

DIARY

Book 73

June 15 - June 22, 1937

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- b) Genuinely pessimistic point of view on conditions in France
- c) Swiss situation discussed with Bachmann; Cochran three times repeats H.M.J.R.'s message, making it clear this is official
- d) Prior to sailing of Paul Van Zeeland for United States, Marcel Van Zeeland asked Jacobson to prepare memorandum on gold situation; after revision, Niemeyer will circulate to Central Bank governors and Cochran is promised copy
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 - 2) Cochran understands Marcel Van Zeeland does not favor this; favors rather increasing cash requirements of commercial banks and increasing coverage requirements of Central Banks
- e) Cochran learns from within Bank of International Settlements that Central Bank of Finland has been largest seller of gold against dollars through Bank for International Settlements
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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 15, 1937, 9 a.m.

NO.: 788

FROM COCHRAN.

This morning I returned from Basel where on Saturday(?) and Monday the BIS directors met.

The routine business for the most part consisted of studying requests of the National Bank of Hungary for extension for three years from the eighteenth of July of BIS and Central Bank credits with one percent interest and four and three-quarters percent repayment.

The Governor of the Bank of France, Labeyrie was not in Basel, and (?) Under Governor Fournier and French director Brincard left Basel. Thus indirectly the French bankers contributed to the uneasiness at Basel regarding the situation in France. During Monday this uneasiness was augmented by news that France had widened the discount on the forward franc, as well as the news that a very heavy day was had by the ^{Stabilization} ~~fabulous~~ fund, and that at noon the Council of the Bank of France had decided to raise the discount rate to six percent (from the previous 4 percent rate).

The Central bankers at Basel continue to be genuinely pessimistic over the outlook for France, even should Parliament give the Government a respite through approval of a new tax program and arrangement in some way for additional

additional funds to be made available from the Bank of France. For several months these bankers have been convinced that a Blum Government with Communist support cannot inspire the confidence necessary for recovery in France. It is their belief that a continuation of this Government in office will only make a more serious crash eventually.

The Central Bankers are particularly skeptical over the efforts of Vincent Auriol to punish flight capital. They think that fears of capitalists will only be aggravated by his endeavors.

Yesterday Quesnay, who is General Manager of the BIS and who usually has some plan in mind, could make no suggestion for a definite program which would alleviate the present situation in France. The big necessity, he realizes, is to get capital to return to France. However, he said, it was under the Doumergue and Laval Governments that much of the capital left France and capital would not itself start back merely because of reformation or replacement of the present government.

At this meeting at Basel the gold question was unofficially discussed even more seriously than at meetings held before. On Sunday morning at 10 o'clock I gave orally to the Swiss National Bank President, Bachmann,
in

in the presence of Pferminger, his assistant, the verbatim message from Secretary Morgenthau (and which was quoted ^{my} in/telegram No. 771 of June 12). I was told by Bachmann that he would get in touch with his two joint managers Schnyder and Weber, and that on noon Monday he would give me their reply.

I saw Bachmann and Pferminger at 12 o'clock on Monday, and had a telephone conversation with Bachmann late in the evening (Bachmann had returned to his bank in Zurich in the middle of the afternoon) in order that one point might be cleared up. I summarize below the explanation given by Bachmann of their position. Bachmann will prepare immediately for the approval of his associates at a meeting this coming Thursday, a letter to be addressed to the Secretary of the Treasury of the United States and to be signed by Meyer, Minister of Finance, confirming and expanding the explanations which were given to me. I am to receive the letter by mail for forwarding in the diplomatic pouch.

The Swiss National Bank, Bachmann said, had recently definitely decided that

END SECTIONS ONE TO FOUR, INCLUSIVE.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION FIVE OF TELEGRAM NO. 788 of
June 15, 1937, 10 a.m., from Paris.

the gold certificate holdings of the Bank should not exceed 2,631,000,000 Swiss francs, which figure now appears in its statement. They had fixed a price for purchasing gold, he said, after the Swiss franc had actually left the gold standard last Fall. He does not want to change this price. The Bank furthermore does not intend to sell any of the gold in the total indicated above. Therefore it will not give any cause for uneasiness through allowing its statement to show a decline in the amount of gold held. The Bank believes that the amount mentioned above is the maximum that it should hold because of the danger of a European war, and the danger of the world price of gold being lowered.

As of June 11, Bachmann said, the holdings of the 538 million Swiss franc stabilization fund were: Gold, 116 million francs;

END SECTION FIVE.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION SIX OF TELEGRAM NO. 788 of
June 15, 1937, from Paris.

foreign exchange, 408 million francs;

[~~decision~~]
Swiss francs, 14 million. Decision was reached that it would
be this bank's policy to convert this fund which was orig-
inally in gold entirely into foreign exchange, principally
dollars, and sterling to a slight extent. Such gold as
might be received from the public would pass through this
fund for conversion into foreign exchange without the
bank's statement showing the transaction. The Bank, with
this policy in mind, has been shipping gold to the United
States and that gold has been converted into dollars.
The program Bachmann had envisaged would be to send the
remaining 116,000,000 francs gold (some 30,000 kilograms)
to the New York Federal Reserve for conversion into dollars
over a two or three months period.

