.M.Jr: Well I just felt that - that - that he isn't a go-getter and that there is so much pay dirt that he doesn't produce.

I: Yes.

H.M.Jr: Now if I'm wrong I'd like to be told.

I: Well if you don't mind waiting until we can get together I'd like awfully well to talk to you about it.

H.M.Jr: Irey, I'm not mentioning it to anybody but you.

I: Well I appreciate that.

H.M.Jr: He's your man and I'll give you a chance first.

I: All right, fine.

H.M.Jr: And - ah - that's that.

I: Ah-ha.

H.M.Jr: O.K.

IE All right, thank you. Goodbye.

May 10, 1937.
2:20 p.m.

H.M.Jr: Hello

O: Mr. Helvering.

H.M.Jr: Hello

Helvering: Hello.

H.M.Jr: Guy.

H: Yes.

H.M.Jr: I haven't quite got this straight. When am I supposed to speak before your men?

H: Ah - Wednesday at 2 o'clock.

H.M.Jr: Oh could you make it Wednesday morning? Will they be here ?

H: No they - they won't be in Wednesday morning. That is, they're coming in Wednesday morning.

H.M.Jr: Oh, well will they be here Thursday?

H: Yes, they'll be here Thursday.

H.M.Jr: Will they be meeting together or not?

H: Well no, we've got them assigned for various committees on.....

H.M.Jr: Oh, I can't do it Wednesday afternoon. See we had it down here for - ah - ah - well anyway I - I can't - I promised to do something with Mrs. Morgenthau. She wants me to go out and look at a school for Joan.

H: Yes.

H.M.Jr: And I promised her Wednesday afternoon.

H: I see.

H.M.Jr: And they've made all the arrangements. It's out of town - to go and look at this school, you see?

H: I see.

- 2 -

H.M.Jr: She's been after me for a month to do it and I promised to do it Wednesday.

H: Well I wonder if we could - if - ah.....

H.M.Jr: I can do it Thursday - anytime Thursday.

H: Ah-ha. Well supposing we arrange to call them all together then Thursday.

H.M.Jr: Well would that upset your plan?

H: Well it isn't quite according to the program but then we.....

H.M.Jr: Well did you want to have them together the first thing - ah - ah - I - the only thing I've got on Thursday is a Press Conference at 10:30.

H: Ah-ha.

H.M.Jr: Now I could come at 10 or I could come at 11.

H: I see.

H.M.Jr: Or I mean I can come at anytime - ah - the Press is for 10:30 to 10:45. Now I can come before that or after that.

H: Yes, well let me.....

H.M.Jr: And - and don't be polite if.....

H: Well the only.....

H.M.Jr:- if - I mean - if you'd rather go ahead with your program Wednesday afternoon I mean I won't feel the least bit slighted, see?

H: Well we'd pretty near have to do that, Mr. Secretary.

H.M.Jr: Wednesday afternoon.

H: Yes.

H.M.Jr: Well why don't you go ahead without me then, you'll have Magill.

- 3 -

H: Yes, but I had you down for an Address of Welcome.

H.M.Jr: Nope.

H: (Laughs)

H.M.Jr: You wouldn't - you couldn't get them together for a few minutes Thursday morning?

H: Why yes, I think we can arrange that all right.

H.M.Jr: Well I mean if you could get them together I could go - do they meet as early as 9? No.

H: Well we've got a.....

H.M.Jr: Banquet?

H: Got a Committee.....

H.M.Jr: Think it over and give me a ring, will you?

H: Yes, I'll - I'll try to arrange that someday.

H.M.Jr: All right.

H: Goodbye.

H.M.Jr: Thank you.

MEETING RE IGOE CHARGES

May 10, 1937
2:50 P.M.

Present: Mr. Oliphant
Mr. Gaston
Mr. McReynolds
Mr. Ireby

Oliphant: Keenan called me...

H.M.Jr: Yes

Oliphant: ...Thursday afternoon, saying that...

H.M.Jr: Excuse me, did you invite the people to come who are coming?

Oliphant: No, they were invited....

H.M.Jr: Who else were they? Gaston...

Oliphant: Gaston...

H.M.Jr: ...and McReynolds. (On phone) Tell Mr. Gaston and Mr. McReynolds we have started. Thanks.

Go ahead now.

Oliphant:saying that he was very much disturbed by another letter he had just had from Igoe, and that he'd just been talking to Igoe on the telephone, stating that - in substance, that somebody in the Treasury had violated the criminal statute by giving out to the newspapers what some fellow paid on his taxes - disclosed it - and secondly - disclosing what some fellow had paid, a gambler; and second, that obviously these three letters which Igoe had sent down, containing his charges, in confidence to the Treasury, had been turned over to subordinates out in Chicago and subordinates out in Chicago had disclosed the contents of them to newspapermen; and he enclosed the article in the Evening American which he claimed represented a disclosure of that confidence and that information. He said he talked to Igoe and that....

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

Oliphant: He'd talked to Igoe on the telephone as soon as he got there and that was Igoe's view of the matter, and

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that's what he said in the letter in substance.

I told Keenan I had difficulty believing that anybody in connection with the Treasury had given out anything to any newspapermen, but that I'd look into it. And he asked me in particular that this letter, which he would send over to me, be treated highly confidential and I told him that it would be so treated and I would discuss it only with the immediate heads of the Department.

Now, the question is the appropriate reply to make. I've got here, as I see it - I might say this: I think that the best way to handle this - we're dealing with a very dangerous man, who's already put one run over on us in the Yellowley contempt thing.

H.M.Jr: Has he?

Oliphant: Yes, he has.

H.M.Jr: Huh?

Oliphant: He has, and he told Forrest....

H.M.Jr: Who's Forrest?

Oliphant: My attorney whom I sent out to investigate the legal aspects of it. ...that this didn't - this contempt thing didn't extend merely to Yellowley and Baker, but it included an Assistant Secretary of the Treasury who was in town and knew about the meeting before it was held and who would have been there if they could have gotten him on the telephone. And now I suspect he's got another smart one in this, because he does make the serious charge that somebody in the Treasury has violated the section of the criminal code about giving out peoples' tax returns.

That being so, it seems to me that the best answer to make is the formal one, the formal official one, so that if, for example, Igoe would become Senator and the whole thing is dragged out, the official records are perfectly straight.

(Gaston, McR. and Irej are in)

H.M.Jr: Well now, what are the facts? I mean could anybody

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in Chicago have gotten hold of it to give it to the American?

Oliphant: Well, the American story does contain a statement as to the amount one Johnson paid in a particular year. Now, we don't know what that year was. It may have been a year when that information was available. And we don't know where the information was obtained; it may have been obtained from the taxpayer's own books, it might have been obtained from state or local officials who have access to those green sheets, or it may have been given out by a Treasury man.

What the fact is doesn't concern me so much as this letter from Igoe which contains the charge. It reads....

H.M.Jr: May I see it?

Oliphant: First paragraph.

(Secretary reads photostat copy of letter)

H.M.Jr: Well, I still - I mean I still have to - it don't spark unless it is a fact that this information which you fellows had did get to Chicago. Does anybody know....

Oliphant: Does anybody what?

H.M.Jr: Does anybody know whether the information which Igoe gave you fellows got to Chicago?

Oliphant: I don't know.

H.M.Jr: What?

Oliphant: I don't know.

Irey: What information is that?

Oliphant: The information in the three letters he sent.

Irey: That Igoe sent here?

Oliphant: Yes.

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Irey: Well, portions of it got to Chicago, because we asked them for explanations of the different things. So far as the Intelligence Unit is concerned, that got to Madden, because I called Madden and asked for an explanation, and told him what those paragraphs were.

H.M.Jr: Well, there is some particular article which they are referring to....

Oliphant: ..which I've just sent for.

H.M.Jr: ...which they say the writer could only have gotten it from Madden or - ah - who was the other fellow?

Oliphant: Campbell.

H.M.Jr: ...Campbell, because Campbell and Madden are friends of this particular writer, whoever he is.

Gaston: Charley Blake.

H.M.Jr: Who?

Gaston: Charley Blake.

(Oliphant obtains newspaper article)

Gaston: There is only one paragraph in this story that might be taken to indicate that the man who wrote it knew about the letters that Igoe wrote, and that is on the second page, the paragraph marked in ink; it simply says Igoe did write a letter to the Justice Department complaining about Treasury officials. Well, as a matter of fact, that fact was printed in Chicago newspapers at the time, a couple weeks - several weeks ago, at the time Igoe was down here.

McR: So really there is nothing at all to tie it up to a knowledge of what was in that file.

Gaston: No.

H.M.Jr: No.

McR: Nothing at all.

Gaston: Nothing at all in this story to indicate knowledge of what was in that file of letters from Igoe.

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McR:that wasn't, as a matter of record, public information.

H.M.Jr: Who's Louie Skidmore?

Gaston: Well, there is the real meat in the cocoanut; that's what Igoe's excited about. Ireys men have got a case against Skidmore and his associates and they are close political friends of the Mayor...

Irey: Runs right in there.

Gaston:and of Igoe; and they are delaying prosecution of the case because of the fear - because of the belief that they can't get any effective prosecution under Igoe. Isn't that right?

Irey: I don't know whether they have completed investigation to the point where it can be prosecuted anyhow.

Gaston: But they are very much afraid of what will happen when it gets over to Igoe.

Irey: Yes.

Gaston: And that is what has excited Igoe with reference to Skidmore.

H.M.Jr: Well now, Mr. Oliphant has a letter for me to sign?

Oliphant: We had a draft of a paragraph answering the first charge.

H.M.Jr: Yes.

Oliphant: "It is not necessarily apparent that the information concerning taxes paid by Mr. Johnson was secured from some agent of the Treasury Department, since in some years copies of tax returns have been available to local and state officials, and it is also possible that the information could have been secured from records of the taxpayer himself. However, the Treasury should of course and will proceed to ascertain whether unauthorized disclosure of information has been made by Treasury officials or employees, and appropriate action will be taken if this should be found to be true."

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H.M.Jr: Well, that's all right, isn't it? Is it written, ready for me to sign?

Oliphant: No, it isn't.

McR: That isn't... All Oliphant has is a copy of a letter written by Igoe to an Assistant Attorney General, which has been given to Oliphant in confidence by this Assistant Attorney General, and there is no - no formal submission has been made to the Treasury at all on it. I don't think any formal answer should be made to Justice under those circumstances. I would suggest - suggested to Herman this morning that if he wanted to give an informal statement directly to Keenan under the same circumstances that Keenan gave him a copy of the letter, I saw no particular objection to that being done; but I didn't think we ought to recognize that kind of stuff by a formal reply anyhow.

The thing that burns me up is to see a fellow who... Our boys have nothing to hide on this; they're not trying to protect anybody and they're trying to do their duty, and all they're getting out of it is persecution from the Justice representative. And the Justice people are obviously interested in things that are not - actions that are not proper; and why we should consider ourselves on the defensive constantly by the machinations of Igoe, I don't know.

H.M.Jr: Well, we haven't been on the defensive. We've sent a lot of stuff over - clippings and stuff which we thought he released.

Oliphant: What I am trying to keep my eye on, Mr. Secretary, is the record. I agree with - I feel about Igoe just the way Mac does, but I say this letter, unexplained five years, three years from now, is.....

H.M.Jr: Well, three months from now. And I also - I differ a little bit from Mac, and no Assistant United States Attorney General can come over informally or formally and give Mr. Oliphant something of this kind, and it must - we should take formal recognition of it; that's the whole thing. Now....

Oliphant: That's it. As I said at lunch, my worry is that I am responsible and....

H.M.Jr: Make formal recognition of it and then run this story

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down, just the way we say. And I think we should take - I mean I think this fellow is a very smart fellow and I think up to now he's been a little smarter than we have.

Oliphant: I'm sure of it, and my hunch is - just a guess on it - my hunch is that he will take that before the grand jury, he'll have a grand jury investigation of that disclosure.

Irey: Well, I don't agree with you on that. Now, the....

H.M.Jr: I've got a three o'clock press conference, so just finish - you (Oliphant).

Oliphant: Well now, the second half of that letter - what's your thought about that - as to whether or not this information, those confidential letters were disclosed.

H.M.Jr: Well, we've got - you say we're going to investigate it; I'd have the thing investigated. I'd ask - he makes the statement that two people communicated this information; I think the thing to do is get a statement from these people that they didn't.

Oliphant: Cover it in the same way as we do the other part.

H.M.Jr: Yes. That they didn't communicate this report.

Oliphant: Fine.

Irey: I started to say that the real meat in the coconut of this thing - I believe Igoe himself has given out information. Now, he and this fellow Charley Blake, who writes this story, have been very close friends for years and associated almost constantly up to the time the American changed hands, and then they turned on him and used the information which he gave them.

H.M.Jr: All I can say - I think Mr. Oliphant's position - we should take formal recognition of this letter, answer it formally, and ask these two men about this, make them give a sworn statement whether they did or didn't communicate any of this stuff, see?

Irey: Well, I'm going to Chicago tonight; I'll make the investigation tomorrow if you want that done.

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Oliphant: Well, I think - I suppose - better handle it personally.

H.M.Jr: I think so.

Let me ask you a question; what are you (Irey) going to Chicago for?

Irey: I'm going to meet Harold Graves and discuss the question of the answer I was talking to you (Oliphant) about on the Yellowley case.

Oliphant: Well, let's be sure we're all thinking alike. Forrest, you remember - I sent Forrest out there, an attorney, with Harold to look into the thing, and he is now in my office working on the affidavit - the answer and the affidavit. Now - some difficulty about operating the two inner circles on that thing here and there.

H.M.Jr: Well, that isn't....

Irey: I'm not going to do anything independently, of course, but I did want to have a conference with Harold Graves on it.

H.M.Jr: Well, I suggest that McReynolds and Irey and Oliphant go back to Oliphant's office and see where we're at. I don't know anything about your going out to Chicago. I've told Oliphant that he's assumed this responsibility; it's a thankless task.

Oliphant: Yes, disgusting.

H.M.Jr: And I don't think that anybody should be shooting out to Chicago without conferring with him. The reason he's taking it is because it's a matter between the Treasury and the Department of Justice.

Oliphant: Well, the Court - the District Court.

H.M.Jr: So I think you two fellows better go back and sit down with Oliphant and find out why you're going out there.

Irey: All right.

Oliphant: Good.

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H.M.Jr: I mean I agree entirely with Oliphant.

Oliphant: Just to be sure we're all clicking together.

Irey: I certainly don't want to "mess" in on the thing.

H.M.Jr: And I think that - well, I don't know what Harold is doing out there either.

Irey: Well, he's stopping over there tomorrow morning on his way back from the Coast.

H.M.Jr: You two men better go down and sit with Oliphant and be sure that everybody is doing the same thing. I mean Oliphant is - it's his responsibility.

Oliphant: Well, I've been handling it.

H.M.Jr: You've accepted it.

Oliphant: Yes, I've been handling it.

H.M.Jr: Well, you better go back there. We may run into a jam, as I say. It's the kind of thing - no question that we're right, but right now it would be awful hard to explain it.

MEETING RE GOLD, FINANCING

May 10, 1937
3:30 P.M.

Present: Mr. Bell
Mr. Lochhead
Mr. Haas
Mr. White
Mr. Gaston
Dr. Viner

H.M.Jr: Now, George, the question of my going up on the Hill to talk on gold and silver. What have you fellows prepared for me?

Haas: Well, here's what we did. We sat down and discussed for nearly two hours that day you called about it - Wayne Taylor and Harry and myself. We thought probably the best procedure would be somewhat like this: we asked ourselves a good many questions which we thought would be asked you and then attempted to answer them. And as we threw the questions into the hopper, Harry was writing them down, and we've got some of them; we stated the question and worked out answers for some of them, but haven't all of them. And we had the thought that we might seminar that way and ask this question and work out an answer; Harry can have a stated answer; hasn't got a stated answer to all of them yet. We asked so many questions, we covered - we felt that once you got up there they might cover the whole monetary field and also questions on silver - I mean not only gold, but silver.

Now, Harry has got some of them, so we could start and go for an extended period with what he has already worked out; but we haven't completed the job.

H.M.Jr: Well, let me - I'm just trying to orient myself without trying to rush myself too much today. Let me just put it this way. I didn't think much about it, but I thought a little about it. It's perfectly surprising how rusty a fellow gets. Now, for instance, questions about total number of ounces of gold mined each year in the world, our proportion; same for silver; questions of how much are gold and silver stocks increasing, how much we have been drawing on

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other central banks and how much is newly mined, whether other central banks are increasing. Have you got all that stuff?

White: We anticipated all that stuff.

H.M.Jr: I mean I'm absolutely rusty.

Viner: You ought to have a little book with side tabs showing statistics - an index.

White: We'll fix it up.

H.M.Jr: I mean that kind of stuff, if you sent to me - I mean just those questions; I mean I'd....

Viner: Nobody could be expected to handle those.

H.M.Jr: But I'd like to go up there and have them.

White: You'll have all pertinent data and it will be in most convenient form.

H.M.Jr: Well, perfectly frank with you, I'm just rusty on it.

White: We all are when we get away from it.

H.M.Jr: What?

White: I say we all are when we get away from it.

H.M.Jr: Now - I mean I'll talk at it and say I'd like to have you show Dr. Viner while he's here what you've got, see? And then, what I'd like to do is, when you fellows are ready - we can't do it tomorrow night, maybe Wednesday; let me see how we're fixed Wednesday.

Haas: Could you take it in more than one dose? This is quite a lot.

H.M.Jr: Oh yes. I haven't any invitation yet.

Haas: This would be very good even if you never get an invitation.

H.M.Jr: Here's the trouble; this is the way the thing piles up. Eleven o'clock is the Open Market Committee meeting - Executive.

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Viner: Wednesday?

H.M.Jr: Wednesday at eleven o'clock. Now, what they want to talk about is - seem to be worried a little bit about the nine months bills. Well, you're going to have your financing figures, aren't you (Bell)?

Bell: Yes, sir.

H.M.Jr: You haven't got them now, have you?

Bell: Yes, sir, I've got them just about ready.

H.M.Jr: I mean could you, while this group is here - could you get them?

Bell: Yes, sir.

H.M.Jr: All right. Want to use my phone to....

Bell: I'll get them.

Haas: I could have a memorandum to you on that too.

H.M.Jr: I mean all I'm trying to do - I'm still in a philosophical frame of mind - I'm trying to orient myself. But I have no invitation to go on the Hill yet, and so - and they waited two weeks for Eccles, I'm sure they'll wait a week for me if I ask them to. And now, in that thing, for instance, does gold - does that also take in the question of the movement of capital?

White: We'll cover gold, silver, capital movements, monetary policy; we'll cover it from A to Z and in the kind of form that will be most convenient and most acceptable; don't have to worry about that. Just give us some time. The more you can postpone it, the better.

H.M.Jr: I can't give you time today. I would like to do it while Viner is here. Now, tomorrow afternoon I've got the Chinese coming in at three and Eccles at 3:15, so it's... Let's put it when you are ready let me know. I'm not going to rush you too much.

White: Well, the longer time you can give us, the better.

Haas: He (Viner) could work with us, you see, even though....

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- H.M.Jr: But I think - now let me give you this thought; I mean I'm thinking out loud. Out of this might come a public address, because... Now, Archie was up in New York and I have talked to a few people recently. Certainly the thinking in this country on this whole question is....
- Ball: Confused.
- Gaston: I had a talk with....
- H.M.Jr: Well, I mean they just don't know what it's all about, and I think we can be blamed for it partly because we haven't talked it.
- Gaston: Strout of the Christian Science Monitor said that - I had a talk with him - he said, "Why doesn't the Treasury - why doesn't the Secretary say something? Why doesn't the Treasury get out some sort of a statement that would clear up the confusion that there is about this whole situation?"
- H.M.Jr: Well, I'm just thinking out loud here and I just... You know how seldom I ever speak. I haven't spoken - well, since that October in New York. And I just wonder if this comes out whether possibly out of this thing might not come what our policy is.
- White: We have partly - mostly prepared a statement of that kind, but we were holding it up in any case because I think it is - I think it is extremely important, or rather, very desirable that you go before this Committee; hope they do ask you; be a great opportunity.
- H.M.Jr: Of course, you don't want to forget for a minute - they say it's an executive session, but you can't go up on the Hill and keep anything in an executive session. I mean I'd rather have it an open session almost rather than have the executive session, because if you're going to talk on this subject - you give it to a few people and then it becomes a whispering campaign.
- I want to say this. I've been away for over a week and I never felt more comfortable on this whole gold business; I'm not worried about the gold business at all. I mean for the balance of this year - I mean it doesn't - the thing - I'm not worried about it. And

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no one's given me a good reason to get worried about it.

Gaston: We could ask the Committee to make public the transcript.

H.M.Jr: I say I'm not worried, and I'm not, about the gold situation or about going on the Hill, but I just want to refresh my memory.

White: There are so many topics covered here that we've got to play for time.

H.M.Jr: All right. And I'm not pressing the idea that - to make a public address either, but I just throw out the suggestion.

Haas: Yes, you'd know more about it after....

H.M.Jr: But I would like to use Dr. Viner's services on this thing.

Haas: We'd like to have him to ask a few of these questions to.

H.M.Jr: Well, I don't think there is any - I'd like - just like to go around the various.... Dan, let's see what you've got on financing.

Bell: Well, this picture contemplates the issuance - continuance and issuance of Treasury bills up to and including June 2 which make a total of 350 million dollars maturing around September.

H.M.Jr: Just a second - June 2 is a Wednesday.

Bell: That's right.

H.M.Jr: You're thinking in terms of financing Monday the seventh.

Bell: Yes, thinking of financing in terms of Monday the seventh.

H.M.Jr: Monday's the seventh.

Bell: That's right.

H.M.Jr: And if you go through June 2 it gives us....

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Bell: ...350 million dollars maturing in the neighborhood of June 15 - I mean September 15.

H.M.Jr: Yes.

Bell: And it contemplates 150 million dollars of gold in May, of which you get about 90 up to the 15th, and I understand from Harry and Archie that there are no commitments beyond the 15th; looks as though we might drop off some then, so we might expect a little balance on that 150. That would give us a balance at the end of May of 271 million, and on the second you have 50 million coming in, which will offset your expenditures the first six or seven days of the month. You may lose another 50 million in that first seven or eight days, so that your balance might go down as low as 250 down to 225. But then your income taxes begin to come in about the eighth or ninth heavy enough to meet your expenditures, and of course we'll have financing on the 15th.

I contemplate that you ought to have about 750 million dollars financing and if you have that much that will give you a balance of 831 million going out of June, with a hundred million dollars for gold.

Viner: Does that take care of sinking fund?

Bell: No, sir.

Viner: How you going to take care of that?

Bell: We won't take care of it.

Viner: Aren't you obliged to by statute?

Bell: No, sir; it is cumulative and in the discretion of the Secretary, so it can be spent next year or the following year just as well.

Viner: Have you ever held it over that way?

Bell: Oh yes, we've got about 740 million dollars cumulative on the books that we haven't used in prior years; we'll have over a billion at the end of this June.

Going into July with 831 million - now, I contemplate

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that you ought to start at the end of July with Treasury bills for December, and that would permit you to go into August with 706 million.

H.M.Jr: That's one issue of Treasury bills in July?

Bell: Of 50 million.

H.M.Jr: Just one issue?

Bell: One issue, yes, sir. That's the end of the month, and going into August with 706 million dollars in your balance, you'd have 200 million dollars of additional Treasury bills in August for December, and that's all. I contemplate for December just 250 million dollars. So that you'd go into September with a little increase in balance - 741 million.

H.M.Jr: How much you going to throw into December 15?

Bell: 250 million.

H.M.Jr: 250 million maturing in December.

Bell: When you'd have financing in September of about 500 million dollars.

H.M.Jr: A maturity?

Bell: You'll have a maturity of 817 million which you would roll over, except possibly 25 or 30 million dollars of it, and you'd have 350 million dollars of Treasury bills maturing, so your five hundred million would really take up 380 million dollars of maturing debt in cash. But you're only asking for about 120 million dollars of new money.

When you get to the end of October, you ought to begin to borrow for March in order to offset the heavy income taxes. I figure that you ought to have about 300 million dollars maturing in March, but in December your balances would be such, with your bill financing, that you'd only need to borrow 250 million dollars, and you would have 250 million dollars maturing in Treasury bills. That would just about offset it.

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Now, I might say that that contemplates 150 million dollars in gold in May, 100 million in June, 75 million in July, and 60 million dollars a month for the rest of the time. It's just impossible to estimate it.

Viner: Oh yes, can't estimate it at all.

Bell: I just can't arrive at any estimates.

H.M.Jr: Well, Dan, the only place in that.... I've had my first bond house man in. C. F. Childs was in, and he says it's going to be a cinch, this next financing, and he says there's just oodles of money around. Well, that's the first man I've talked to; I didn't do any talking. But my own feeling was that in June, if there was oodles of money around, I was going to push it pretty hard and take all the traffic could bear this time, because what I'd like to do - let you fellows be thinking about it - is to stop the nine months' altogether for a while.

Bell: Well, I'd think about that too, stopping the nine months'.

H.M.Jr: You'd think about it?

Bell: Yes.

H.M.Jr: Well, I'm just throwing it out - the idea of being in good times - when good financing times come, which is about three times out of four, I'd let my bills run off so that we'd have that reserve borrowing power in case somebody else does - throws a monkey wrench into the machine. I mean I'm just throwing that out. We're - that's a better picture than I thought it would be.

Bell: I don't think it's bad.

H.M.Jr: I've had my nerve with me, though, about these balances running down.

Bell: That's right, but don't get excited when they go down around 250.

H.M.Jr: Oh no, but I've taken a big chance and I've done it for just one reason, to help out the Federal Reserve; I don't think they appreciate it, but.....

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Bell: I think it has helped out too, because when we started in this picture of tight money around the latter part of March, we had 300 million dollars in balances, and we have put about 225 million dollars of those balances in the market.

H.M.Jr: That increases their...

Bell: ...reserves.

H.M.Jr: Their reserves. That's what what's-his-name wanted to know.

Viner: How did you put them in the market? What do you mean?

Bell: By spending - Treasury spending.

Viner: But I....

Bell: We drew them out of the market in the payment of income taxes and Treasury financing. Now we let them all go back in and we're operating on a much lower balance than we did before. We're operating on a 75 to a hundred million dollar balance.

Viner: In Federal Reserve banks?

Bell: Yes, sir. ...whereas before it was up to 200 or 300 million.

H.M.Jr: I think it's worked out all right.

I don't understand why Harris doesn't get those damn bills.

Well, that's a much better picture than I hoped for.

(Harris comes in)

Got it, Harris?

Harris: Just this second got it.

H.M.Jr: Good or bad?

Harris: Little better.

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H.M.Jr: Now, this is New York only?

Harris: Yes, New York only.

128-day bills, .509.

H.M.Jr: And last time?

Harris: .546. And then the country, .531.

Bell: Of course, you had a week's difference there.

H.M.Jr: Now, 273....

Harris: You've got 145 million. This week, .725, last week, .751. And .738 in the country.

Bell: Very good.

H.M.Jr: Very nice. Thank you. Send me out to the house the final, will you?

Harris: All right, sir.

(Harris goes out)

H.M.Jr: No, I think... You know, Jake, one of the things I've been telling Harry White - just a hunch - I didn't make it in the form of a prophecy - was that I think it is perfectly possible to see gold move out of this country. I haven't got that far yet that I'm going to make it as a prophecy, but, as one man put it very cleverly, just as soon as "the ugly head of peace" raised its head in Europe, why, stocks began to fall in this country.

But what you (Bell) tell me there - can I have that? You (reporter) put that in my diary, will you? (Estimate of Cash Position, May - December, 1937, attached to this transcript)

Bell: I notice the last letter indicated the British started selling stocks the latter part of April.

Lochhead: The latter part of April they were selling, that's right.

Viner: They needed cash - settlement day for May 6.

White: That wouldn't make individuals sell. He's talking

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about selling individual holdings.

Viner: Oh yes it would.

Bell: I'm talking about the British picture.

Lochhead: He just means British investors were selling in this market and needed cash to bolster their position over in the London market.

Viner: They sold their own as well; they weren't selling American as against English securities.

H.M.Jr: But the important thing is, as far as you can tell - you check me - is they have kept their money here. They haven't taken it away.

Lochhead: The great bulk was left over here when they sold.

H.M.Jr: And some more has come here since.

Lochhead: Some small portions have been taken back, but on balance it was left over here.

H.M.Jr: But the other thing - I don't know whether this has come up since you've (Viner) been here - you know, we've been talking about gold with the Russians. Did you know that?

Viner: No.

H.M.Jr: Let me tell you about it. I think it is terribly interesting. Two or three weeks ago I had Oumansky at my house. We talked about gold, and you might be interested. He said it was a historic occasion. Mrs. Klotz could give it to you.

White: He said that?

H.M.Jr: Oh yes. He said what we were talking about - he said, "I don't know whether the Secretary realizes, but we were making history." He said, "I consider the message I brought a historic message."

Now, what he brought back was that - the result - they thought the tripartite agreement was a good thing and they were in sympathy with it, and furthermore that.... See, what I told him was they

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had just as much interest in keeping gold valuable to the world as we did. Now they admit that, and they stopped sending their gold here, and they have applied to the Federal Reserve in New York at my suggestion...

- Viner: Well, why have they got as much interest?
- Haas: Producing it.
- Viner: But if they can't sell it, they lose their interest.
- H.M.Jr: Wait a minute.open an account here in the Federal Reserve of New York with us, do business with us direct; sending a financial adviser here. And they have agreed, in order to open up an account, they are going to make the first statement they have ever made - the Russian State Bank - public statement.
- White: Say how much gold they are producing?
- H.M.Jr: They'll have to do it as a condition.
- Viner: Have they agreed as to any rate at which they will retain or ship gold?
- H.M.Jr: We haven't got that far yet. But I mean we have covered the whole field, and here supposedly is the second biggest producer in the world of gold - is taking the position that "Yes, we're interested and we want to cooperate with the United States."
- Viner: Well, that may be one way of getting at the problem. Perhaps next you ought to approach the South Africans.
- H.M.Jr: Well, as a matter of fact, Jake, that's the way we did the silver thing.
- Viner: Yes
- H.M.Jr: What did we do with silver? We first went to the biggest producer of silver, which was Mexico; then we went to Canada; and we worked it out that way. Now....
- White: There is a vital difference. You were the buyer

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of silver, whereas there are a lot of buyers of gold.

Viner: Well, I don't know - I don't think there are now.

H.M.Jr: Anyway, the Russians laid great stress on it, and one of the things I want to do when the President gets back is ask him whether he'd be willing to let me handle the Russian debt thing, which is not very difficult, and see if we can't get that thing straightened out. And they are taking a very interesting attitude. Their attitude that they are taking is that they are a world force for peace.

Viner: Well, temporarily I think they are.

White: Their interests lie in peace right now.

Viner: At the moment.

H.M.Jr: And the Chief of Naval Intelligence said - and he is partly responsible for my interest - I don't know whether I've ever said this before - that they consider that Russia and ourselves have the same common enemies. That's the way he put it.

Gaston: The Navy is wonderful, isn't it - the terms in which they talk.

H.M.Jr: Well, you think that thing through. What? Huh?

Viner: It's all right.

H.M.Jr: It's all - I mean this idea of sitting back here, and here you've got two ambassadors, first Bullitt and then Davies, and neither of them have made any headway and neither of them know what's going on; I think it's worth exploring.

And then this Brazilian thing that we've got on....

Viner: Will he tell you, by the way, how much gold they have?

H.M.Jr: Jake, I didn't go that far. Who's read my notes?

White: I have.

H.M.Jr: I didn't go that far.

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White: Well, I would say in the notes you asked them for information.

Viner: Because you oughtn't to operate with them blind. In other words, everywhere else you can - you have information on....

H.M.Jr: I didn't go that far.

Hass: You were just in the formative stage in that.

H.M.Jr: I had only had one conversation and one answer, which came within a week, and he said that in itself.... And we didn't know - at least, I didn't - that this fellow Oumensky for six years was the private secretary of Stalin, and then after that for six years was Under Secretary of State. I didn't know that. So that he's no slouch. What?

Viner: No.

Gaston: I didn't tell you what Gene Duffield said. He said, "If I were the Secretary of the Treasury, I would be dealing with Russia." He said, "I suppose he is, isn't he?"

(Hearty laughter)

H.M.Jr: Well now, the other thing - this is the thing which the President had in South America. His thought is - sometime, I don't know - after the - sometime during the Russian-French - one of these many wars - he went back into history, and France made a loan to Russia of money based on gold, but keeping the gold in France. Something in that and....

Bell: English did that during the war with the French.

H.M.Jr: Well, but along about a hundred years ago, this was. And what they are suggesting, if I have it right, is that we make a loan to Brazil against gold, but keeping the gold here. And - but they consider that gold part of their monetary stock, but the gold remains here.

Viner: Earmarked.

White: Better to say we're selling them gold, but the gold

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is kept here as collateral; then the gold isn't ours, but it's supposed to be theirs.

Lochhead: Exactly the same kind of transaction took place about five years ago - something that I handled; just manipulative bookkeeping.

H.M.Jr: Aranha, who is supposed to be one of the most able citizens - the Ambassador - is here now and is waiting to talk about it. What was he - Minister of Finance and Chief Justice, wasn't he?

White: I didn't know he was Chief Justice.

H.M.Jr: I think he was Chief Justice also of Brazil. So he's a very able citizen. But that's in the works. I mean it's interesting. Which all goes toward the thing of making somebody else have an interest in gold besides ourselves.

And another thing which happened - I mean that George Schuster was here and saw one of our very good friends in New York last week and had dinner with him, and he said, "I've been here and I'm going back and I'm going to tell my friends in England that they just don't know what they're doing, and England must go back on the gold standard." He said the United States has carried - this is interesting - the United States has carried the whole load for three years alone.

Viner: You haven't read your cables, I can see that.

H.M.Jr: No, I'm just telling you what he said, that... I haven't; I've read them once today.

Viner: Did you read the Boothby motion?

H.M.Jr: Let me finish. He said the United States has carried the whole load, they've been the stabilizing factor, and it's up to England now to do its part.

No, I - there's a gap in my reading of three weeks.

Viner: It fits in. I mean simply that this Boothby asked questions just like that of Baldwin and Chamberlain in the House.