Recently an attempt has been made by Bachmann to
influence the Swiss banks to sell directly on the London
market for their own account such gold as they or their
clients desire to dehoard without the Central Bank handling
it.

With regard to the gold being purchased by the Central
Bank, Bachmann said this comes in the form of bars held
in London by Swiss, or from domestic hoarding in coins.
In the future he will try to dispose of all of this gold
on this side of the ocean, at London for the most part.
He could not say how much gold the Swiss are still hoarding.

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An attempt is being made by Bachmann to get some of the excess of foreign capital out of Switzerland, and to this end he had encouraged two foreign credits, one to the Postal System of Czechoslovakia in the sum of 50 million Swiss francs, and another in the same amount to Italy by the Credit Suisse and the Swiss Banking Corporation.

During my conversations with Bachmann I repeated three times the message from Secretary Morgenthau, and made it definitely clear to him that this was an official message which I had been asked to communicate to him. Bachmann pressed me for my personal opinion. I told him that he had been quite wrong in undertaking operations on our friendly market without giving us an indication of what he had in mind and without a previous basis ^{of} understanding and possible exchange of views. I mentioned that after the alignment of last autumn his Government had been the most insistent for a definite return to the gold standard, and that in fixing a buying and selling price for gold his Government had taken somewhat of an initiative. I said that I believed they were working definitely against the idea of preserving the gold standard if they as a club member, took steps which could be interpreted as meaning that

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that faith on their part in the future of gold was lacking.

The Federal Reserve's official statement, I mentioned, shows the decline of earmarked gold deposits held by central banks with us, and the already nervous situation would be aggravated if observers in Europe and the United States should learn that a club bank is heavily disposing of gold. I also reminded him that the program which he is following since May means that the sterilization of Swiss gold is being financed by the United States Treasury. The answer made by Bachmann to this was that according to their figures the amount of gold per capita of population in the United States was ^{only} 286 Swiss francs, whereas the amount per capita in Switzerland was 493 Swiss francs.

Officials told me at Basel - and they knew nothing of my errand with Bachmann - that Bachmann had last week through seven separate channels been endeavoring to dispose of gold. No one doubts that the Swiss central bank, as well as private banks, is nervous over the future gold price.

During the forenoon on Monday I informed Governor Franck of the National Bank of Belgium of the message which I had delivered to Bachmann. Franck said that so far his Bank had not been asked to take gold from Switzerland, so he had no ground for protest to Bachmann along the

line

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line we took.

The Netherlands Bank President, Trip, was not in Basel, so I talked with Dejong his substitute. Dejong is the official of the Netherlands Bank who actually handles dealings in exchange. I was informed by Dejong that his Bank had taken only about ten million dollars in gold from the Swiss National Bank when the latter had indicated that dollars were what it needed.

END SECTIONS SIX TO ELEVEN, INCLUSIVE.

BULLITT.

EA:LWW

PARAPHRASE OF SECTIONS TWELVE TO TWENTY-SIX OF
telegram No. 788 of June 15, 1937, from Paris.

In my discussion with Dejong I spoke very frankly regarding the Swiss situation. I intimated that there had been no pressing need for dollars on the part of the Swiss, considering that they had ample resources in the United States. Dejong promised that he would give Trip a complete picture of the matter.

I should add that when Bachmann was explaining to me his policy of granting credits to Czechoslovakia and Italy he said that these transactions involved having dollars. The loans themselves were in Swiss francs, but dollars were needed by both borrowers and he preferred to provide the dollars rather than let the borrowers dump on capital markets large amounts of Swiss francs. I checked up on the dates of the credits to Italy and Czechoslovakia, and I am convinced that such dollars as Bachmann had needed for this purpose had already been provided before the recent important conversion took place of gold into dollars left his(?) Federal Reserve Bank of New York.

Shortly before the meeting on Sunday, Schacht arrived by plane. He went back to Berlin by air immediately after the meeting on Monday morning so as to be present at the dinner given for Chinese Minister of Finance Kung. I had no private conversation with him, merely exchanging greetings. Schacht did not have much to say to anyone at Basel this time. I had a talk with Rechler, his assistant, who

told

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told me that as to the German domestic situation there was nothing new but that recent developments in Soviet Russia naturally were of much concern to the German people. He told me that the reports had been entirely premature which were to the effect ~~that~~ that Schacht will come to Paris again toward the end of the month to sign a Franco-German commercial treaty.

Prior to the sailing of Paul van Zeeland for the United States his brother Marcel, who is still in the BIS, asked that Jacobsson prepare a memorandum on the gold situation for the Prime Minister. A fourteen-page memorandum was prepared by Jacobsson which Marcel gave to Paul; Jacobsson permitted me to read this memorandum. After Jacobsson finishes revising it, it will be circulated confidentially by Niemeyer to member central bank governors. The promise was made that I should confidentially receive a copy. Jacobsson alone takes responsibility for the document, which gives arguments in favor of first maintaining gold at its present price, second controlling the production of gold, and third, lowering the price of gold. The third alternative is definitely favored in the memorandum. The arguments advanced are that the price for gold established during the crisis should be considered only an emergency step, and that now as prosperity returns the various factors should be studied and a revision downward be made in the price if the balance of evidence weighs in favor of lowering the price. It would be envisaged that the original parties to the tripartite agreement and other important

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monetary states ~~we~~ make an announcement of reduction simultaneously. Marcel van Zeeland himself, from what I heard at Basel, is not in favor of changing the price for gold. He thinks there are numerous steps which could be taken toward alleviating the situation, such as increasing the cash requirements of commercial banks and increasing the coverage requirements of central banks.

It was also Quesnay's opinion that before taking such a drastic step as lowering the gold price or controlling production various measures should be tried out. Quesnay believed that the rise in prices would eventually narrow the profit margin between the cost of production and the market price of gold to such an extent that production would level off or might even start to fall off. We should in the meantime work for a better distribution of gold stocks. Reference was made by Quesnay to the plan which he attributed to British origin of the United States and possibly Great Britain making available by loan through the BIS to France and other needy countries gold which now has to be sterilized by the United States and Great Britain. I questioned Quesnay as to whether such a suggestion was being actively presented by anyone just now, and he said that it was not.

I was told by President Beyen of the BIS that in the past the best opinion of the world had almost invariably been wrong on gold. He did not think we should at the present time hasten to any decision that we have too much

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gold on hand. In his mind it would not be feasible to have international control of production. If our situation is just artificial, he said, it would only be made more so by resort to production control. He insisted that there is still an acute situation arising from the gold scare. He told me that with the exception of the Netherlands National Bank, all of the small central bank clients of the BIS had been through the BIS seeking dollars. I mentioned that I understood gold had been shipped to the United States by the BIS. These had been arbitrary transactions, he said.

Beyen could not indicate to me which countries had been selling gold against dollars through the BIS. However, I learned from within the Bank, in strictest confidence, that the largest seller had been the Central Bank of Finland and that sales had also been made by the Reichsbank. [Note: I learned this morning at the Bank of France that gold had been sold against dollars by the Reichsbank to the Bank of France yesterday.]

Constant study of the gold situation is favored by Beyen, but he counsels against haste in decision.

During one of the conversations I had with Dejong he remarked that while dollars had been extensively bought by the Netherlands Bank, which usually were quickly converted into gold, recently they had held some dollars

without

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without converting them into gold.

A week ago when I was in Amsterdam, Termeulen, a private banker, complained to me that Dutch hoarders of gold had to send their gold to London for sale or release it on the (?) market at Amsterdam, since Trip did not feel obliged to absorb gold directly but preferred to work into gold through the dollar.

I had a talk with Governor Rooth of the Swedish Riksbank. He said that he could see no need for Sweden taking any immediate monetary action. Should there be an important rise in American and world prices before autumn, Sweden would then have to take up the question of upward revaluation of its crown, but before autumn no action will be taken. By that time Rooth hopes that he will know whether any action is to be taken by the Americans and the British. He expressed the sincere hope that independent action upon the gold price will not be taken by anyone. Important amounts of dollars and sterling are constantly carried by Governor Rooth.

Governor Rooth told me that Governor Ryti of the Bank of Finland had said that for another year and a half Finland could continue without upward revaluation of its currency. Under present tendencies, Rooth said, he did not believe Sweden could go that long. When either Sweden or Finland acts, he thinks simultaneous action will be taken by the other country. He emphasized that he believes it

is

Regraded Unclassified

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is more important to maintain permanent the international exchange relation between currencies than the gold price. From his conversations with Governor Franck Roeth gained the impression that Franck was trying to purchase as little gold as he possibly could.

At the time I had a direct conversation with Governor Franck, he asked whether I had seen fit to communicate to our Secretary of the Treasury his views upon gold production control, and whether any reaction thereto had come back to me. Franck remarked upon the diversity of opinion among governors of central banks and staff members of the BIS on the question of gold.

I had lunch today in Paris with Yangita, the Bank of Japan representative at the BIS. He was en route to London from Basel. Yangita told me that France and Japan were having similar financial experiences. The main difference in their problems was that in France it was the workers who are demanding excessive expenditures by the Government, and in Japan it was the Army. Lowering the gold price is favored by Yangita provided simultaneous action is taken by all important nations.

This morning at the Bank of France I told Cariguel of the message which I had delivered to Bachmann from Secretary Morgenthau.

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I had several talks with Governor Norman. He told me in the first conversation that as yet he had not found occasion to discuss the gold problem with the new Chancellor of the Exchequer Simon, so that it would be his purely personal views he expressed, and not accepted British policy. He told me that he was more worried than ever over the gold question. He does not see that there will be an early let-up in the flow of gold towards the United States and to the London market. He had made attempts to pass on some gold to central banks which needed it, and \$50 could not be got rid of. Most all central banks, he said, are passing on gold, and as a result the two markets which are equipped and feel obliged to take it must face the problem of absorbing gold in large amounts. It is his belief that the estimates in the press as to the proportion of gold that has come out of hoarding to date have been exaggerated. In London and European centers, he said, there is still a large quantity to be released, and of the total amount of gold which India has absorbed during the past 35 years, only one-third has come back out.