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- Lochhead: Those came right out in public.
- H.M.Jr: Jake, everybody knows in the Treasury there is a gap of three weeks, when I was holding various people's hands and trying to quiet them and succeeded in doing it, that I just couldn't read. But I started afresh this morning.
- White: Well, if anything's to be done with gold, it must be started very soon. Any plans with respect to such matters must be started very soon, in my opinion.
- H.M.Jr: Why?
- White: Because I think it will become acute within a year or two, and that the kind of plans that you will be able to devise then will not be the kind of plans that could be devised now. I think that that approach that you have with Brazil is the beginning of the right approach but you need to push. I think every moment counts - not weeks or days, but....
- Viner: Well, I'd certainly say that you want to wait now to see what the new situation is after the Coronation in England, but if that seems favorable then the next thing to do is to start talking; not necessarily - I don't mean making proposals, but everybody knows that this is now a world problem and that some day, not too far off, it will have to be settled in some way.
- H.M.Jr: Yes, but I think that the start we have made with Russia, the start we have made with Brazil - I think are two entire new movements. I think they're moving. I think that's the way we've got to do this thing, and I've.....
- Viner: But in connection with Russia, I would point out that they have everything to gain and nothing to lose in the present situation; that they've got a commodity which is of no use to them at all if they are really producing it in large quantities.
- White: Oh no, I think the Secretary is right. They've got just as basic an interest as we have.
- Viner: But only for purposes of sale.

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- Haas: Then you want to keep the market, and if they destroy their own market.....
- Viner: But as long as we maintain a fixed price, we can't destroy that market.
- H.M.Jr: Another thing in this - I want to put that into the statement - is that our price rise hasn't gone forward as fast in proportion as the European, and what they need - the rest of the world needs is a price rise in this country, and the fact that they haven't got it and the fact that our prices have stayed more or less low in comparison is all a part of this picture.
- White: I'm afraid if the prices rose faster we'd get more gold.
- Viner: You mean for investment in securities?
- White: Yes. I think I can demonstrate that.
- Viner: Our trade balance, if you include services, probably....
- White: It's unfavorable, it's going the other way; the trend is the other way.
- Viner: I mean our trend is all right on trade account for international adjustment. One thing is still the flight of money here for safety.
- H.M.Jr: Well, I want to talk that to you.
- White: Yes, I'd like to go over that.
- Viner: Of course, this summer's tourist expenditures may snow itself.
- H.M.Jr: Jake, we haven't - you haven't got enough boats. You can't get the people over there. Look at all the boats they've scrapped.
- Viner: Well, I've just cancelled four tickets, so they have four more.
- H.M.Jr: I know, but seriously.....

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- White: That is another factor on the opposite side of what you have said.
- H.M.Jr: All right. O.K.
- Bell: Jake, you mentioned the Coronation. Do you expect the new King to say anything in his speech?
- Viner: No, it isn't that, but Baldwin is going out and Chamberlain probably is going to become the Premier and I'm willing to bet 13 to 1 that whoever succeeds him will be easier to talk to than Chamberlain, and....
- H.M.Jr: And Chamberlain is going to be swept in by the success of his last financing?
- Viner: Well, he may not succeed for that reason. He may. That's why you don't - you want to see the new Cabinet picture in England.
- Bell: And the Empire Conference.
- Viner: And the Empire Conference - be lots of talks. But I think this last batch of cables are as important as any I've read.
- H.M.Jr: Well, I've seen the ones that came in today. I can't bother with last week's cables.
- Viner: I mean just for general orientation. All the preliminary talking doesn't have to be done any more. They're all talking the same way and they know that something has to be done. There's a South African comment there the same way.
- H.M.Jr: But Jake, up to now, nobody's got the answer.
- Viner: I don't know....
- H.M.Jr: I haven't seen a single thing and I think I read the Times and the Tribune every day and....
- White: How do you expect to find answers in the newspapers? They get it after it's been worked out on the inside.
- H.M.Jr: I mean I haven't see any writer.... I'll put it another way; there hasn't been anybody in the Treasury who has given a suggestion which I would

-19-

accept.

White: Well, you've been away for a long time.

H.M.Jr: Last time you walked with me down here, you didn't.

White: Well, that was a long time too.

H.M.Jr: Have you a suggestion?

White: I think so.

H.M.Jr: O.K. All right.

White: But I hope you don't approach the English unless we talk about it anyway.

H.M.Jr: All right, gentlemen, I did just what I wanted to - sort of air myself.

ESTIMATE OF CASH POSITION

MAY - DECEMBER, 1937

(In millions of dollars)

	1937 May	June	July	August	September	October	November	December	Total
BALANCES AT BEGINNING OF PERIODS	406	271	831	706	741	971	846	831	406
Receipts:									
General revenue	360	810	400	450	770	400	325	750	4,285
Unemployment Trust Fund	35	35	35	35	35	35	40	40	290
U. S. Savings bonds	30	30	25	25	25	25	25	25	210
Treasury bills (special)	200 Sept.	50 Sept.	50 Dec.	200 Dec.	-	50 Mar.	200 Mar.	50 Mar.	800
Treasury bonds and notes	-	750	-	-	500	-	-	250	1,500
Total funds available	1,031	1,946	1,341	1,416	2,071	1,481	1,436	1,946	7,471
Expenditures:									
General	340	340	340	340	340	340	340	340	2,720
Emergency	210	200	190	175	160	150	150	150	1,385
Interest on Public Debt	10	160	15	20	160	70	10	165	610
Special transactions	30	-	-	65	-	-	30	-	125
Debt redemption	20	315	15	15	390	15	15	265	1,040
Gold purchases	150	100	75	60	60	50	60	60	625
Total expenditures	760	1,115	635	675	1,100	635	605	980	6,505
BALANCES AT END OF PERIODS	271	831	706	741	971	846	831	966	966
Refunding operations:									
Treasury bills:									
Regular	200	250	200	250	200	200	200	250	1,750
Special	-	300	-	-	350	-	-	250	900
Treasury notes	-	-	-	-	817	-	-	-	817
Total refunding operations	200	550	200	250	1,367	200	200	500	3,467

ACCOUNTS AND DEPOSITS
May 10, 1937

MEMORANDUM

May 10, 1937

To: Secretary Morgenthau

From: Dr. Burgess

Government bond market was firm and quiet today. Quotations tended higher in the course of the session but at the close they were slightly off from the highs in some cases. Long bonds finished unchanged to 5/32 up from last Saturday, and the rest of the Treasury bonds finished up 3/32 to 7/32. In the guaranteed group, the FFMC bonds closed about the same as last Saturday, and the HOLC bonds were unchanged to 2/32 better than last Saturday. Quotations for most of the Treasury notes tended slightly higher.

In the domestic bond market second grades declined small fractions and high grades held firm at Saturday's level. New York City Traction bonds were weak. The market was generally dull all day.

Foreigns were quiet with no price changes of consequence. No purchases for Treasury today.

May 10, 1937

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To: Secretary Morgenthau
From: Mr. Magill
Subject: Investigation of 1936 returns

Introduction

The original order was to make a quick, complete audit of the returns of individuals showing incomes of \$100,000 or more who reside in the Eastern districts (Boston, Brooklyn, New York, Newark, and Philadelphia). Although the audit of these returns disclosed various deficiencies, the character of the errors and the amounts involved did not go far toward explaining the failure of revenue receipts to meet the expectations of the Treasury statisticians. Consequently, the inquiry was immediately broadened into an examination of other likely means of tax reduction or avoidance. In particular the returns of large personal holding companies filing in the Newark district were examined and correlated with the returns of their individual stockholders. A special investigation is being made into the organization of foreign corporations by wealthy Americans in neighboring foreign territories. Further, the Internal Revenue Agents in Charge were asked to give us a comparison of the various items of income and deductions of half a dozen typical operating companies in their respective districts for 1935 and 1936. We have classified these reports into cases of corporations whose stock is closely held and those whose stock is widely distributed. An investigation was also prosecuted into the allowance for depletion claimed by large oil and mining corporations. Finally, and particularly in the lower New York district, spot checks were made of the prevalence of various recognized schemes for tax avoidance among taxpayers in the \$25,000 - \$100,000 income brackets.

- 2 -

General Conclusions

The investigation to date has not disclosed a large loss of revenue due to the employment of new devices for tax avoidance. It has disclosed that taxpayers utilized to an increasing extent the various possibilities for tax reduction which the law still permits. The examination of the returns of typical operating companies clearly indicates that every attempt has been made to decrease taxable income by intensified use of the deductions permitted by the Revenue Act. The taking of deductions for wages and compensation to officers increased in amount in the year 1936 by 10 percent; repairs increased about 15 percent; and taxes 20 percent. Many corporations, such as the American Gas & Electric Company, the Chile Copper Company, and the B. F. Goodrich Company, manufactured large deductions in connection with the redemption of their bond issues. The large increase in all these deductions suggests the likelihood that they will be found on audit to be unjustifiable in part. In order to assure the Treasury of the income tax collections to which it is entitled, the audit of the returns this year will need to be even more careful than in the past; its scope should be broader, if possible; and almost certainly more revenue will be realized as the result of the audit than ever before. In other words, it is quite likely that the estimated receipts will ultimately be realized but only after careful investigation and vigorous prosecution of our claims for deficiencies in tax.

Particular Findings1. 1935 gifts by wealthy taxpayers

The principal apparent reason for the failure of wealthy individual taxpayers to report an increase in net income proportionate to the increase in business recovery was the fact that large gifts were made by such taxpayers in 1935 to many members of their immediate families whose incomes are subject to lower rates of taxation. Our figures show that in 1934 stocks and bonds worth \$884 millions were given away, and in 1935, \$1,517 millions. The total gifts in 1935 are estimated at \$2,082 millions. Individual examples are afforded by Mr. John D. Rockefeller, Jr., who gave \$131 millions in 1934 and 1935, and paid total gift taxes for the two years of over \$35 millions; Mr. George F. Baker, who made gifts in 1935 to trusts created for his children of \$16.5 millions; and Mrs. Helena W. McCann, gifts of \$11 millions in 1935. Instead of direct gifts to beneficiaries, the device of multiple trusts for the same beneficiary is often used. This device has a dual aspect, for it reduces the taxes payable both by the donor and beneficiary. An instance of the use of the method is provided by the case of Mr. Louis Blaustein of Baltimore, who created 64 separate trusts for his wife and three children. The use of these multiple trusts resulted in income tax savings of approximately a half million dollars to the beneficiaries, wholly aside from the tax saving to the settlor.

Recommendation: - The gift tax rates are probably too low as compared to the estate tax rates. Unless it is desired to give a decided encouragement to gifts during life, the gift tax rates might reasonably be increased. In addition, legislation should be drafted to reduce tax

avoidance through the establishment of multiple trusts by one donor for the same beneficiary. This might be accomplished by requiring the consolidation for tax purposes of multiple trusts created for one beneficiary by the same settlor.

2. Foreign corporations organized by American citizens

There was a decided tendency on the part of moderately wealthy citizens to organize personal holding companies in Panama, the Bahamas, and Newfoundland during 1936. This tendency seems to be increasing since we find that 22 such corporations were organized by Americans in the Bahamas alone during the past six weeks. Under the present law it is extremely difficult to obtain information regarding the stockholders of these corporations, and it is practically impossible to learn about their business operations since we have no means of securing access to their books of account. Although the General Counsel has ruled that these corporations are subject to taxation by the United States as personal holding companies, our machinery for determining and collecting the tax is inadequate. At present these companies can buy and sell securities on the New York Stock Exchange through foreign brokers and it is extremely unlikely that the profits from these transactions will in fact be reported. One New York brokerage firm, Dyer, Hudson & Company, opened a Nassau branch in 1937, and according to our information did a large business there. We are endeavoring to obtain specific information regarding the transfers of American funds to Nassau.

An indication of the magnitude which this avenue of avoidance may assume is afforded by the case of Mr. Jules S. Bache of New York. Mr. Bache's personal return showed no taxable income for 1936; and

\$328,000 of income for 1935. We have discovered, however, that Mr. Bache, his two daughters and trusts in their favor, owned the stock of Wenonah Development Company of Canada, which had income from American dividends in the amount of \$1,606,549. No return has yet been filed for this company, although we have some private assurances that a return will be filed. It is interesting to note further that Mr. Bache deducted \$89,400 on his personal return as interest on a loan made to him by his personal holding company.

Recommendation: - The individual income tax return should compel the disclosure of stock in foreign personal holding companies owned by the particular individual. Further, the law should provide that all of the income of such companies, including capital gains, are taxable to the individual stockholder as realized by the corporation.

3. Domestic personal holding companies

The cases which we have examined show a considerable retention of earnings by personal holding companies owned by wealthy individuals. The present law in substance gives such individuals an option, either of having the corporation pay the full tax on its entire earnings, or distributing a portion subject to surtax to the individual. In the case of a closely held corporation, this option will, of course, always be exercised so as to yield the smallest amount of total taxes. Furthermore, the receipts from the income and undistributed profits tax cannot be accurately estimated in this connection since such corporations will not follow a uniform policy, either of distribution or retention. Thus, the personal holding company owned by Mr. Charles Hayden distributed none of its income; the personal holding companies owned by Mr. Alfred P. Sloan

- 6 -

distributed part of their incomes, etc. As a result of the retention of its entire earnings by Mr. Hayden's personal holding company, there was a tax saving in 1936 to the company and to Mr. Hayden amounting to \$323,958. The tax due was 44 percent less than the amount payable had all of the earnings been distributed. On the other hand, the method used by Mr. and Mrs. Sloan, that of having their personal holding companies pay to them a portion of the corporate earnings, accomplished a tax savings of \$791,054 to the Sloans. If the earnings had been entirely distributed, their tax liability would have been 50 percent greater. In addition, Mr. Sloan managed in substance to secure a deduction for the expense of operating his yacht, by transferring it to Rena Corporation, one of his personal holding companies, along with \$3 millions of securities. The rates of tax applicable to personal holding companies were reduced in 1936; and are not now sufficiently high to discourage the use of such companies as a means of avoiding the surtaxes. The personal holding companies that we have examined would have paid 81.7 percent more in taxes on their 1936 incomes if the applicable tax rates had not been previously reduced. The conclusion that the corporate tax rates are not high enough to prevent personal surtax avoidance applies also to operating companies whose stock is closely held. Thus, the Schaefer Brewing Company in Brooklyn, with two stockholders, showed an increase in net income from \$1,050,204 in 1935 to \$1,825,460 in 1936; but distributed only \$300,000 in dividends in 1936, as against \$500,000 in 1935. If the dividends had kept pace with the increased earnings, the Treasury would have collected \$933,153 additional in taxes.

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Furthermore, wealthy individuals have frequently organized a number of personal holding companies and carry on transactions within the group. Thus, Mr. Charles E. Merrill and Mr. Edwin C. Lynch of Merrill-Lynch & Company, 40 Wall Street, New York, have 23 personal holding corporations and 40 trust funds. Since there is no provision at present for the disallowance of losses on sales of securities between two personal holding companies owned by the same individual, these corporations constantly engage in transactions with each other which produce no real change in the individual stockholder's holdings but which do affect his tax liability. Mr. William Randolph Hearst was interested in 1933 in some 96 companies scattered all over the United States, some of which seem to be personal holding companies, some operating companies, and many a combination of the two. Although we understand that in recent years he has reduced the number of such companies, there are still a large number in existence. There is no provision in the law at present for compelling consolidated returns by personal holding companies owned or controlled by the same individual.

Recommendation: - The tax rates applicable to personal holding companies should clearly be increased. Personal holding companies owned and controlled by the same individual should be required to file their returns in one collection district or better still to file a consolidated return. I do not recommend at the moment the taxation of the income of an American personal holding company directly to the American stockholders, on account of possible legal questions. Finally, the credit now provided in Section 351 (relating to personal holding companies) for amounts used or set aside to retire indebtedness; and the

- 8 -

special 20 percent credit should be eliminated. Mr. Roy W. Howard has paid little or no taxes for years on a large income due to the employment of a personal holding company utilized to purchase newspaper properties, which holding company is heavily indebted for these purchases. If Howard did not have the company, he would get no such credit against net income.

4. Percentage depletion

In 1928, a provision was inserted in the Revenue Law (Section 114) to permit the owners of oil and gas wells to deduct 27 $\frac{1}{2}$ percent of their gross income in lieu of any other allowances for the recovery of the cost of the well. In later acts a similar provision was made for the coal, sulphur, and metal mines. None of the acts has contained any requirement limiting the total deductions to the cost of the property. Thus, the Homestake Mining Company deducted \$2,922,722 under this provision in 1936. The company has already completely recovered the cost of its properties. Hence, the amount of the deduction was a sheer gift from the United States to this taxpayer and the revenue that we lost thereby was \$818,517. Similar losses are occurring every year in the case of the large oil companies. Thus, the Gulf Production Company of Pittsburgh showed no taxable net income on its return for 1935, because it deducted \$4,728,741 on account of percentage depletion. On the basis of the cost of its properties the company was entitled to a deduction of \$347,712. The loss of revenue to the United States on account of the excessive deduction was \$584,955. The loss of revenue to the government

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from this provision in other important cases was as follows:

Texas Gulf Sulphur Co.	- 1936 -	\$557,487
Sun Oil Co.	1934	272,041
	1935	267,091
Stanolind Oil & Gas Co.	1934	202,244
Amerada Petroleum Corp.	1935	152,025
Shell Oil Co.	1935	512,452

Examples could be multiplied. In my opinion this provision constitutes perhaps the largest loophole in the present law. You recommended in 1934 that the provision be eliminated but nothing was done, presumably because of the very heavy pressure from the large oil and mining companies which are profiting immensely by the present allowance.

Recommendation: - The taxpayer's total allowances for depletion of mines and oil wells should be limited to the costs of the properties, as in the case of depreciation. If it is impossible to put this provision through Congress, the percentage rates now allowed should be greatly reduced.

5. Non-resident aliens

The 1936 law adopted a new plan for the taxation of non-resident aliens. The provisions for withholding an income tax on income from American sources were made effective, as they should have been years ago, and the withholding rates were fixed at 10 percent in the case of individuals. American capital gains were excluded from taxation to non-resident aliens having no United States business nor office. The total Federal tax on a citizen or resident amounts to 10 percent of the total net income at about \$25,000 (in the case of a married individual with no dependents). Consequently, the withholding rate is too low as applied to non-resident alien individuals with American incomes of more than

- 10 -

\$25,000; and is too high as applied to non-resident alien individuals with American incomes of less than \$25,000. We are going to lose considerable sums in the cases of wealthy individuals with large American investments. Thus, Mrs. Dorothy Whitney Elmirst had a net income from American sources of \$297,439. In all probability her income for 1936 was greater than this amount. The applicable tax rates if Mrs. Elmirst were an American, total more than 50 percent of her total net income; in other words, her tax would be around \$150,000. Under the withholding provisions she will pay about \$30,000. I have a number of other instances of non-resident aliens with net incomes of \$150,000 - \$300,000 whose taxes are similarly reduced by the 1936 laws. I can see no justification for tax reduction in the case of these wealthy non-resident aliens, particularly at this time.

Recommendation: - Increase the withholding rate to 25 or 35 percent; and provide further that if the alien will file a return showing his entire American income, including capital gains, the Treasury will refund any excess of the tax withheld over the tax shown to be due on the return at the rates applicable to American citizens. In this way there would be no real discrimination against foreigners as compared to Americans, and the cases, both of the wealthy and of the small non-resident alien taxpayers, would be equitably adjusted.

6. Foreign corporations

With the exception noted in paragraph 2 above as to American owned foreign personal holding companies, foreign corporations should be given a treatment similar to that set forth in the preceding paragraph. In

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addition, the law should be amended to provide that the tax is to be withheld in the case of foreign corporations even if there is an American office, but an appropriate refund will be made when the return is filed. We have found that two Bahaman insurance companies had American incomes of about \$11.5 millions, from which the tax was not withheld due to the companies' statement that they maintained American offices. No books of account could be found at the alleged office and no returns have been filed. I have taken steps to correct this situation by ruling so far as that can be done.

7. Limitation of deductions to business transactions

A number of the deductions at present in the law, such as those for interest, taxes, bad debts, and losses, are not limited to business transactions. Thus, Mrs. Nathan L. Miller, the wife of former Governor Miller, took a deduction for interest in her 1936 return of \$35,639, which she paid to her husband as trustee for their seven daughters. Obviously the income was kept in the family but Mrs. Miller reduced her own taxable income by the amount of the interest. Similarly, as indicated above, Mr. Jules S. Bache deducted \$89,400 as interest on a loan to him by his personal holding company. An individual may deduct the real estate taxes on his home, although the rental value of the home is not taxed to him as income. He may deduct as a bad debt an uncollectible loan to a friend, although a contribution to the friend would not be deductible. Likewise, if the taxpayer wrecks his yacht on a coral reef or loses his diamond ring, he is entitled to a deduction from his income from his business or profession.

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Recommendation: - All deductions other than contributions to charities, etc., should be limited to transactions entered into for profit, or business enterprises. In addition, the deduction for bad debts ought to be subjected to the same treatment which is accorded to other capital losses. For example, Mr. John D. Rockefeller, Jr., in 1936 took a bad debt deduction of \$2,222,000 in connection with an exchange of notes of the City Housing Corporation for notes of Radburn, Inc. If Mr. Rockefeller had sold the City Housing notes for a dollar, the deduction for the loss so sustained would have been subject to the limitations imposed on capital losses; i.e., only 40 percent of the loss would have been taken into account and the deduction therefor would have been allowable to the extent only of \$2,000, plus Mr. Rockefeller's capital gains for 1936. I see no reason for a difference in treatment between a loss realized on a sale of securities and a loss realized because the securities became worthless.

8. Taxation of husband and wife

We are losing every year very large amounts of money, estimated in 1933 at \$40 millions a year, due to the privilege granted to husbands and wives generally to file separate returns; and in particular to the special privilege enjoyed by residents of eight community property states in which the wife is permitted to report and pay Federal income tax on half of the husband's salary and other net income. The loss of revenue was undoubtedly accentuated in 1936 due to the increase in incomes generally. It seems practically impossible to eliminate the discrimination in favor of community property states; we tried to do so in 1934 without success. Hence, the best solution seems to be a recommendation that husbands and wives be permitted, as now, to file separate returns of their

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respective incomes, but that the tax rates applicable to these incomes shall be determined on the basis of the total incomes of the two spouses. In other words, if a husband and wife living together have total incomes of \$100,000, the tax applicable to the two should be the amount which should be paid by an individual for a similar total income; and the tax so determined should be divided pro rata between the two spouses according to their respective incomes. The community property states could not oppose this recommendation very effectively since it will be applicable to taxpayers all over the country. There are some legal difficulties but we believe that they can be solved.

9. Tax-exempt securities

Our investigation shows some increase in holdings of tax-exempt bonds by wealthy taxpayers. It is, of course, impossible to make the high surtax rates really effective so long as taxpayers can escape into tax-exempt securities. If recommendations are sent to Congress at this time, would it not be well to include a recommendation for the approval of a constitutional amendment to make future issues of Federal, state and local securities subject to income taxation.

Conclusions

I have not attempted to list all of the devices which are being employed by taxpayers for the purpose of tax reduction. The ones I have listed above are, I believe, the most important ones. You will note that our investigation has not as yet disclosed serious loopholes in the undistributed profits tax itself; the main point is that the rates applicable to personal holding companies are too low. It is

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likely, however, that the detailed study of corporation returns which will be made this summer will disclose loopholes about which we are not now informed. The great bulk of large operating companies in New York secured extensions of time for filing income tax returns. If the corporation had utilized some new method for reducing its tax liability, it would very likely secure an extension of time. I have taken steps to restrict the granting of extensions of time for filing returns in the future.

In addition to the recommendations made above, I have two general recommendations: First, I think we should set up a small unit to assemble and analyze information as to the property holdings, at least of taxpayers of incomes in excess of \$75,000; and of the larger corporations. We have a larger stake in the incomes of taxpayers, whose incomes exceed \$225,000 than they have themselves, yet we do not have available any balance sheets of such individual taxpayers. Perhaps we should require wealthy taxpayers to supply us with balance sheets, but in any event we should keep ourselves informed not only of actual property holdings, but the legal forms and devices which are being currently employed by wealthy taxpayers. Continuing analysis of carefully prepared records should result in valuable recommendations for legislation and administrative regulations. Second, the present investigation should be continued during the summer but under a different head than Mr. Reed. As the audit of the corporation returns proceeds, the Internal Revenue Agents in Charge should be requested to forward here information of any new methods of tax avoidance which are discovered, as well as any other devices which are being employed on a considerable scale for tax reduction. We can then work out appropriate legislative recommendations.

Rm

May 10, 1937

During a discussion with Magill today, HM, Jr said to him, "I think that the Treasury is in the best technical position today for only one reason and that is because we are short of the revenue. If we had not been short and we had the revenue, they would have gone ahead with all this spending legislation. The only reason we were able to get the President in this frame of mind is because we are short of the revenue, and the same goes for Congress."

May 10, 1937.

My dear Mr. McBride:

Secretary Morgenthau has read the letter which Secretary Hull addressed to Senator Lewis. He has asked me to request you to tell Mr. Hull that he has no objection to his sending the letter to the Senator.

Thank you for your courtesy in this matter.

Sincerely yours,

H. S. Klets,
Private Secretary.

Hon. H. A. McBride,
Assistant to the Secretary,
Department of State,
Washington, D. C. GMS/dbe

H.S. has copy

Marion -

I have attached
1 copy of reply. J 5/11

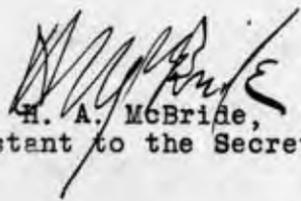
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DEPARTMENT OF STATE
THE SECRETARY

May 1, 1937.

MEMORANDUM FOR MRS. KLOTZ

The attached correspondence is self-explanatory. Secretary Hull would greatly appreciate the comment of Secretary Morgenthau on his proposed reply of April 29 to Senator Lewis. (This letter has not yet been mailed to the Senator).



H. A. McBride,
Assistant to the Secretary.

S CWG:MA

Tell Mr Hull I have
no objection to his sending
the letter Senator Lewis
MCH
May 10, 1937

191 DEPARTMENT OF STATE
OFFICE OF THE SECRETARY
WASHINGTON

PENALTY FOR PRIVATE USE TO AVOID
PAYMENT OF POSTAGE



Mrs. Henrietta S. Klotz,
Assistant to Secretary Morgenthau,
Treasury Department,
Washington, D. C.

COPY

Department of State

THE SECRETARY

May 1, 1937.

MEMORANDUM FOR MRS. KLOTZ

The attached correspondence is self-explanatory. Secretary Hull would greatly appreciate the comment of Secretary Morgenthau on his proposed reply of April 29 to Senator Lewis. (This letter has not yet been mailed to the Senator).

(Signed) H. A. McBride
Assistant to the Secretary.

S CWG:MA

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April 29, 1937.

My dear Senator Lewis:

I appreciate both the interest you manifest and the observations you make in your letter of April 23 regarding the desirability of maintaining an active policy with respect to the inter-governmental debts due this country. I also appreciate the good will and courtesy with which you offer your valuable cooperation in this connection.

It is scarcely necessary for me to attempt to review at length and in detail the history of the policy and negotiations of this Government in regard to inter-governmental debts. They are all of record, and I think are fairly fresh in the public mind, as I am sure they are in yours.

Under the various Liberty and other War Loan Acts and subsequent legislation, other departments of the Government have their major functions pertaining to the managing and handling of the debt situation. The State Department, of course, transmits notes and communications to and from foreign governments in this connection, and
and

Hon. James Hamilton Lewis,
United States Senate,
Washington.

- 2 -

as one Department and also as one member of Debt Settlement Commissions, the State Department has rendered such service as was within its power to render.

There, of course, have been unusual difficulties relating to the collection of the payments due on your debts from foreign governments; difficulties still exist. I think you can feel assured, however, that each and all departments or branches of the Government having any function and responsibility with respect to the collection of these debts will proceed in the future as they invariably have in the past, to avail themselves of every opportunity to keep alive these debts, regularly to urge payment, and, if and when at all possible, to secure payment.

I am sure the President, the Secretary of the Treasury and the State Department will be glad to confer with you and any of your associates with a view of examining this debt problem.

Sincerely yours,

(Signed) Cordell Hull

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UNITED STATES SENATE
Committee on
Expenditures in the Executive
Departments

April 23, 1937.

Honorable Cordell Hull,
Secretary of State,
Washington, D. C.

My dear Mr. Secretary:

I am in receipt of a copy of your letter sent to the Chairman of the Finance Committee respecting Resolution No. 83 introduced by me as to reciprocal trade treaty with nations who refuse to pay the debts, etc. etc.

I notice your observations, but I beg to inform you that I live in a country where ninety percent of its people are charging that our Administration has adopted a "do nothing policy" respecting these debts, and charge constantly that we play upon expressions but in no wise make demands for our rights. In the meantime, those people who are engaged in manufacture insist that our present tariff system is injuring them and point to the fact, specifically of Canada, the neighboring foreign country, and to certain other lands obtaining the benefit of the "favored nation" clause and I answer their charges and say that you are biding your time hoping that arrangements can be made of some nature that will hold both the right and our opportunity of collection and adjustment of all, as well as maintaining the trade relations with no loss to America.

I beg to say I realize that the subject matters of our correspondence cannot always be made public but I do feel that the expression lately coming from your Department "that there was no movement of any kind looking to adjustment under consideration," - and this, following the statement of Senator Robinson on the floor addressed to me - that there was movement afoot, which made it unnecessary for me to carry my Resolution to the floor at the time I sought to have it promptly voted upon.

I feel that some expression of your honorable Department recording that some matters are under consideration between yourselves and the representatives of these Governments

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indicating that in the near future an adjustment or result of conferences - if not wholly satisfactory to the people of our country, - yet will be forthcoming," - will do a great deal to answer what I assure you is a serious charge against- and a serious impediment to - our Administration; - and particularly in the great Middle West where I feel I speak for a representative section.

May I ask you, if you will not consider some form of expression addressed to me or to the Committee that can be used for the public, or will you contemplate one to be given out by yourself that will go to the country and will show your interest in the subject.

With dear regards, I am, -

Sincerely,

(Signed) James Hamilton Lewis.

C O P P O C
Y

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April 10, 1937.

In reply refer to
TA 611/0031/2723

My dear Senator Harrison:

I have before me your letter of February 23, 1937, referring to me for consideration and comment a copy of Senate Resolution 83 introduced by Senator Lewis and providing that "no reciprocal trade treaty should be made between the United States of America and any nation which, being a debtor to the United States, refuses to pay the debt or to adjust the same, or which repudiates the debt due the United States."

This resolution is similar to one introduced by Senator Lewis in the first session of the 74th Congress (S. Res. 179), directed against "trade treaties or commercial negotiations with nations in default as to payment of indebtedness to the United States." The bill was ordered laid upon the table and did not progress beyond that point.

Before

The Honorable

Pat Harrison,

United States Senate.

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Perhaps the first point that suggests itself with reference to the proposal itself is the question why our exporters of farm and factory products, and the producers of such products, should be penalized by a restriction of this nature in the scope of a program having as its expressed purpose the expansion of foreign markets for

American

American goods. This question is particularly pertinent in view of the fact that some of the countries which would come within the scope of the proposed Resolution are among our most important foreign markets for agricultural products. It is clear that the proposal would need to be supported by considerations of such merit as at least to offset this as well as other disadvantages; that, for instance, the national interest should be so benefited by the proposed legislation that adequate reply could be made to the American farmer who might be disposed to question why the effort to regain foreign markets for his export products should be curtailed, particularly with the countries that are able to offer him relatively large opportunities to regain and expand his foreign markets.

I am unable to see that the proposal would, if carried into effect, provide such benefit to the national interest. I presume that the objective of the legislation proposed by Senator Lewis is to encourage debtor nations to resume interest payments or to arrive at some settlement of their obligations to the United States. It does not appear to me, however, that the Resolution under consideration would achieve this objective. Refusal to enter into trade agreements with debtor nations pending the settlement of the question

question

- 4 -

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In this connection, it should be considered that the adoption of any permanent measure embodying a punitive policy requires the most careful and responsible consideration. The trade of the world has already suffered greatly from the effects of policies of retaliation and counter-retaliation adopted by many countries in one connection or another during the past few years, and countries of widest industrial and commercial interests, such as the United States, have been most adversely affected by the diminishing spiral of international trade which has followed these retaliatory policies. In the realization that it would be difficult to foster recovery as long as the processes of trade are subordinated to a spirit of mutual reprisal, the
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present Administration has been directing its efforts toward securing for American foreign trade greater freedom from excessive and discriminatory trade practices on the part of foreign countries. The adoption on our part at this time of legislation discriminating against certain countries would be inconsistent with the policy which we are trying to promote.

The Government of the United States in its relations with foreign governments will not fail to safeguard American interests and to support definite American rights in every appropriate way, but it has never been clearer that the cultivation of the widest cooperative relations in working for economic recovery is itself one of the greatest of American interests.

Sincerely yours,

Cordell Hull

TA:CG:CY:LDB
3/30-4/9/37

75th CONGRESS
1st Session

S. RES. 85

IN THE SENATE OF THE UNITED STATES

February 19, 1937

Mr. Lewis submitted the following resolution; which was referred to the Committee on Finance.

RESOLUTION

Whereas the present policy of the United States in international economics is for reciprocal treaties of trade between nations; and

Whereas there exists undischarged and unadjusted debts due to the United States from nations of the world in all exceeding twelve billions of dollars and, with interest and premiums, due approaching twenty-five billions of dollars; and

Whereas European nations indebted in the largest of sums refuse to pay the debt or any portion of it, refuse to pay the interest or any portion of it, and in many instances repudiate the debt and deny the obligation, in other instances refuse to submit any suggestion of adjustment, liquidation, or compromise: Therefore, be it

1. RESOLVED, That no reciprocal trade treaty should be made
2. between the United States of America and any nation which,
3. being a debtor to the United States, refuses to pay the debt
4. or to adjust the same, or which repudiates the debt due the
5. United States.

COPY

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Department of State

THE SECRETARY

May 1, 1937.

MEMORANDUM FOR MRS. KLOTZ

The attached correspondence is self-explanatory. Secretary Hull would greatly appreciate the comment of Secretary Morgenthau on his proposed reply of April 29 to Senator Lewis. (This letter has not yet been mailed to the Senator).

(Signed) H. A. McBride
Assistant to the Secretary.

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April 29, 1937.

My dear Senator Lewis:

I appreciate both the interest you manifest and the observations you make in your letter of April 23 regarding the desirability of maintaining an active policy with respect to the inter-governmental debts due this country. I also appreciate the good will and courtesy with which you offer your valuable cooperation in this connection.

It is scarcely necessary for me to attempt to review at length and in detail the history of the policy and negotiations of this Government in regard to inter-governmental debts. They are all of record, and I think are fairly fresh in the public mind, as I am sure they are in yours.

Under the various Liberty and other War Loan Acts and subsequent legislation, other departments of the Government have their major functions pertaining to the managing and handling of the debt situation. The State Department, of course, transmits notes and communications to and from foreign governments in this connection, and
and

Hon. James Hamilton Lewis,
United States Senate,
Washington.

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as one Department and also as one member of Debt Settlement Commissions, the State Department has rendered such service as was within its power to render.

There, of course, have been unusual difficulties relating to the collection of the payments due on our debts from foreign governments; difficulties still exist. I think you can feel assured, however, that each and all departments or branches of the Government having any function and responsibility with respect to the collection of these debts will proceed in the future as they invariably have in the past, to avail themselves of every opportunity to keep alive these debts, regularly to urge payment, and, if and when at all possible, to secure payment.