Norman told me that we should be very cautious about accepting arguments which certain financial journals and writers have put forward, in London particularly, against changing the price of gold, since a direct interest in gold mining is held by these journals and individuals.

Governor

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Governor Norman could not see anything further that the American and British could do in the way of making statements to calm the present uneasiness over the price of gold. Of course, he said, the situation would be quieted if the United States and Great Britain would make a joint statement that they would guarantee to accept during the next five years at the prices now obtained all gold that may be offered to them, but he, as Governor of the Bank of England, certainly had no appetite for much more gold, particularly at the price now prevailing. Without any suggestion on my part he said that some people were condemning Bachmann for disposing of his gold where he could get rid of it. Norman said that if anyone felt nervous about any gold they had, it was much better to permit him to go ahead and get rid of it rather than try to keep him from doing that. He expressed the opinion that there must be a limit to the extent to which our country will be willing, at the present price, to absorb gold. He made favorable remarks about the degree to which the American and British Stabilization Funds have cooperated during this difficult period in their day to day operations. He regarded as particularly valuable the exchange of information on public statements. He feels at the same time that cooperative study of longer term problems is needed.

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I made an incidental remark to Norman on the importance of the influence on American governmental opinion, as well as public, that might result from our efforts to achieve a trade treaty with the British. He said that at the present time he did not think there was the slightest chance that a treaty could be obtained.

Efforts to control production of gold are opposed by Norman. It is his belief that a threat in the direction of demonetization of gold is already developing through the big movement of gold to the United States. He thinks that the tendency toward demonetization would be increased rather than lessened by artificial steps to control gold. The world economic system, in his opinion, is so out of balance that even if the United States should itself lend a half billion dollars gold to each of a dozen needy central banks, it would not help importantly to effectively distribute gold. The metal would be so distrusted by some that they would sell it immediately. Such an unstable situation prevails in other countries that they could not hold the gold and it would move back towards our country.

I made mention to Norman of the criticism in the press of the extent to which a discount had developed on the price of gold in London. He insisted that such comment was entirely foolish. There would certainly be no movement out of London if there were discount. He said that

it

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it would not be fair to expect his bank to compete with arbitrageurs to the extent of reducing the discount below a figure which the arbitrageurs might consider as representative of the profit margin which in the circumstances could be expected by them.

When the arbitrageurs did not want to take the gold, he was willing that the Bank of England should take it, but he did not favor competing with them for it.

I also had a conversation with Norman's assistant, Cobbold. He talked about this point, and particularly condemned Einzig of the LONDON FINANCIAL NEWS as being very unfair and unmindful of the fact that at one time a discount of more than one shilling existed since both our currencies have been depreciated without attracting any comment critical of the management of the British Stabilization Fund.

I had a conversation with Sir Edward Cook, who is Governor of the Bank of Egypt. He was at Basel as a visitor.

July 12 had been set as the date for the next meeting of the BIS.

END OF MESSAGE.

BULLITT.

EA:LWW

PARIS

19

Dated June 15, 1937

Recd 9:50 p.m.

Secretary of State

Washington.

797, June 15, 11 p.m.

FROM COCHRAN

This afternoon the Government laid an emergency bill before the Chamber which reads in translation as follows:

"Sole article. The Government is authorized up to July 31, 1937, to take by decrees authorized by the Council of Ministers the measures necessary for the reconstruction of public finances as well as the protection of savings of the currency and of public credit.

These decrees will be submitted for the ratification of the Chambers within the three months following the promulgation of the present law or in any case immediately following the first meeting of the extraordinary session of 1937."

LE TEMPS of this afternoon from which the above text is taken published a communique issued by the Government denying that it had planned to demand authorization to borrow 10,000,000,000 francs from the Bank of France; furthermore denying that the Government intended to impose new taxes on such products as petrol, sugar, coffee, and chicory. This newspaper also confirms the rumor of this morning that Baudouin and Rist had resigned from the Exchange Fund Committee

S.S. EMB

BULLITT

June 15, 1937

10 a.m.

Present:

Ambassador Potocki, of Poland
Mr. Wankowicz, Counselor
Mr. Sokolowski

Ambassador: We just came to see you to introduce Mr. Sokolowski, who is here for a short visit and he has had very successful talks with the State Department, preliminary talks, for a possible commercial agreement between Poland and the United States, and he's just leaving today and he's sailing on Saturday, and he will express for himself how satisfied he is with his visit to Washington and his meetings with Secretary Hull and others.

Mr. Sokolowski: I should like to say there was also one of the Treasury men, Mr. Johnson, because we are very interested in the methods of application of duties on imported goods and then to certain additional duties. Those are rather complicated, which have been very carefully studied by us because it is, I think, in a very large part, the working of the agreement. So we have thought that perhaps it would be good that we should have an official here and to have here some of our representatives of Chamber of Commerce, so that it may work easier and smoothly.