I am sure the President, the Secretary of the Treasury and the State Department will be glad to confer with you and any of your associates with a view of examining this debt problem.

Sincerely yours,

(Signed) Cordell Hull

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UNITED STATES SENATE
Committee on
Expenditures in the Executive
Departments

April 23, 1937.

Honorable Cordell Hull,
Secretary of State,
Washington, D. C.

My dear Mr. Secretary:

I am in receipt of a copy of your letter sent to the Chairman of the Finance Committee respecting Resolution No. 83 introduced by me as to reciprocal trade treaty with nations who refuse to pay the debts, etc. etc.

I notice your observations, but I beg to inform you that I live in a country where ninety percent of its people are charging that our Administration has adopted a "do nothing policy" respecting these debts, and charge constantly that we play upon expressions but in no wise make demands for our rights. In the meantime, those people who are engaged in manufacture insist that our present tariff system is injuring them and point to the fact, specifically of Canada, the neighboring foreign country, and to certain other lands obtaining the benefit of the "favored nation" clause and I answer their charges and say that you are biding your time hoping that arrangements can be made of some nature that will hold both the right and our opportunity of collection and adjustment of all, as well as maintaining the trade relations with no loss to America.

I beg to say I realize that the subject matters of our correspondence cannot always be made public but I do feel that the expression lately coming from your Department "that there was no movement of any kind looking to adjustment under consideration," - and this, following the statement of Senator Robinson on the floor addressed to me - that there was movement afoot, which made it unnecessary for me to carry my Resolution to the floor at the time I sought to have it promptly voted upon.

I feel that some expression of your honorable Department recording that some matters are under consideration between yourselves and the representatives of these Governments

- 2 -

indicating that in the near future an adjustment or result of conferences - if not wholly satisfactory to the people of our country, - yet will be forthcoming," - will do a great deal to answer what I assure you is a serious charge against- and a serious impediment to - our Administration; - and particularly in the great Middle West where I feel I speak for a representative section.

May I ask you, if you will not consider some form of expression addressed to me or to the Committee that can be used for the public, or will you contemplate one to be given out by yourself that will go to the country and will show your interest in the subject.

With dear regards, I am, -

Sincerely,

(Signed) James Hamilton Lewis.

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April 10, 1937.

In reply refer to
TA 611/0031/2723

My dear Senator Harrison:

I have before me your letter of February 23, 1937, referring to me for consideration and comment a copy of Senate Resolution 83 introduced by Senator Lewis and providing that "no reciprocal trade treaty should be made between the United States of America and any nation which, being a debtor to the United States, refuses to pay the debt or to adjust the same, or which repudiates the debt due the United States."

This resolution is similar to one introduced by Senator Lewis in the first session of the 74th Congress (S. Res. 179), directed against "trade treaties or commercial negotiations with nations in default as to payment of indebtedness to the United States." The bill was ordered laid upon the table and did not progress beyond that point.

Before

The Honorable

Pat Harrison,

United States Senate.

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- 5 -

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Sincerely yours,

Cordell Hull

TA:CG:CY:LDB
3/30-4/9/37

75th CONGRESS
1st Session

S. RES. 83

IN THE SENATE OF THE UNITED STATES

February 19, 1937

Mr. Lewis submitted the following resolution; which was referred to the Committee on Finance.

RESOLUTION

Whereas the present policy of the United States in international economics is for reciprocal treaties of trade between nations; and

Whereas there exists undischarged and unadjusted debts due to the United States from nations of the world in all exceeding twelve billions of dollars and, with interest and premiums, due approaching twenty-five billions of dollars; and

Whereas European nations indebted in the largest of sums refuse to pay the debt or any portion of it, refuse to pay the interest of any portion of it, and in many instances repudiate the debt and deny the obligation, in other instances refuse to submit any suggestion of adjustment, liquidation, or compromise: Therefore, be it

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2. between the United States of America and any nation which,
3. being a debtor to the United States, refuses to pay the debt
4. or to adjust the same, or which repudiates the debt due the
5. United States.

MEMORANDUM

May 11, 1937.

To: Secretary Morgenthau
From: Dr. Burgess

Treasury bond market was quiet today with an easier tone, and prices finished lower. Board market quotations for the short and intermediate bonds were generally unchanged to 1/32 better up to 2:30 o'clock, the long bonds having previously eased off 2/32 to 4/32. During the last half hour, however, some activity developed which appeared to be mostly professional, and quotations throughout the list declined. The long bonds finished 3/32 to 6/32 off from yesterday; the other issues were generally 1/32 to 4/32 down. In the guaranteed group FFMC bonds closed generally 1/32 to 2/32 better on the day and the HOLC bonds were down 3/32 to 5/32. Turnover of Treasury bonds on the Board totaled \$1,594,000. Turnover of the guaranteed bonds was \$554,000. Note market was steady but at the close the four longest maturities were down 1/32.

Domestic bonds were sluggish all day with only minor price changes. Second grade bonds were slightly off from yesterday and high grades generally held steady at yesterday's level.

Foreigns were quiet and there were no price changes of consequence.

No purchases for Treasury today.

May 11, 1937

After Mr. Kelly, from the State Department, had left the meeting in the Secretary's office when they discussed the Russian debt matter, the following conversation took place:

HM, Jr: (To Dr. Feis) Herbert, at the request of Secretary Hull I have agreed to let the Canadian thing go through because he has explained it to me that we need every vote at the Empire Conference, but I have also explained to him, very, very carefully, that maybe next week we will come out with tax legislation and that then he would have to explain to the Canadians how in one week we ratify and then the next week do something which cancels it, and I said, Are you willing to do that? and he said he is.

Dr. Feis: From an account he gave me of his talk with the Canadian Minister, he said that's all clear. He said, I pointed out to the Minister that under this thing both Governments are ready to change their tax statutes at any time. He said, Yes, he knew that.

As a matter of fact, I was going to draw up a new memorandum on the subject in which I again re-emphasize it. Certainly the Secretary knows that we retained the freedom to do that. Certainly he knows that the Treasury is considering revision of that feature of the law.

HM, Jr: I talked to him myself for ten minutes.

GROUP MEETING

May 11, 1937
9:30 A.M.

Present: Mrs Klotz
Mr. Magill
Mr. Oliphant
Mr. Gaston
Mr. Taylor
Mr. Gibbons
Dr. Viner
Mr. Lochhead
Miss Roche
Mr. Haas
Mr. Bell
Mr. McReynolds

H.M.Jr: Who's got anything this morning? Mac, what have you got?

McR: I have a chauffeur out there in my room.

(H.M.Jr unwraps a gift)

H.M.Jr: See if it's silver.

(Hearty laughter)

It's not silver. Send it back.

You got a chauffeur out there?

McR: Uh-huh.

H.M.Jr: O.K., we'll get around to it.

McR: He can stick around - he's got another job now, but he can stick around until about half past 11, if you can get to him before then. I told him to wait. Like for you to see him.

H.M.Jr: O.K.

Dan?

Bell: I have nothing. I'd like to see you about two minutes after this meeting.

H.M.Jr: Will you stay?

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Bell: Yes

H.M.Jr: George?

Haas: I've got these figures...

H.M.Jr: Go ahead.

Haas: ...on earnings.

(Haas explains figures to H.M.Jr.
at his desk)

H.M.Jr: Is that all?

Haas: That's all I have.

H.M.Jr: Miss Roche?

Roche: I think nothing special, sir.

H.M.Jr: You and Bell still talking to each other?

Roche: Discussed the weather with me this morning.

H.M.Jr: What?

Roche: He discussed the weather with me.

H.M.Jr: Looks tough to me this morning.

Roche: Don't I?

Mrs Klotz: So does she.

H.M.Jr: That's very good. Do you have to be tough to deal with Bell? I didn't know that.

Roche: No, I find other methods.

Bell: Toughness doesn't work.

H.M.Jr: All right, I'll put my money on Miss Roche.

Bell: So will I.

H.M.Jr: Archie?

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Lochhead: (Nods negatively)

H.M.Jr: As long as what you have told me is happening, I think you better be here at three also - Chinese. Taylor, Chinese Ambassador at three; it's official. Wanted to come and see me at the house, but he'll see me here.

What I am doing on appointments - what's the latest thing on.... (to Magill)?

Magill: I talked to him last night. He'd like to have you at 9:30 or 10 tomorrow morning, if possible.

H.M.Jr: 9:30 or when?

Magill: Or 10, tomorrow morning.

H.M.Jr: Well, why not say 10 o'clock?

Magill: 10 o'clock tomorrow morning?

H.M.Jr: Yes

Magill: Would you ask Mr. Kieley to call him?

Mrs Klotz: Is that Wednesday?

Magill: Wednesday, yes.

H.M.Jr: (To Kieley) Tell Mr. Helvering I'll see his group at 10 tomorrow, and where I should meet him, please.

Mrs Klotz: Thought he said they wouldn't get together until Thursday.

Magill: He found out they're here and he had planned that the Secretary speak in the afternoon - Wednesday afternoon.

H.M.Jr: Why not come down to this 196 $\frac{1}{2}$? 38.

McR: You can get them in there.

H.M.Jr: You fix it up, Mac, and have them down there. At 10.

McR: 10 o'clock, down here.

Bell: Take the Budget hearing room if you want to - a nice room downstairs.

-4-

McR: It's a little bigger, if you'd rather - not quite so crowded.

H.M.Jr: But they might feel chilled there.

Bell: Maybe do them good.

H.M.Jr: Well, Mac, you put them in an appropriate room, huh?

Bell: There's a nice room around there, and plenty of chairs.

H.M.Jr: All right. Thank you. Huh?

McR: Yes.

H.M.Jr: I mean it would save me going out of the building. What? By that time they may be sober.

And who - anybody got anything for me to say to them, or should I....

Magill: Sure, you can speak on the spur of the moment.

H.M.Jr: I just leave it to you.

Magill: I've got a.....

H.M.Jr: Give me something.

Magill: All right. Got a lot of figures. Want some figures?

H.M.Jr: No.

McR: No, I'd rather see him just talk to them.

H.M.Jr: O.K.

McR: They'll enjoy it. He'll probably tell them...

Oliphant: A good story.

McR: He'll probably tell them something that, if you put it on paper, he might hesitate to say; you never can tell.

Magill: So I don't need to write anything.

-5-

McR: No, I think he ought to just talk to them. It's only a few minutes and they're just our boys, these agents in charge. He knows what they're doing. They'll get a big kick out of it.

H.M.Jr: All right.

McR: And they're nice boys.

H.M.Jr: Anything else, Miss Roche?

Roche: No, sir. I thought that would be grand, not to read something to them. People like to have things said to them.

H.M.Jr: Archie?

Lochhead: Nothing.

H.M.Jr: Viner?

Viner: Nothing.

H.M.Jr: Well then, there is no reason.... Now we've got - I've shifted on my plans for Wednesday, and I could see Brazil tomorrow at three o'clock - Wednesday.

Taylor: I'll get hold of them through Welles, then.

H.M.Jr: Yes

Taylor: I think he may want to come the first time; I don't know.

H.M.Jr: Yes

Taylor: Three o'clock then.

H.M.Jr: Yes. Will you let Mrs. Klotz know if it's O.K. You (Viner) want to see me this morning?

Viner: No.

H.M.Jr: Well, after Bell gets through I'd like to see you.

Viner: All right.

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H.M.Jr: He says he only needs a couple minutes, so would you mind waiting?

Did you (Gibbons) read "Tom Jeff"?

Gibbons: I got it last evening. Haven't had a chance to read it. That won't make any difference whatever.

H.M.Jr: I'm warning you now. You don't know what he says.

Gibbons: I know - well, as far as personnel, as far as wiping out a lot of jobs, Mac and I have been over that; we've decided that.

H.M.Jr: Has Ballinger made a start on the Bureau here?

Gibbons: Yes.

H.M.Jr: Have you read Harper's - April issue of Harper's?

Gibbons: About Customs? No. I've read two others.

H.M.Jr: The one in April Harper's?

Gibbons: No.

H.M.Jr: (Handing Harper's to Magill) Give it to him (Gibbons) and then give it back to me. It cost 35 cents.

Gibbons: I told Jake a tip yesterday. I got a tip Saturday night that two members of the Supreme Court are going to resign, and I see it made the front page of this morning's Times.

H.M.Jr: So that's where the Times got it from.

Gibbons: That's where they got it from.

I read two of these. One of these is written by a Customs employee.

H.M.Jr: This one.

Gibbons: I've sent a memorandum to try and disclose that individual, and I think we ought to pin a medal on him, because I thought it was a very good thing. I want to find out; whoever did that did a very intelligent job.

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H.M.Jr: Well, he's not entirely right.

Incidentally, Mac, he says something about....

(Flowers arrive for H.M.Jr
from 9:30 group)

Oh, very nice; thank you very much.

Roche: Completely obliterated now; talking behind the hedge.

H.M.Jr: It saves your eyes, all of you. O.K.

No, Mac, in that article he makes a statement that we build the number of houses - houses have a number of rooms according to the size of imports and exports. Now, I personally take an interest in having a lot of houses built on a Customs frontier and that's why I'd like to know whether that's the way they build their houses or not.

McR: It is not the way.

H.M.Jr: What?

McR: It is not. Yes, I've read the articles.

H.M.Jr: Well, perfectly seriously, take it over and let Ballinger write an answer; I'll put my name to it.

McR: Not a bad idea.

H.M.Jr: Give the public a chance to know what the facts are. Yes, I may write one for Harper's and I'll sign my name. Because he's all wrong. I mean there is some truth in it, but that.... Think about it, see? What?

Gibbons: Well, where the thing first originated - the original story was a man who criticized the Customs, and just captious and cavilling about everything, and this fellow answered it.

H.M.Jr: Yes, but he... I read the thing; I don't think it's so hot. I don't think it is particularly fair. It's good to have the discussion. O.K.

Wayne?

-8-

Taylor: 3:15 this afternoon, the first meeting with Eccles?

H.M.Jr: Eccles.

Taylor: Yes. Now, Ros has got some things that we were talking about yesterday on taxation. You remember you asked us to.

H.M.Jr: Yes. Well, I'd rather not take it up in a general discussion. When you are ready, I'd rather talk with you people who are handling it. Are you going to do it in the form of a letter or...

Magill: I think you could do it on the telephone, don't you?

Taylor: (Nods yes)

Magill: Don't need to have a memorandum.

H.M.Jr: He called me to have - to hold it up.

Taylor: I think telephone is the way to....

H.M.Jr: Who will phone him?

Taylor: You talked to him before.

H.M.Jr: All right.

Taylor: To both Key Pittman and Hull.

H.M.Jr: All right, I'll call him.

Taylor: O.K.

H.M.Jr: I'll call Hull.

Do you (Oliphant) know what they're doing?

Oliphant: Holding up the ratification of the Canadian treaty.

H.M.Jr: Well, we're complying with Mr. Hull's request; we're just complying a week or ten days longer - just continuing to hold it.

Herbert?

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Gaston: Nothing.

Oliphant: I want three half-minutes right after this meeting to clear the contempt thing.

H.M.Jr: Contempt?

Oliphant: This Chicago contempt thing.

McR: Yellowley will be here at 2:45.

H.M.Jr: Well, Bell asked first. Will you let Bell have two minutes, if you don't mind?

Oliphant: Yes, sir.

H.M.Jr: Is that all?

Oliphant; That's all.

Magill: The first meeting is starting this afternoon of the Joint Committee from the General Counsel's office and from the Board of Tax Appeals to revise and improve the rules of the Board of Tax Appeals. I think it would be worth while to give out some kind of a story on it, but I expect it would be advisable to give it out through Chairman Black. I don't think Chairman Black yet knows what it's all about, although I've talked to him three or four times about it, but with proper prompting from Mr. Gaston and myself I think he would find out what the significance of the meeting is.

H.M.Jr: I tell you what I'll do; I'll leave it to the three of you to see to it, as long as it's a meeting with the General Counsel's office.

Magill: No.

H.M.Jr: Oh, that's what you said.

Magill: No, it's been a process of getting such a Board to designate...

H.M.Jr: But you said they're going to meet with the General Counsel's office.

Magill: No, it's a Joint Committee consisting of the three members of the Board and two members designated from

-10-

the General Counsel's office, plus an additional man that we have.

H.M.Jr: Well, I still say, as long as - would the three of you (Magill, Oliphant, Gaston)?

Magill: Yes, that's a good idea.

Gaston: Just write a little release and then have our member of the Committee or Ros slip it to Black.

H.M.Jr: Well, anyway, if the three - will the three of you decide?

Magill: I think what I'm interested in is not merely letting it be known that we are doing such a thing as this, but I think it would be well to invite members of the Bar to submit suggestions, because there's been a lot of criticism of the Board procedure and they might as well come in and tell their story.

H.M.Jr: But whatever the three of you decide to do.

Magill: All right.

I have the second report from this committee on the income tax form, so that we now have recommendations as to the two forms used by individual taxpayers. I've got to go over them somewhat in my own office, but I think within a week we'll have some recommendations as to what the forms should be.

H.M.Jr: Is that all?

Magill: I'm working on that withholding proposition of non-resident aliens. I've talked to Viner about it and talked to the others who have been speaking about it.

H.M.Jr: Well then, as soon as we get along, I want a meeting with everybody who's concerned.

Magill: I'll try to see the others today.

H.M.Jr: O.K.

Well now, Bell, and then Oliphant, and then Viner.

May 11, 1937.
9:56 a.m.

H.M.Jr: Hello

O: Secretary Hull.

Hull: Hello.

H.M.Jr: Hello Cordell.

H: Well now are you feeling? When did you get back?

H.M.Jr: I got back yesterday.

H: Good for you.

H.M.Jr: How are you?

H: Fine.

H.M.Jr: The only trouble with a week's vacation, it makes you feel like taking another one.

H: Yes, I've been here four months without catching my breath but I - I'm differently situated from you.

H.M.Jr: Ah - I called you up on a couple of things. In the first place, on this Canadian Treaty on the 5% tax, you know.

H: Yes, they're bucking and snorting and demanding that it go through and I don't see how we can keep it back after the - it's gone as far as it has with the President sending it over to the Senate you know and everything...

H.M.Jr: Well....

H:and reported out of the Committee.

H.M.Jr: Here's - here's what - have you got a couple of minutes?

H: Yes.

H.M.Jr: Ah - I understand through - ah - Taylor and Magill talking to Feis....

H: Yes.

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- H.M.Jr: They've informed you that we're about ready to make recommendations on this "not money." I understand that Feis has told you what it was.
- H: Well it's about increasing export - increasing taxes on non-resident aliens' income - on non-residents' income.
- H.M.Jr: Yes, raising it maybe 30 to 35%
- H: Yes.
- H.M.Jr:but if they'll file a return then we'll treat them the same as our own citizens - hello -
- H: Yes.
- H.M.Jr: Now if we go ahead with that immediately would you want to agree to this Canadian thing and then say one week later come along with the other thing?
- H: Well now I said that to the Minister who came in here yesterday just snorting and right now we've got Canada set again over in the London Conference.....
- H.M.Jr: Yes.
- H:probably casting - ready to cast the deciding vote.....
- H.M.Jr: Yes.
- H:the British Empire all along the line.....
- H.M.Jr: Yes.
- H: ...and right when that's done he comes in and insists on this. Well I told him that we were not going to stop until we got rid of every discriminatory relationship, even that with Cuba.
- H.M.Jr: Yes.
- H: I said, "Of course this thing can be abandoned any day or the next day by either government if it wants to - change it's tax rate" and he said, "Yes, that's true." Well now I thought, in view of that - it will take some weeks you know to get through your legislation.

- 3 -

- H.M.Jr: Yes.
- H: Ah - and with the London High Treaty situation.
- H.M.Jr: I see. Well, of course, what I'm calling up for is - I mean we - we cooperated by answering.
- H: Yes, I indicated to him that we might, any time later, change our tax situation or our policy because we weren't satisfied with this at all but that it had gone so far we didn't want them to feel that we were - were running out on them after their Parliament had adopted it and we had held ourselves out as .
- H.M.Jr: Well, it won't be embarrassing to you if - ah - say next week - the President should decide to send a message up on the.....
- H: No, that's - that's another proposition.....
- H.M.Jr: Well that would supersede.....
- H: Yes.
- H.M.Jr:- that would have to supersede the Canadian thing.
- H: Yes, but it would be a broad world proposition and they wouldn't feel that you're striking so specially at them I don't think.
- H.M.Jr: I see.
- H: At any rate - ah - ah - if we could drop this through they'd have less cause for complaint at anything we do later.
- H.M.Jr: You - you feel confident of that?
- H: Ah - that's the way it - that's the impression I got from this fellow. You see, I put him off for a while on the idea that we were going to work out some broader policy and they're very insistent - I think any difficulty.....
- H.M.Jr: You're counting on their - their vote over there.
- H: Yes, we're hoping for it.
- H.M.Jr: I see.

- 4 -

- H: They - they occupy the key position in the British Empire on this - this whole situation.
- H.M.Jr: Supposing the President says, "All right now, Henry, go ahead with this tax on aliens next week" - ah.....
- H: Well that would - it would be better even then - even then it would be better that this should go through now so they couldn't say that we ran out on them.
- H.M.Jr: But I mean what I was just saying - they wouldn't say, "Well, one week you do one thing and next week you do another." That wouldn't bother you any?
- H: Well they know - I told him and kept reminding him we should - decided to change it the next day if it wanted to.
- H.M.Jr: Well if you're satisfied. Well do you mind when I talk to Key Pittman telling him that I understand you want me to tell him to go ahead with it.
- H: Yes, that's about - they're going to feel a little hurt if we don't. I.....
- H.M.Jr: All right. Well now, Cordell, if I tell Key Pittman this you have no objection to my telling him though that within a week or ten days we may have some - broad legislation on "hot money" covering the whole situation.
- H: Yes, you can tell him anything, of course, you think advisable - ah - the only thing - I'd tell him that this has gone so far that we can't - each government knows it can be changed by the other next day as per ratification if it wants; that the Canadians are insisting on it being ratified and that they are in a very pivotal position at London in matters we're interested in and we think that that will ratify it - ah - and that can go on next week or any time....
- H.M.Jr: Now the other thing - ah - I wonder if it would be agreeable to you if Feis would come over here and - he's told you what we're trying to do with the Russians - and if he could explain to me just what the status of the Russian - of our debt situation....
- H: Yes - yes, he can do that.

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H.M.Jr: I mean I'd like to post myself on that.

H: Yes, he can give you everything.

H.M.Jr: Ah - I wonder if he'd be free around 11.

H.M.Jr: I - I - yes, and if he'd want to - I mean I'd like to know just what that status is and then that - ah - I may want to make a suggestion.

H: Yes, all right, I'll be mighty glad to.

H.M.Jr: Is that all right - is that all right with you?

H: Be mighty glad to.

H.M.Jr: Well now may I ask -as I understand it - I mean just from the gossip around that is more or less at a standstill right now, isn't it?

H: The Russian - ah - the debt matter?

H.M.Jr: Yes.

H: Yes, the whole debt matter has been in the bench for a year and a half.

H.M.Jr: Well then it's - it's all right - at least to post myself on it anyway.

H: Yes sir, be delighted.

H.M.Jr: Thank you very much.

H: All right, Henry, I'm glad you're back.

H.M.Jr: Thank you.

O: Operator.

H.M.Jr: I just want to say I'm through talking to Cordell Hull and it's five minutes past ten.

O: All right.

May 11, 1937.
10:12 a.m.

H.M.Jr: Hello

Operator: Senator Pitman is out of town until Thursday.

H.M.Jr: Leave word I called.

O: All right.

H.M.Jr: And tell Mr. Hull - ah - ah - tell Mr. McBride, in Mr. Hull's office, that I called up Senator Pittman and he's out until Thursday.

O: All right.

H.M.Jr: Tell that to Mr. McBride.

O: Yes, I will.

H.M.Jr: Thank you.

May 11, 1937

My dear Mr. Attorney General:

This will acknowledge receipt of your letter of May 5.

I appreciate your advice that you will request the President to afford us an opportunity to discuss with him the Government's further course in the pending tax cases involving E. M. Smith, E. Smith Company and Walter G. L. Smith, of Los Angeles.

Very truly yours,

The Honorable,

The Attorney General of the United States.

HO:bc 5-10-37

May 5, 1937.

The Honorable,
The Secretary of the Treasury,
Washington, D. C.

My dear Mr. Secretary:

This will acknowledge your letter of the 27th of April, with reference to the pending tax cases involving E. M. Smith, E. Smith Company, and Walter G. L. Smith, of Los Angeles. Indictments against Edward M. Smith, the principal offender, and a number of others are pending in the Southern District of California, and the case will shortly be ready for trial.

According to the Treasury estimate there are due to the government the following sums:

Additional tax	\$1,211,212.32
Penalties	619,164.63
Interest (estimated)	<u>766,171.59</u>
TOTAL	\$2,596,548.54

These estimates are based upon taxes for various sums covering the years 1923 and 1931 inclusive. The offer of settlement which I discussed with Mr. Magill and Mr. Oliphant covers, as I understand it, the following essential points.

- A Payment upon acceptance of the offer of the sum of \$1,000,000 in cash
- B The payment of an additional sum of \$500,000 within one year from that date
- C The payment of such further sums as may be determined to be due for taxes, fraud penalties, and interest, such determination presumably to be made by the Board of Tax Appeals.
- D The entry of a plea of nolo contendere by E. M. Smith to one of the counts of the indictment and a dismissal as to all the others.

Should this offer of settlement be accepted a complete statement of facts and the circumstances growing out of the transaction would be made in open court so that the Judge might be in a position to determine what further punitive action should be visited upon said Smith. In that event, and in accordance with our usual policy, the government would make no recommendation as to the leniency or severity of sentence. There would also be submitted to the Court the question of the propriety of accepting the offer of settlement.

If I interpret your letter correctly, it is your view that this or any other offer of settlement should be rejected and that the case should be pressed for trial. A question of policy is therefore involved which affects not only the instant case but other matters of a similar nature that from time to time arise. I shall therefore, as you suggest, request the President to afford us an opportunity to discuss the matter with him so that we may have the benefit of his views. I shall advise you when such a conference can be arranged.

Faithfully yours,

(Sgd) Hoover Cummings

Attorney General.

RECEIVED

MAY 6 - 1937

Office of the Under Secretary
Treasury Department

MAY 6 1937

RECEIVED BY THE UNDER SECRETARY
OFFICE

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Tuesday, May 11, 1937.

Press Service
No. 10-25

Eugene Black, Chairman of the United States Board of Tax Appeals, announced today that after consultation with Roswell Magill, Under Secretary, and Herman Oliphant, General Counsel of the Treasury, he had appointed three members of the Board to serve with three members of the staff of the Chief Counsel of the Bureau of Internal Revenue as a joint committee to consider the rules and procedure of the Board with the object of making recommendations which would result in expediting the disposition of tax cases pending before the Board.

The members of the committee, which held its first meeting today, are Logan Morris, J. Edgar Murdock, and C. Rogers Arundell of the Board, and Russell Ryan, P.C. Alexander and Stanley Surrey of the Chief Counsel's office. Mr. Morris was elected Chairman and Mr. Surrey, Secretary of the joint committee.

Between five and six thousand cases involving asserted deficiencies are taken to the Board on appeal annually. Experience has shown that the number which the Board can hear and decide on the merits is approximately 1600 a year. In spite of determined efforts in recent years to reduce the number of pending cases by negotiation and agreement the Board on January 31, 1937, had pending 8,644 cases representing asserted deficiencies in the amount of \$506,000,000. The number of pending cases has been substantially reduced in recent years. At the end of the fiscal year 1928 there were 21,639 cases pending. Four years later the number of cases pending was 18,937, and there were 16,502 cases pending on June 30, 1933. The reduction has been accomplished through the efforts of the Board in cooperation with the General Counsel of the Treasury Department and the Chief Counsel of the Bureau.

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The Committee will examine the statutes relating to proceedings before the Board and also the rules and general procedure of the Board. It is hoped to reduce substantially the number of cases requiring hearings by causing agreement and stipulation as to facts in a greater number of cases and by other changes in procedure which will expedite settlement.

Chairman Black announced that he hoped the Committee would be able to obtain material assistance in its work from attorneys who appear before the Board in behalf of taxpayers. He invited attorneys and taxpayers to submit suggestions relating to the Board's procedure to him for transmission to the Committee.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 11, 1937

TO The Secretary
FROM Mr. Taylor

During our discussion this morning you decided that the Treasury would issue no requests to the RFC to purchase preferred stocks in new banks which were neither national banks nor state banks members of the Federal Reserve system.

You also decided that it would be desirable to transfer the supervision of Building and Loan Associations in the District to the Home Loan Bank Board. I discussed this second proposal with the Comptroller of the Currency and he is giving the matter further consideration. He is opposed to it on rather unusual grounds, but it may be that after thinking it over he will come to a different conclusion.

You also decided that the Postal Savings system should remain as is, and that the recommendation of the American Bankers Association should be reported on negatively.

W.T.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE MAY 11 1937

TO Secretary Morgenthau

FROM Herman Oliphant

Re: Coconut Oil Tax Payments
to the Philippines.

For your information -

You will recall that Section 602 $\frac{1}{2}$ of the Revenue Act of 1934 levied a tax on the first domestic processing of coconut oil, with the proviso that all taxes collected on Philippine products should be kept in a separate fund and paid to the Philippine treasury. Such payments were to stop if at any time the Philippine government provided for a subsidy on copra, coconut oil, or allied products.

No payments were made to the Philippines under this provision because, until last Monday, litigation of one sort or another has been pending with the resultant possibility that the taxes collected might have to be refunded. Last Monday (May 4) the Supreme Court decided finally that the section was constitutional, both as to the taxes levied and as to the payment to the Philippines. In the meantime, almost fifty million dollars has accumulated in the special fund.

A lump sum payment to the Philippines at this time, of the total amount in the fund, would not only require a cash payment amounting to the important figure mentioned, but raises the question whether the original congressional intention can now be carried out. It was evidently contemplated that an effective check against the forbidden subsidy would result from the provision that payments were to cease if at any time this condition were not complied with. Had payments been made in comparatively small amounts at periodic intervals, which is what must have been contemplated by Congress, a very different situation would have existed from that now present, where all of the payments accumulated since the passage of the Act would be paid in a lump sum at one time.

I understand that the special governmental committee appointed to consider various Philippine problems is working on a plan whereby the Philippine Legislature will dedicate the funds in question to some special program such as land utilization, farm tenancy and education, but that this program has not yet been formulated and probably cannot be effectuated until next fall or winter. We are looking into the question of whether we shall need further legislation to be sure that the Treasury can retain these funds until this plan goes into effect.

In the meantime, we have received a letter from President Quezon, copy of which is attached, which will enable us to keep the account in its present condition at least until he returns from Europe at the end of this month.

MALACAÑAN PALACE
MANILA

THE AMBASSADOR HOTEL
NEW YORK CITY

April 26th
1937

My dear Mr. Secretary:

Reference is made to prior correspondence on behalf of the Government of the Commonwealth of the Philippines, the latest letter being addressed to you on December 19, 1936, by the Honorable Quintin Paredes in connection with coconut oil tax payments to the Philippine Treasury under Section 602 $\frac{1}{2}$ of the Revenue Act of 1934.

I am at the present time contemplating action looking toward the deposit in the name of the Treasury of the Philippine Commonwealth of any such payments with the Secretary of the Treasury of the United States pursuant to the Act of June 11, 1934, 48 Stat. 929 (U.S.C. Title 48, Sec. 1157), and Act 4128 of the Tenth Philippine Legislature approved October 15, 1934. Inasmuch as I am going to Europe in a few days and will not return to the United States until the end of May I request that any funds that may be due and available for payment to the Philippine Government pursuant to the above-mentioned Act be held status quo until my return. You may consider this letter to be in lieu of prior correspondence above referred to.

Very truly yours,



PRESIDENT OF THE PHILIPPINES

The Honorable
The Secretary of the Treasury
(Through the Honorable
The Secretary of War
Washington, DC)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 11 1937

TO Secretary Morgenthau
FROM Herman Oliphant

For Action -

As you know, I sent Mr. Forrest of the Legal Staff of the Alcohol Tax Unit to Chicago to investigate the legal phases of the contempt charge brought by Mr. Igoe against Mr. Yellowley and Mr. Baker. From his investigation the following is clear:

Yellowley and Baker conferred with Mr. Eckstone, foreman of the Grand Jury, at Yellowley's request in Yellowley's room in the Congress Hotel in Chicago, at 7:30 to 10:00 on April 21, 1937. Prior to this time, at the request of Mr. Eckstone, Mr. Baker had had three conferences with the foreman at which conferences the proceedings of the Grand Jury were generally discussed, and at which Baker prompted the foreman as to the line of investigation and as to what facts should be brought out to defend the position of the Alcohol Tax Unit. At the conference between Eckstone, Yellowley and Baker, it appears from both Baker's and Yellowley's statement that the only matter pertaining to the Grand Jury that was discussed was the fact that "there were two factions in Yellowley's office not pulling together."

It appears further that Mr. Graves was in Chicago at the time of the meeting and was asked by Yellowley to attend the same; that Mr. Graves did not attend the meeting, although it was held with his knowledge but not at his direction.

If this Grand Jury had jurisdiction to investigate the matter which Yellowley and Baker discussed with the foreman, then there is no question that the facts are sufficient upon which to base an order of contempt and that under the decisions that the conduct of Yellowley and Baker were contemptuous.

On the foregoing facts, I should like your approval to proceed as follows:

1. To prepare for Yellowley and Baker their answers and supporting affidavits, setting out fully and frankly all the facts, pointing out that this Grand Jury did not have jurisdiction to investigate the operation of an administrative department of the Federal Government, and hence discussing such operation with the foreman is not a contempt, and, finally, acknowledging to the Court that their conduct was improper anyway and apologizing fully and frankly for it.

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2. To prepare for your signature a letter which Mr. Forrest will hand to Judge Wilkerson at the hearing, stating that these men acted without your consent or knowledge, that you disapprove their conduct whether or not a technical contempt, and welcome an opportunity to disavow it on behalf of yourself and the Department.

Samuel C. Roberts

May 11, 1937

11 a. m.

Present:

Dr. Feis
Mr. Kelly, State Department
Mr. Taylor
Dr. Viner
Mrs. Klotz

HM, Jr: I will address myself to the State Department. What I would like is to have someone from the State Department bring me up to date as to the status of the so-called Russian debt to the United States.

Mr. Kelly: The governmental debt?

HM, Jr: Right.

Mr. Kelly: There has nothing been done about that since Mr. Latvinov was here. Subsequent developments regarding lump sum settlement fell through.

HM, Jr: I was there and I have tried to refresh my memory and I want you to help me. In the first place, was there ever anything put on paper? The upper and lower limit?

Mr. Kelly: There was a Gentlemen's Agreement.