H.M., Jr.: It would be most acceptable.

Mr. Sokolowski: I think it would be very practical, because in our country there is certain shyness about the legislation. In Europe we have not such. We have other methods, and those regulations might represent some difficulties. Say here he will pay \$10.00 and then it's \$15.00 or \$12.00, the duties, so it is important to have here such an understanding so the thing may work out so far as it can smoothly.

H.M., Jr.: I am not familiar with the details of the trade treaty, but I take it we are talking about where Customs come in on it. Is it Mr. Johnson of Customs?

Mr. Wankowicz: Yes.

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HM, Jr: Of course, we will do everything we can to help make the agreement work successfully.

Ambassador: Thank you very much.

HM, Jr: I know when I was in Farm Credit, four years ago, I started in with Polish rye and we have had Polish rye ever since, one way or the other.

Mr. Wankowicz: I had the pleasure to talk with you then.

HM, Jr: So whatever we can do to make the agreement work well, we will be most pleased to do so.

Ambassador: Thank you very much.

HM, Jr: That has not been ratified as yet?

Ambassador: No. No. It was only preliminary talk and they were every day. There were sort of graphs made. Mr. Sokolowski is leaving for Warsaw and he is very pleased of having the meeting here and having a broader view of the situation. He's coming back and this is his first visit to the States.

HM, Jr: Have you had a chance to travel?

Mr. Sokolowski: No. I have been here only about ten days so we have had much to do. We have twice a day sessions.

HM, Jr: All I can say is when the agreement is accomplished, we will try not to make it difficult.

Ambassador: Thank you very much.

HM, Jr: We will give it the friendliest interpretation possible.

Ambassador: If I may tell you, we have had long talks in New York on our private debts and Mr. Wankowicz, if you would allow him, might explain in few words how matters stand just now.

HM, Jr: If you please.

Mr. Wankowicz: I should not take too much time. I say

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only that you remember, Mr. Secretary, I came here last year when I told you that we were forced to stop our transfer for many reasons which were out of our power. We were very sorry. And we went and we started, a few weeks later, to talk with our agents, which was quite successful, and we finished our talks in February, the 21st, this year, and we published notice and we have now, for one year and a half, provisional arrangement in which we propose to look for a solution of some percentage in cash or funding bonds for this amount or 4½% new loan. Anyhow we had this arrangement for one year and a half, and even now I go to Poland and we intend to work further and I hope we accomplish the new commission and we start just to talk further about something definitive.

HM, Jr.: Who do you talk to in New York?

Mr. Wankowicz: We talk to the fiscal agent of our loans, Mr. Clark and Mr. White, very fine, both gentlemen, and they know very well the job that we have and we have very nice relationship. And of course some day we will finish our arrangements. But anyhow I am very pleased to tell you that today we have in spite of settlement of the thing, because even all our coupons were paid then -- you will excuse me if I strike this point, but we are quite proud. Two loans were not defaulted when we signed. Now we hope that this year we will go as smooth as last year and maybe we will do something which will be permanent, which I should like very much.

Ambassador: I just came back from Poland and I saw economic conditions were much improved. Mr. Kwiatkowski, who is Finance Minister of Poland, advised me he is trying to arrange settlement of possibly all these debts which are due, private and public as well, and I think in due time if conditions still improve we will be able to come to a final agreement.

HM, Jr.: What happened to Mr. Hitler's speech on Saturday?

Ambassador: I did not see it.

HM, Jr.: He did not make it, did he? All our papers were full of it.

Ambassador: Well, I did not see it at all.

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Mr. Wankowicz: No. No, I think that was postponed.

HM, Jr.: That's much less excitement.

Ambassador: There is always the Danzig question which is difficult to handle on account of our situation and on account of the League of Nations which is involved in that matter because of the great Nazi population on the Danzig, so it has to be handled very carefully, but I don't think on the whole there is any reason for any war there; surely not in Europe.

HM, Jr.: You don't think so?

Ambassador: No, I don't think so. Certainly big armaments going on, but I don't see any war now for quite a long time.

HM, Jr.: And the Spanish situation?

Ambassador: It's sort of localized. Germany at the same time is very careful not to provoke world war now because she knows that that would not help her certainly. She is in a bad economic situation and she lacks a lot of things and I don't think she can go to war for a long time.

HM, Jr.: But you come back feeling that war is not imminent?

Ambassador: No; certainly not.

HM, Jr.: Let's hope so.

Ambassador: Very kind of you, Mr. Secretary, that you receive us.

HM, Jr.: Thank you for coming in.

oOo-oOo

June 15, 1937

10:30 a.m.

Present:

Ambassador Troyanovsky
Mr. Taylor
Dr. Feis

Ambassador: I have answer from Moscow about our conversations. They wanted to know whether it talks about special agreement or only about information. My Government wanted to know whether now it's a question of special agreement between our country and your country about the gold market or only about information about production of gold.

HM, Jr.: At this stage I only had in mind the question of exchange of information.

Ambassador: Uh-huh.

HM, Jr.: Possibly leading up to some agreement later on.

Ambassador: The opinion of Moscow is that the most important side of this gold problem is gold market, not so much production. In our country we can regulate rigidly all exportation and we are ready to talk about this side of this problem -- I mean about gold market and our exportation of gold and anything connected with it, but they think that gold production is completely a domestic problem in our system of relations.

HM, Jr.: Now let me see if I understand this. Your Government feel that the question of marketing of gold in the world's market

Ambassador: Yes.

HM, Jr.: is a matter which you are ready to discuss.

Ambassador: Yes.

HM, Jr.: But the question of production of gold is an an internal matter?

Ambassador: Yes.

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HM, Jr: Is that what I am to understand?

Ambassador: Yes, because we have already many agreements similar, not completely the same, about different markets -- sugar and timber -- when the question of our exportation is certain, but our internal domestic production is completely outside of this.

HM, Jr: Well, I would say that that's something that I would like to think over.

Ambassador: All right.

HM, Jr: And talk about.

Ambassador: Uh-huh.

HM, Jr: With other people of the Government.

Ambassador: Uh-huh.

HM, Jr: I might say that the message you bring is an encouraging one.

Ambassador: I think so.

HM, Jr: Yes, I think it is an encouraging one.

Ambassador: And we are ready to sell to your Government if you want the dollars. We are interested in the price of gold -- the better the price, the higher the price, the better for us, of course, and we are ready to discuss any possible agreement in this way, in this line, but we are ready to sell to your Government the gold for dollars even if you don't want to have gold exported from our country. We are ready to discuss the possibility of deposit of gold in some place without exportation. Any agreement.

HM, Jr: Let's see if I understand. What you are suggesting is that you are ready to discuss the question of selling the gold to us direct for dollars?

Ambassador: Yes. And we are ready to discuss the possibility not to export gold, but to make deposit of gold in certain place, in our bank, in your name, and to get the dollars

-3-

if you want, of course, without sending the gold to the world market.

HM, Jr.: I see. In other words, earmark the gold in Russia?

Ambassador: Yes, in Russia. We can put it in your name or any agreement that you want in order to regulate the movement of the gold.

HM, Jr.: The movement of the gold.

Anything you want to ask, Dr. Feis?

Dr. Feis: No, sir.

Mr. Taylor: I suppose that would apply to some third country. It would be a transfer of earmarks to some place else. This question of earmark either in Russia itself or in, let's say, Switzerland.

HM, Jr.: You mean Russian gold?

Mr. Taylor: Yes. I did not mean that you meant to confine that

Ambassador: It is not necessary. I understand you can transfer it to any place you want.

HM, Jr.: Would that also include bringing the Russian gold -- depositing it here and earmarking it here?

Ambassador: Yes; yes; of course.

HM, Jr.: Bringing it here, also?

Ambassador: Uh-huh.

Dr. Feis: I have one question. Did I understand the Ambassador to say his Government regards the question of gold production -- presumably of gold stocks -- as a domestic question but is disposed to discuss the question of movement to the world market?

Ambassador: Yes.

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Dr. Feis: Is that only in connection with an agreement or is the Government disposed to discuss movement of Russian gold, of Soviet gold, into the world market now?

HM, Jr: I don't get it. Do you mind doing it again?

Dr. Feis: There is the matter of exchange of information, and then the matter of possible agreement regarding gold. Well, short of an agreement, thinking only of exchange of information, if I understand the Ambassador's reply correctly, his Government does not feel disposed to exchange information regarding gold production or stocks.

HM, Jr: That's all right.

Dr. Feis: Is it ready to discuss movement of gold on to the world market?

Ambassador: Yes. I think we are ready to discuss the question of information and even the question of an agreement.

Dr. Feis: I did not know whether you were prepared to discuss exchange of information.

Ambassador: Of course; I think so.

HM, Jr: Information on gold leaving Russia. In other words, the Russian Government is ready to discuss anything that has to do with gold once it leaves your borders, but what gold stocks you have inside of Russia is an internal matter.

Ambassador: The same as other agreements we have on sugar, timber mainly. We are ready to discuss this side of the movement, outside of the borders. I think it is most important for you.

HM, Jr: Yes. I think your message is very encouraging, but you have moved a little bit too quickly for me.

Ambassador: (Laughing.)

HM, Jr: So I am not ready to give you an answer, because I did not know how you would answer us.

Ambassador: All right. It's a serious problem and

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cannot be settled in two minutes.

HM, Jr: It's very serious.

Ambassador: If you are ready to have any agreement, I want to have some suggestions, in general lines; maybe not in detail -- but if you can work out some foundation, main lines of the suggestions of the agreement for our discussion, if you want to get an agreement.

HM, Jr: You might be thinking this over. If we discussed gold, we might also want to include silver.

Ambassador: I don't know; probably yes. My personal opinion, it is probably yes.