HM, Jr: What was the Gentlemen's Agreement?

Mr. Kelly: There was a provision that in return for a loan (that was the word used) by the United States or its Nationals, the Soviet Government would agree to pay, through additional interest on the loan, a sum totaling at least \$75,000,000. Then Mr. Latvinov added on to that, further down, that while he thought that was fair, if the President thought that was insufficient he would be willing to recommend \$100,000,000. We, at the time, I think, had been talking \$150,000,000.

HM, Jr: I could not remember whether it was \$125,000,000 or \$150,000,000.

-2-

Mr. Kelly: I think we had been talking \$150,000,000.

HM,Jr: Do you remember? Any records on that?

Mr. Kelly: I forget on that one point.

HM,Jr: Would you mind supplying that to me?

Mr. Kelly: I have a copy of the original Gentlemen's Agreement in my safe in my office.

HM,Jr: The only part I am interested in is the debt settlement.

Mr. Kelly: The minimum was \$75,000,000.

HM,Jr: I thought the President said \$125,000,000, but Litvinov said we would split the difference.

Mr. Kelly: I think Litvinov said \$100,000,000.

HM,Jr: Would you mind? I would like to have that.

Mr. Kelly: They mentioned \$75,000,000 and Litvinov added on that if the President thinks that inadequate he would be willing to recommend \$100,000,000, but I know \$100,000,000 was under what we were asking for at the time.

HM,Jr: That was not put on paper?

Mr. Kelly: Yes, that's on paper. That's the confidential agreement, initialed by Litvinov and the President. That's the Gentlemen's Agreement.

HM,Jr: I would like to have a copy of that.

Mr. Kelly: Then, in later discussions regarding settlement, we agreed at one time there was some

HM,Jr: May I interrupt you. I would like to have a copy of that document just as it affects the debt.

Mr. Kelly: That deals solely with that. Of course, this money was considered as a lump sum settlement of all claims both public and private.

HM,Jr: I did not understand that.

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Mr. Kelly: Yes. At that time I know it was more or less understood, I mean that most of that would go to private claimants.

HM, Jr: The recent decision of the Supreme Court, does that affect

Mr. Kelly: The recent decision of the Supreme Court upholds assignment -- the Russians in addition assigned to the United States all their assets in the United States. We did that for two purposes, first, to eliminate the Russians entirely from any possibility of destroying settlement made at the time of non-recognition. You see, recognition is retroactive and if they did not assign this to us and agree at the same time not to initiate any new legislation or judicial action they could come into our Courts and upset these agreements, so they assigned to us all the assets in this country. How much that would amount to, I don't know; we figured at one time it might reach \$10,000,000,000 or \$12,000,000,000.

Dr. Viner: Did we assume their obligations?

Mr. Kelly: No.

Dr. Viner: So who gets the proceeds of the assets?

Mr. Kelly: We do. It's being put in the Special Fund in the Treasury to be held until we reach final settlement with the Russians. The Russians would have contributed this \$120,000,000 or \$125,000,000 additional to this money for settlement of claims.

HM, Jr: In this Agreement does it state about interest rates?

Mr. Kelly: No. Generally, but no particular amounts.

HM, Jr: But the whole thing is in that Agreement?

Mr. Kelly: Yes.

Dr. Viner: Is that assignment also in the Agreement?

Mr. Kelly: No. That's a published document. Separate. That was an exchange of letters with the President.

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HM, Jr: But this thing I am asking for has never been published?

Mr. Kelly: No; that's highly secret.

Dr. Feis: The exact terms of the Agreement are highly secret. The fact that there is an Agreement was published in the press at that time.

HM, Jr: But that was to be net? We had certain claims and the Russians claimed they had claims against us.

Mr. Kelly: They had claims against us.

Dr. Viner: Siberia?

Mr. Kelly: No, Siberia they waived. They waived all of Siberia. They would not wave Archangel, although they would not press it, but in the Agreement it would be a mutual settlement; that is, what they would pay to us would be in settlement of all claims.

HM, Jr: But that's all in there?

Mr. Kelly: Yes.

HM, Jr: From the time Mr. Litvinov left, what has happened to date?

Mr. Kelly: After he left us, he remained to talk with you, remember? And he had one or two conversations with you, but of course they were unwilling to make any settlements, so nothing came of it.

HM, Jr: I never talked to him on the debt.

Mr. Kelly: Didn't you, once after the recognition? Because he referred in a letter to us to a conversation with you when we were insisting that they pay interest of 8% or 9%, of which 2% or 3% would be paid into this Fund and he then referred to your conversations where you discussed interest rates, but as I remember he had only possibly one or two.

HM, Jr: I have read my minutes that I kept before you came over and I haven't got anything in my files after the meeting which took place at Mr. Hull's office when Mr. Litvinov was

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present -- the morning and afternoon session. From then on I have nothing.

Mr. Kelly: After recognition was given, after which diplomatic relations were established by exchange of notes, didn't Litvinov see you once after that?

HM, Jr.: I don't think so, because after that Bullitt took hold of the thing.

Mr. Kelly: You remember, the President announced that Mr. Litvinov would remain on for discussions with the Treasury?

HM, Jr.: He did come in.

Mrs. Klotz: If he came here, I might find it.

Mr. Kelly: After that we handled the proposal of settlement with Mr. Troyanovsky and worked out an agreement on the lines of the Gentlemen's Agreement in which we insisted on \$150,000,000. Then Litvinov refused to accept that and discussions went on for a year and a half, up to February 1935. Back and forth various figures were discussed and at that time they insisted on an outright loan and, of course, we said that was impossible; never contemplated by the President, etc. They waived that and negotiations were finally broken off in February 1935.

HM, Jr.: Nothing pending now?

Mr. Kelly: No; nothing pending since.

HM, Jr.: So it is a clean slate since February 1935?

Mr. Kelly: Yes, a clean slate. The only thing that has happened recently is this: that there was some indication from Moscow in a conversation with Mr. Davies that the Soviet Government was going to instruct Troyanovsky here to look into the possibility of coming to a settlement of individual claims if that would be possible.

HM, Jr.: In this thing, unfortunately, they tied up individual claims in this whole thing.

Mr. Kelly: Yes. You see, the basis of settlement we discussed was payment by the Soviet Union of a lump sum which would then be distributed by the United States Government as

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it saw fit. It might give none to the Governmental debt or maybe collect \$10,000,000 for the Governmental debt, but the whole distribution would be left in our hands. But that would be for everything.

HM, Jr: All claims by private claimants against the Russian Government?

Mr. Kelly: Yes. The State Department has that right now, established clearly; in the case of private claimants against foreign Governments, the State Department has the right to determine which it will press and which it will not press and its decision is final. If it wants to accept a lump sum in settlement of all private claims, that's final.

HM, Jr: What I would like, in a couple of days, the actual

Mr. Kelly: Copy of that document.

HM, Jr: A copy of the document and then what happened, a sort of interpretation of what you have in your mind yourself of what happened afterwards.

Mr. Kelly: Yes.

HM, Jr: That wouldn't take more than a couple of days?

Mr. Kelly: Oh, no! I can send you the agreement immediately.

HM, Jr: I would rather have it all at once.

Mr. Kelly: When Mr. Davies went to Moscow he asked us to prepare a memorandum covering a survey of all conversations regarding debt from the time of recognition to date. I could get you a copy of that.

HM, Jr: That would be fine. Let me ask you this: is this a propitious time to open it up again?

Mr. Kelly: No.

HM, Jr: Why?

Mr. Kelly: Because I think the international situation is

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such that the Soviets would not come to a settlement until the thing clarifies. They, of course, lay great stress on the fact that they want very much to settle with us; like to do it, and all that, but if they do it with us they have to do it with France and Great Britain. That was true when Litvinov came over here and he knew it then as now. Unfortunately, the English recently extended a 10,000,000 pound credit without any insistence on settlement of debts.

HM, Jr: That was over a year ago.

Mr. Kelly: Yes, that was a year ago. And when Mr. Davies went there he decided not to discuss the matter, but would listen to what they said but not raise the question. They had several conversations with him along the line that the best way, in the interest of American relations, was to start all over again and leave these things open for settlement -- which means put them in cold storage and forget. That's the point they tried to drive home in several conversations.

HM, Jr: Is there anything else pending with Russia? I mean, have we any treaty negotiations going on?

Mr. Kelly: I have just come from a meeting now involving tax on Russian coal, which is going to be a pretty serious problem for the next month. You see, the Russians are complaining against discriminations and we are trying it work it out. They threaten not to renew the commercial agreement if it is not.

Dr. Viner: You mean countervailing duty?

Mr. Kelly: No; a statute which provides in case a country sends more coal to us than we send to them, there is a 10 cent tax. Russia is the only country paying the tax because other countries are exempted by treaty arrangements.

HM, Jr: If you would send the material and mark it for Mrs. Klotz.

Mr. Kelly: I will send you a copy of that Gentlemen's Agreement.

HM, Jr: That and the thing you did for Mr. Davies.

Mr. Kelly: Also that memorandum.

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HM, Jr: Wouldn't that be in the Gentlemen's Agreement?

Mr. Kelly: I doubt it.

HM, Jr: I would like the actual document.

Mr. Kelly: About the Gentlemen's Agreement, of course there has been one unfortunate thing in it. They used the word "loan". From what Mr. Bullitt told me, the President used "loan" and "credit" interchangeably. Litvinov said he understood the use of the word loan to mean a straight financial advance from the United States to the Soviet Government and, of course, I know from discussions at the time and Mr. Bullitt is very emphatic that at no time did the President ever contemplate an inter-Governmental loan, merely credit. Litvinov has taken advantage of that and has taken the position that we have failed to carry out the Gentlemen's Agreement ourselves, so I just explain that. When you read it you will see it.

HM, Jr: (To Dr. Feis) If you will stop and talk to me about this Canadian tax thing.

(Mr. Kelly left the meeting. Report of the remarks about the Canadian tax matter is filed in regular diary.)

oOo-oOo

The following discussion then took place with regard to the Russian debt matter:

HM, Jr: (To Dr. Feis) Now, I want to ask you this as a friend. I haven't talked yet to the President about the Russian debt thing and I don't know how he will feel about it, but I am inclined to take it on.

Dr. Feis: My only thought was this, when listening, there is quite another angle, from our own angle, that we begin to offer the Russians a settlement which we will accompany by a new financial advance; retain the basis; visualize where we won't set a precedent for ourselves in our other debt settlements or there will be the devil to raise with other countries.

Dr. Viner: It might conceivably break the ice towards debt settlements in other directions.

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Dr. Feis: I should expect that it would. This is just inside this room here. Bonnet called us up yesterday; asked us to talk with one of the heads of the radical Socialist party about this and that, and in the course of it, he said, if you can bring home to him that the debt question is not a dead one I think you will do a good job. That's straight from Bonnet. Supposing the French are wondering whether it's worth their while to try to talk debts to us? Well, certainly if we work out the Russian situation on the basis of an accompanying advance, the French, considering their situation, are also going to put forward the idea of an accompanying advance. That's the only angle of it I am afraid of. If we can work out the Russian settlement without an accompanying advance, I am all for it.

HM, Jr: I wouldn't take this as my model. This would not be my model.

Dr. Feis: Then, all right!

HM, Jr: I don't want to take that any more than I do the one on the London Economic Conference as my model! What I don't know, and quite frankly I want to keep this thing awfully, awfully quiet, I may be very silly but I don't -- after all, a lot of things have happened. If you go back two years, I don't know why I say this, but Spain wanted an advance of \$5,000,000 for three years to clear up their foreign exchange. The State Department asked me not to do anything until they got through with their trade treaty. That's neither here nor there. I don't know why I bring it up, but, anyway, Jimmie Dunn asked me not to do anything. Colonel Payne was here and went over the thing. I just had Cochran make a survey of Spain and he said it was a good risk and all they needed was \$5,000,000 to clean up their foreign exchange. Anyway, if I do this thing I only want to do it if the President and Mr. Hull are perfectly satisfied to let me tackle it as a Treasury matter -- as a financial matter. I don't necessarily want to do all of it, but I want to do this, the part of this other thing, which I am playing with, which is this gold thing. This is the only reason I want to get in on it. See? I don't want even at this stage -- if you want to say that to Mr. Hull, all right -- but I don't want it to go beyond you and Mr. Hull.

Dr. Feis: Yes, sir.

HM, Jr: Naturally he will ask why I want to do this; why does Morgenthau want to get in on the Russian debt thing? It's

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a perfectly fair question and the answer is that I am thinking of it in connection with the whole question of gold. You are as much interested in that as we are on account of the trade situation. I don't know yet whether I want to do it and I certainly don't want to do it unless Mr. Hull would be entirely satisfied (and of course it goes without saying, if the President wants me to do it) but I got such a beautiful reception

Dr. Feis: All I need to say is you will have to talk that to Mr. Hull. As far as I have observed about commenting on any debt situation, it was to use every opportunity to try to collect; it was to try to keep them clear of political circumstance; take any break that comes from any country, and every now and then scarcely a month passes where in some direction or other we do not see some rift.

HM, Jr: I just want you and Mr. Hull to know why I am interested in this. Incidentally, I want to get an approach to them so we can find out how much gold they are mining -- that sort of thing. It's terribly important for us. The only report the State Department has on that is what they get from Geneva. Mr. Davies gives you figures that they are mining \$200,000,000 to \$800,000,000 gold each year, which figures were given to him by two American newspaper correspondents over there. That's his only source of information, so I think we have no information. Right?

Dr. Feis: I just don't know. All I know is everything we have got, you have got.

HM, Jr: True, because after I made a special cabled request he comes through with that. I want to take the time to explain to you that as soon as the President comes back I am going to put it up to him and ask him, because I think it's worth taking a chance. You feel that way?

Mr. Taylor: Yes.

HM, Jr: You are encouraged?

Mr. Taylor: Yes.

Dr. Feis: The great difficulty will always be the same one: what can Russia do for us in the way of debt settlement

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that it could then do for France and England? There is your problem.

HM, Jr: (To Dr. Feis) You have seen me go into these things before. I want a free hand, keeping your Department advised through you step by step, just as I have. You have seen me work often enough, but I haven't yet made up my mind to do it. You see, a number of times the Russians have tried their best to come to see me. The Ambassador has, on three different times since he has been here, he has definitely asked me to see him. Each time I asked the President and each time the President said no, so I dropped it. I wouldn't even see him. But he has tried on three occasions to see me to get on a working basis.

Dr. Feis: You mean this was prior to the recent conversations with Oumansky?

HM, Jr: Oh, yes! This goes back to Bullitt's time. They seem to think he has confidence in me. Well, let's see. The President may say no and that ends it, but I think it's a big thing and you can't compare Russia and France. I think France today is a third-rate nation, not even a second-close nation.

Now is there anything -- I did not ask Mr. Hull -- is there anything I ought to know that you can tell me about Norman Davis.

Dr. Feis: We will all know better ourselves when he gets off the ship. One thing, we are so strapped that our cable service is low until July 1. He had a good many talks and the results are neither encouraging nor discouraging. They are still turning everything over.

HM, Jr: Isn't it all on the trade treaty?

Dr. Feis: The trade treaty is the one most specific objective. In connection with that is the whole question of British economic policy.

Dr. Viner: And debts did not enter into the picture?

Dr. Feis: No; nothing.

Mr. Taylor: Herbert (Dr. Feis) they can't talk until they have had their Empire Conference.

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Dr. Feis: They can talk more than they have told. I don't know how much more. I am unwilling to visualize any change in British policy when Baldwin goes in and furthermore I think his attitude has been to strengthen the permanent staff of the Board of Trade. It has a terrifically important influence. They are in touch with every phase, financial and economic. It's the Board of Trade which has the power. I think Runciman will go with Baldwin. Those are the two strongest -- naturally strongest -- Protectionist minds in the British Government. At any rate, to put it briefly, there is nothing conclusive.

HM, Jr: Are you fellows ever going to give me an answer to Chamberlain?

Dr. Feis: I only repeat we have two drafts. I think now Mr. Hull is waiting to talk to Mr. Davis. We have had two drafts ready for three weeks.....

HM, Jr: I did not know that.

Dr. Feis: which Mr. Hull is just holding. I think for a while he did not want to send anything which might deter conversations, and now I think he thinks he will wait until Davis gets back and he has a chance to go over them with Davis in the light of Davis' very comprehensive conversations over there, but as far as I can gauge, either from the cables or the few personal letters he sent back that I have seen, they had no conclusive results.

HM, Jr: Will you do this? If Mr. Hull approves, after Davis is there and you know what it's all about, will you boil it down and let me know?

Dr. Feis: Sure.

HM, Jr: Because the English did a little scolding this morning and tried to serve notice on us on this gold business on taking so much gold. They are complaining that they are taking so much gold.

Dr. Feis: The only satisfactory thing is for you to talk with Davis.

HM, Jr: I don't want to talk with him. I would much rather get it through you.

Dr. Feis: My whole impression is there is nothing conclusive.

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HM, Jr: He will talk to you.

Dr. Feis: Oh, yes. But if I have to revise what I am telling you now, I will be very much surprised.

HM, Jr: After you have absorbed it, let me have a memorandum. The whole time he has been Ambassador at Large he has never talked to me -- for four years. After you talk to him, let me know, knowing what my responsibility is.

Dr. Feis: I don't think any of them talked gold or stabilization or debts with Davis except as it might incidentally enter into conversation. My whole impression is that it was the trade agreement, the general bent of British economic policy, and the armament program, and sugar which is a terrific job in itself and he became the intermediary. I have not seen anything to indicate discussions on these other things -- that is systematic. Chamberlain is not a man that pursues things loosely. I think he has a sense of direct touch with you as witness his conversations with Butterworth. I don't think he would open up any conversations with Davis.