HM, Jr: I am just raising it now. If we took gold, we might want to include silver.

Ambassador: Yes. Why not? Yes. All right.

HM, Jr: Because, take in the two metals, we might just as well discuss the two, I think.

Ambassador: What do you think about the French situation?

HM, Jr: The information this morning that came over the news ticker is that they are going to propose to their Parliament a new tax plan.

Ambassador: But they will not abolish the agreement with you?

HM, Jr: We have received no such information. Their Minister of Commerce was supposed to have made some statement yesterday, but I don't think that their Minister of Commerce would be authorized to speak. But we have no information as to anything, and the news ticker carry the story that they have a new tax program which they will put up to Parliament to raise enough money to meet their deficit, but it's a situation that has to be watched hourly.

Ambassador: All right.

HM, Jr: Thank you very much, Mr. Ambassador.

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DEPARTMENT OF STATE
WASHINGTON

June 15, 1937.

My dear Mr. Secretary:

I enclose for your information a copy of
paraphrase of strictly confidential telegram
No. 785, 786, 787 (in three sections) of June 14,
1937, from the American Embassy, Paris.

Sincerely yours,

Enclosure:
No. 785, 786, 787
from Paris, June 14,
1937.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

Department of State

EA

BUREAU
DIVISION

ENCLOSURE
TO

Letter drafted

ADDRESSED TO

TREASURY.

(-100)

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 14, 1937, 11 p.m.

NO.: 785, 786, 787.

RUSH.

STRICTLY CONFIDENTIAL FOR THE SECRETARY.

I refer to my telegram of June 14, No. 780.

I was informed by Blum this evening that unanimous decision was reached by the Cabinet this afternoon to demand full powers to regulate all financial matters by decree laws tomorrow in the Chamber of Deputies, and later in the week in the Senate.

Blum told me that when he had left me at luncheon he had not known how his Cabinet would react and therefore had not known what to say to me. This afternoon when he made his proposal to the Cabinet, among certain Radical Socialist Ministers there was a sentiment to refuse to go along with him on this measure. This afternoon he had nearly fallen.

Blum had suggested after a discussion that the Radical Socialist Ministers Chautemps, Daladier and Delbos should have a conference and should meet him, Auriol, and Paul Faure for a definite decision on the matter. Following these conferences decision was reached by the Cabinet for unanimous support of Blum in his demand for full powers.

Blum

- 2 -

Blum was confident that full powers would be given to him by the Chamber of Deputies, but abstentions of Radical Socialist deputies would reduce his majority.

It was his hope that at a night session tomorrow, Tuesday, full powers would be voted him by the Chamber of Deputies, and by Thursday or Friday of this week he believed the bill would reach the Senate. It is highly probable, he said, that full powers would not be voted by the Senate, and that his Government would no longer be able to stand.

No one except the intimate circle of the Cabinet, Blum asserted, knows about the decision taken, and he asked me to keep secret except from my Government what he had told me.

He went to see Jean Neney, President of the Senate, to tell him about the decision after I left him this evening.

I questioned the Prime Minister as to what use he would make of the full powers should they be given to him. His reply was that he would publish two decrees at once. First the franc would be stabilized and the announcement made that no matter what the cost it would be maintained at a fixed rate. I asked whether that meant he would approach the British and American Governments with a view to

- 3 -

to obtaining stabilization agreements; he had no intention of doing this, he said.

His second decree would forbid the export of capital from France. It was his feeling that this was not contrary to the provisions of the Tripartite Agreement. He could see no other way of preventing the flight of capital from France, and it was absolutely essential to stop it.

I asked the Prime Minister what else he had planned to do. Auriol, he said, would propose an increase in railroad rates, postoffice rates, increase in tobacco monopoly rates, and many minor tax increases.

The only other person present at dinner was Madame Blum who said that she believed the only motto for the Prime Minister today was "l'audace, l'audace, toujours l'audace". Blum concurred in this.

During the evening Blum was entirely at ease and happy on the whole. My impression was that he was composed due to his expectation that the Senate would reject his proposals and soon he would be rid of the responsibility of Government, rather than due to a hope that the full powers for which he will ask would be granted.

END OF MESSAGE.

BULLITT.

EA:LWW

June 15, 1937.
11:20 a.m.

H.M.Jr: Hello

Operator: Mr. Branch.

H.M.Jr: Hello

Harlee
Branch: Hello Henry, how are you?

H.M.Jr: I'm all right for an old man.

B: Well you're not getting old are you?

H.M.Jr: Very fast.

B: Well I hope you'll do something to block progress in that direction.

H.M.Jr: Yes.

B: Henry.

H.M.Jr: Yes.

B: I've got a matter here and one that Mr. Farley and all of us are interested in. Ah - we've got a young lady that we're interested in who is in your service over there.

H.M.Jr: Yes.

B: A Miss Evans. She's with your Accounts and Deposits Service.

H.M.Jr: Yes.

B: And you're letting a number of people out because your work has fallen off, as is the case in other government departments. We hope that if there is anything you can do to retain her that you'll do it.