HM, Jr: Now we are starting, tomorrow afternoon, Brazil. Is that on?

Mr. Taylor: The Ambassador is coming in at twelve. Sumner Welles is going to call me.

HM, Jr: (To Dr. Feis) Do you want to sit in on that?

Dr. Feis: Yes. That's the thing that was started down South.

HM, Jr: I would like to carry you along with me on that.

Dr. Feis: I am interested. I am going to have a favorite country and that is Brazil. There is something similar there with Russia. You get the sense of a complete Continent with everything in it that human beings can use. They can do something -- simply magnificent, and the fertility!

HM, Jr: More so than Argentina?

Dr. Feis: Wholly different impression. Argentina is a great noisy, go-getting, stock-raising community. But Brazil

-14-

is different. It's a strange land. It's a huge land. They can grow anything that is grown anywhere on this Earth's surface.

HM, Jr: You think we ought to join our Continent to Brazil?

Dr. Feis: I would be highly favorable to "meeting in Rio."

Dr. Viner: It has its finest climate in August.

Dr. Feis: All year round.

HM, Jr: This fellow (Viner) does not want me to go to Hawaii.

Dr. Viner: I wouldn't be surprised if there was some sort of financial crash in France this year and if it occurs, the Tripartite comes up for international phoning and then if the Secretary is on the beach at Waikiki it would be very unfortunate.

HM, Jr: I don't know of any place that would be more pleasant to conduct a Tripartite Agreement than Waikiki.

Dr. Feis: Rio is a terrible distance away -- twelve days by boat and five days by plane.

HM, Jr: Herbert, I thank you. So we will start with Brazil Wednesday at three if Sumner Welles is O.K. Has he been ratified by the Congress as Under-Secretary?

Dr. Feis: I don't think he has been put in yet. We have to get a bill through creating the office of Counselor.

HM, Jr: Got anything you can offer in the way of information?

Dr. Feis: No. I will try to get some. I will watch on this Davis stuff for you. In fact, I will go through, today, what is here. I'll probably make some report to you before the week is out.

HM, Jr: We are now on our way to Rio!

oOo-oOo

May 11, 1937.
2:04 p.m.

H.M.Jr: Hello

Operator: Mr. Haas. Go ahead.

H.M.Jr: Hello

Haas : Hello

H.M.Jr: George.

H: Yes.

H.M.Jr: I'd like to have an up-to-date study on Russia -
trade, etc. You know one of those colored charts
for one thing.

H: Yes.

H.M.Jr: See?

H: Ah-ha.

H.M.Jr: Also up-to-date on Brazil.

H: On Brazil and Russia.

H.M.Jr: Yes.

H: Mainly from the trade aspect?

H.M.Jr: Well let's start with the trade first.

H: Fine.

H.M.Jr: Then go into it as carefully as possible.

H: Fine. O.K.

May 11, 1937

3 p. m.

Present:

Ambassador Sze
Mr. Taylor
Mr. Lochhead
Mrs. Klotz

Ambassador Sze: I have a cable message from Mr. Kung from London in which he said that 'it has been my intention to come to Washington to personally thank the President and Secretary of the Treasury for their kind assistance' and he said 'I am now in position to say that I shall be in the United States the middle of June' and he said 'with regard to the silver at the Federal Reserve' he says, he asked me whether I would see you and see whether you are interested to buy from him.

HM, Jr: What silver is that, Archie?

Mr. Lochhead: That's the 50,000,000 ounces of silver which is on deposit as collateral for the loan which they would have available in case of need. In other words, that was under the yuan credit.

HM, Jr: I think the answer to that is no, polite but firmly. Wouldn't you say so, Wayne?

Mr. Taylor: I think if he is coming over here in June we might say we don't understand, but there is nothing in the picture that we can see.

HM, Jr: But I would rather have him know before he comes that the answer is no, rather than have him come here thinking he can do it. But if I buy from anybody, I would buy from my friend, Dr. Sze, and you can tell him that if I were to buy it I would buy it while you are here.

Dr. Sze: In a subsequent telegram (he sent me two while you were away), the second one, 'would you stay over and settle the whole thing'. I was rather scared.

HM, Jr: Dr. Kung, if he is coming with any such ideas as

-2-

that, you had better tell him his trip is going to be unsuccessful, because we have no idea of buying that silver from him. We took that silver and let it come over here when China was having its big troubles and it was really a haven of safety, but any ideas of purchasing it -- you had better tell him he had better make his trip purely social.

Dr. Sze: He telegraphs me he is coming to the Yale for commencement. They are giving him a degree. Otherwise he will go back in July.

Off the record, for some time he has been terribly after me to try to sell the silver, but I told him there were a lot of practical difficulties.

HM, Jr: If you remember, the first instructions that Mr. Chen came with were impossible, you know. It took them a month to understand that. And I would be sorry to have him come over here and to have an unpleasant visit. Delighted to see him on a purely social basis, but if he is coming with any such ideas as that, I think he is going to be disappointed.

Dr. Sze: Well, I know you so well, I will simply tell him you are not interested. I think that would be best. Somehow or other there is some misunderstanding on Dr. Kung's side, not from me, because I told him several times that you could not sell the silver already in the country on account of profits tax.

Mr. Lochhead: That is just a mechanical proposition. That is aside from policy.

HM, Jr: But there is a big policy involved and I had the feeling that you had done everything for your country that is possible and you got every dollar out of us that was possible and you can tell them that I said so.

Dr. Sze: (Smiling) That is very nice of you to say that, but I think you had better tell him that yourself.

HM, Jr: I will tell him that. I will tell him in no uncertain terms and I will also tell him that when your successor comes -- also in the room here: like Bonnet. They sent him over here and he was going to turn Washington upside down; that de Laboulaye could not do this and De Laboulaye could not do that, and no one ever hears of Bonnet!

-3-

Dr. Sze: Unfortunate part, so many things in this world that people will not believe until they go into it themselves.

HM, Jr: One has to learn. You know as well as I do the difficulties that I had with other Departments in my relationship and if it had not been for the fact that I was willing to take -- if you don't mind my saying it -- considerable risk in doing what I did, we never would have gotten as far as we did, but I had to take considerable personal risk because you know; you go up against the same thing in some of the other Departments.

Dr. Sze: I know. But it is very kind of you to tell me so. I was in sort of tough part.

HM, Jr: If and when Dr. Kung comes here, I will go out of my way with great pleasure to tell him that you got the last penny that anybody could have gotten and no one else could have done as well!

Dr. Sze: Thank you very much.

HM, Jr: And I certainly hope that while Dr. Kung is here that he won't negotiate, because it would be very embarrassing. We have been able to keep silver stable. -- we all said we wanted it stable -- and it has been a stable price now for a long time and I don't want to do anything to upset it.

Dr. Sze: Thank you.

HM, Jr: But when you come to the house we can talk about more pleasant things.

Dr. Sze: (Laughed heartily.)

This will be my last official visit. I will take official leave from you.

HM, Jr: When do you sail?

Dr. Sze: I sail on the 29th of this month. I leave here on the 24th. I sail on the President Hoover.

HM, Jr: Where do you sail from?

Dr. Sze: From San Francisco. It's a fast boat; gets to Shanghai in two weeks. I want to be in Shanghai for two

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months and then go to Peking and get back to Shanghai about the middle of September.

HM, Jr: Maybe Professor Buck would like to go back at the same time.

Mr. Lochhead: No plans as yet.

HM, Jr: (to Dr. Sze) The President Hoover. From San San Francisco.

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MEMORANDUM OF THE DAY'S ACTIVITIES

May 11, 1937

To: Secretary Morgenthau
From: Mr. Magill

1. Non-resident aliens

Messrs. Eccles and Landis both approved the proposal to increase the withholding rate on non-resident aliens to 35 percent, with accompanying provisions for filing returns and obtaining refunds. Both felt that the provision would have a strong deterrent effect upon the flow of capital to this country. Mr. Eccles wanted me to consider the addition of a special tax at a stiff rate upon capital gains. I agreed to discuss this proposal with his tax expert, Mr. Bryan.

2. Excise taxes

I have arranged to meet Mr. Doughton tomorrow afternoon to discuss the reenactment of the excise taxes which expire this summer.

3. Board of Tax Appeals procedure

The Joint Committee of members of the Board and members of the staff of the General Counsel's office appointed to consider the revision of the statutory provisions relating to the Board of Tax Appeals and its rules of procedure, held its first meeting this afternoon. Mr. Logan Morris of the Board was elected chairman and Mr. Stanley Surrey of the General Counsel's office secretary. Other members of the Committee are: Messrs. Arundell and Murdoch from the Board, and Russell Ryan and P. C. Alexander from the General Counsel's office. Chairman Black of the Board, Mr. Oliphant, Mr. Shafroth, and myself attended the meeting and gave the committee our own ideas of the scope of its investigation.

4. Settlement of Board cases

Mr. Oliphant and Commissioner Helvering are to meet me next Monday afternoon to discuss the procedure and to arrive at a solution of the existing confusion.

Rm

FEDERAL RESERVE BANK
OF NEW YORK*M. L. Lohr* 262

OFFICE CORRESPONDENCE

DATE May 11, 1937.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATIONFROM L. W. KnobeWITH BANK OF ENGLAND.

I called Mr. Bolton at 10:30 today with reference to reports that operators continued to liquidate in most of the European markets. There was sort of a general malaise in Europe, Bolton thought, but it was very difficult to put one's finger on it. The only thing which was quite evident was that heavy dishoarding of gold continued; he had a nasty feeling that some of it was for official account. It was extremely difficult to give exact figures but it was fairly accurate for him to say that they themselves were buying somewhere between £1,000,000 and £1,500,000 of gold per day. This was coming out of the market (with a fair amount of Russian gold included) from South Africa and from other central banks. They were now practically in direct contact with the Russians but it was a little bit too early to tell how this would work. As far as France was concerned, Bolton said, nothing of any great moment was going on there. Taking it as a whole, the French were slowly losing small amounts of exchange. I pointed out that this was contrary to other information available in this market to the effect that the French had succeeded in adding to their exchange holdings. Bolton thought that that was not so at all. The French were getting a little bit of gold and small amounts of exchange from their own people but in their fund operations, on the whole, they were losing. The Dutch continued to sell their dollars to the Bank of England, which in turn tried to convert them into gold which, of course, helped to offset some of the dishoarding in London. Generally speaking

FEDERAL RESERVE BANK
OF NEW YORK

263

OFFICE CORRESPONDENCE

DATE May 11, 1937.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

FROM L. W. Knoke

WITH BANK OF ENGLAND.

- 2 -

it was correct to say that daily, immediately after the fixing, the price of gold sagged away with the result that it was quite difficult to keep the discount from New York parity within reasonable proportions. Our banks were not really in the market; the small amounts which they were willing to take were nothing but a drop of water in the bucket. Today's turnover, he estimated at £2,000,000. Although the Bank of England had taken over most of that, the price had again sagged away since fixing. The stock market was a little easier today, with a little bit of liquidation hanging over from last week's settlement. There was undoubtedly an inclination to sell things. Whether this was due to the "gold question nagging at people," whether it was because of the beginning of the holiday season, he did not know.

I referred to our telephone conversation of last week and my personal letter of April 20, dealing with the difference in fineness on some of the gold bought for our account in London and told Bolton that everybody here would prefer that the whole thing be dropped. Bolton thought this was extraordinarily nice of us but that they would feel in an awkward position because they had been responsible for this loss. I told him that we would consider the matter closed and that we felt satisfied that we would not have a similar experience with future shipments. Bolton replied that they had given very definite instructions to their Bullion Department and

FEDERAL RESERVE BANK
OF NEW YORK

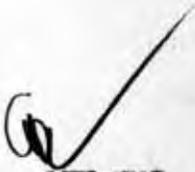
OFFICE CORRESPONDENCE

DATE May 11, 1927.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATIONFROM L. W. KnekeWITH BANK OF ENGLAND.

- 3 -

repeated his regrets.

He pointed out that tomorrow, because of the Coronation festivities, the markets in London would be closed, wherefore he would send me the gold prices at 5:30 today to be good for today and tomorrow. If things were not any better by Friday and if he had any ideas, he would call me.



LWK:KMC

RECEIVED

MAY 11 1927

TREASURY DEPARTMENT

U. S. DEPARTMENT OF THE TREASURY

WASHINGTON, D. C.

LMS

GRAY

London

Dated May 11, 1937

Rec'd 2:50 p. m.

Secretary of State,
Washington.

280, May 11, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

In connection with my 269, May 6, 7 p. m.; and 272, May 8, noon, it is noteworthy that a member of the Canadian Delegation informed me that "the whole picture in the matter of the Imperial currency discussions has changed since our Delegation sailed about a month ago". He defined this change as occasioned by the injection of "the question of the price of gold" and said that since rather pro forma monetary discussions had previously been expected Dunning, the Minister of Finance, had not brought with him any of the important permanent officials in his Department. He mentioned, however, that Travers, the Governor of the Canadian Central Bank would have one or two assistants with him in his discussion at the Bank of England.

Nervousness in the gold market still continues. Despite the coronation festivities the question of gold prospects continues to occupy importantly the attention of the City and the financial press. The London stock market

was

LMS 2-No. 280, May 11, 7 p. m., from London.

was weak today due (1) in particular to some forced liquidation; (2) in general to the failure thus far to settle the current London bus strike and the prospective miners strike which are both important in themselves and as indicators of future labor difficulties. American brokers in London report some forced sales by British holders of American securities in the early hours of trading to obtain cash but also investment and institutional buying in the afternoon. The London market closed firmer on the same type of buying.

There is nothing significant in the foreign exchange position except the continued purchase of sterling by the Soviets in Paris, presumably against the sale of dollars in New York.

BINGHAM

KLP:CSB

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LMS

GRAY

Paris

Dated May 11, 1937

Rec'd 2:52 p. m.

Secretary of State,
Washington.

613, May 11, 4 p. m. (SECTION ONE)

FROM COCHRAN.

Paris exchange market very quiet. Franc has strengthened during the day. Rentes practically unchanged. International shares slightly lower.

Journal Official of today announced that the Minister of Finance and the Minister of Colonies had decided to proceed with the following colonial loan issues: Indo China 130 million francs; French West Africa 18 million; Madagascar: 45 million; French Equatorial Africa 32 million. The interest rate will be $5\frac{1}{2}\%$ and the bonds redeemable in 20 years at the maximum. Press reports from Amsterdam that Netherlands control fund yesterday lowered its buying rate for dollars from $1.82-5/8$ to $1.82-1/2$ following the large offerings of dollars during the past few days.

BULLITT

CSB

RECEIVED

5 PM

MAY 11 1937

TREASURY DEPARTMENT
Office of the Secretary
Technical Assistant to the Secretary.

PARAPHRASE OF SECTIONS TWO AND THREE No. 613 of
May 11, 1937, from Paris

This morning Riefler and I called on Rueff at the Ministry of Finance, and we found that Minister Auriol was absent from Paris following Parliament's adjournment.

During the conversation Rueff said that the situation of the French Treasury was always difficult, and that the future is not bright; he added, however, ~~xx~~ that at present no immediate crisis is impending.

Rueff and I had lunch with Cariguel of the Bank of France. Cariguel said he had lost a little sterling this morning, but there was practically no more demand from the Soviets therefore and the normal market purchasing thereof was quiet. A few days ago, he said ~~xxxxxxxxxxxx~~ ~~xx~~ the Soviet Government had sold to him two million pounds gold. Cariguel had advised the Governor of the Bank of France to accept the gold only if the franc proceeds thereof were to be expended in France; however, they made no binding agreement on this point.

Approximately 50,000,000 francs were converted into sterling yesterday by American syndicates. This amount represented almost exactly the amount of sterling which was yielded during the day by the Bank of France to hold the franc at a steady point. The Soviets, Cariguel added, have been endeavoring to dispose of additional quantities of gold to the Bank of France through other banks, including the Chase. The Bank of France while being quite happy to get gold does not want franc balances built up which at any time might seriously embarrass the exchange control.

EA:LWW

BULLITT.

PARAPHRASE OF TELEGRAM RECEIVED

NO.: 613 (Section four)
FROM: American Embassy, Paris
DATE: May 11, 1937, 4 p.m.

Cariguel's attitude with regard to the general financial and monetary outlook in France is still pessimistic. He inquired of me what I thought would be the borrowing requirements of the Government for the rest of the calendar year. My suggestion was that it might be between 20 and 25 billion francs. Cariguel said he believed the latter figure to be more nearly right. He is as much opposed as ever to France's borrowing abroad; he insists that it will be necessary for some change on the part of French capital to take place to inspire confidence. I was informed by Cariguel that if I were informed of the radical nature of the method recently considered by the Government for raising money in France, I would be completely startled. (END SECTION FOUR)

BULLITT

EA:EB

Section five.

It has always been considered by Cariguel that the Popular Front leaders sought the tripartite agreement as a cloak for overcoming internal political objection to a monetary move. Cariguel says that the great benefit of the agreement has not been the relief brought to France through devaluation, but the prevention of the present Government adopting exchange control and violating otherwise the agreement which they were so proud to present as evidence of their good relations with the two great democratic countries. In regard to the possibility of a change in the American gold price, Cariguel said that nervousness has not yet declined and that he is constantly receiving rumors from London with regard to this.

25,123,000 francs of gold bars were invoiced today to the Federal Reserve Bank of New York by the Bank of France on the NORMANDIE. According to Cariguel, this shipment was simply to build up the stock of earmarked gold held by France in New York, which stock he said he had not yet been obliged to touch.