H.M.Jr: Will you mind talking to Danny Bell; I don't interfere in that at all.

B: Has Bell - has Bell got this?

- 2 -

H.M.Jr: Yes.

B: There's a man named Bartelt seems to be the head of it but I didn't know him at all.

H.M.Jr: Well Bell's the boy.

B: Well I'll be glad to do that and I thank you for referring me to him.

H.M.Jr: I - I - I mean that's happening every day and I'm not.....

B: I know it is.

H.M.Jr:and I'm not interfering.

B: I know. Well thank you, Henry.

H.M.Jr: Not at all.

B: Thank you.

June 15, 1937.
11:22 a.m.

H.M.Jr: Hello

Operator: Secretary Woodring is in Kansas for about ten days.
General Craig is acting.

H.W.Jr: Well let me talk to Craig.

O: All right.
(Short pause)

H.M.Jr: Hello

O: General Craig. Go ahead.

H.M.Jr: Hello General?

Craig: General Craig speaking. Good morning Mr. Secretary.

H.M.Jr: How are you?

C: Fine, sir.

H.M.Jr: General, the Army has asked me to see President Quezon
at 11:30.

C: Who - who asked you to sir?

H.M.Jr: Ah - just a minute. General Burnett.

C: Oh yes, he's the intra-bureau man.

H.M.Jr: Ah - do you know anything about this - ah- ah
cocoanut oil money?

C: I'm really - I'm really, yes sir, I know in general
what it is and it's - the Courts have said it shall
be turned back - excise taxes to the Philipinos.

H.M.Jr: Well has the Army taken any position officially
in advising the President on this?

C: No sir. No sir.

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H.M.Jr: Well, of course, I'm in an embarrassing position. I don't know just what - ah - President Quezon is going to ask and I understand that General Burnett did not wish to accompany him.

C: Well General - they were here, Mr. Secretary, and he asked me about it and I told him that that was a matter which - ah - which was one to arrange between his government and probably the State or the Treasury Department or both. It is something that we haven't a thing to do with and he wants the money, of course, and I told him that it was my opinion that the matter was one of arrangement between his government and ours.

H.M.Jr: Well did you indicate to him, in any way, as to whether the United States Government should or should not pay it to him?

C: None the slightest.

H.M.Jr: I see.

C: No sir.

H.M.Jr: Well that helps.

C: None the slightest.

H.M.Jr: Ah -

C: I just merely indicated to him that the matter was one which - with which the War Department had nothing to do and it might not even be asked its opinion.

H.M.Jr: I see. Well - ah - thank you very much.

C: Yes sir, I - I intimated to him that it might be the State Department. It is a matter of something that is not military at all.

H.M.Jr: Ah-ha.

C: And might be the State Department but it might be also the Treasury or both.

H.M.Jr: Well I have a representative of the State Department here and he's going to be here at 11:30 with me.

- 3 -

C: Yes sir, well Quezon is on the way over to you now.
H.M.Jr: Thank you very much.
C: Yes sir.
H.M.Jr: Goodbye.
C: Goodbye.

June 15, 1937.
11:26 a.m.

H.M.Jr: Hello.

Hull: Henry, what's going on?

H.M.Jr: Well I've had Herbert Feis over here most of the morning.....

H: Yes.

H.M.Jr:and we just have finished a very exciting conversation with the President of the Philippines.

H: Oh I see.

H.M.Jr: And he's terribly excited because we're holding up his cocoanut money.....

H: Ah-ha.

H.M.Jr:and he claims that it isn't fair; that it was objections on the part of the Treasury which is holding it up.

H: Oh I see. I hadn't heard anything about it.

H.M.Jr: Well I didn't either until he walked in here.

H: Yes.

H.M.Jr: Now I'm glad Feis was here and he could tell you because I told Mr. Quezon that the State Department and the Treasury would try and make up its mind in a day or two and give him whatever the opinion of the United States government was.....

H: Ah-ha.

H.M.Jr:and that we, the Treasury, was simply a depository for his money.

H: Yes.

H.M.Jr: But I think it is fair to tell him and give him all the legal reasons why the thing is held up. I think it - it certainly puts me personally on the spot.

- 2 -

H: I see - I see. I didn't know anything about it.

H.M.Jr: Well I didn't either and Herbert Feis is here and he says its all news to him.

H: Yes.

H.M.Jr: But I - I do think - ah - I'm ready to cooperate and I want to cooperate but I think we've got to give the man an answer.

H: Yes - yes, of course.

H.M.Jr: I mean we've got 55 million dollars of that cocoanut money on deposit.

H: Yes, well that - ah.....

H.M.Jr: And I called up General Craig because Woodring was away and the Army takes the attitude this is none of their business.

H: That is the business of the.....

H.M.Jr: The State and Treasury.

H: The State and the - well the Treasury is just a depository, isn't it?

H.M.Jr: That's all.

H: Well I didn't - I don't know - I'll - I'll see whether its our business - whatever function we've got we'll function.

H.M.Jr: You mean it isn't up to us to think of reasons why we shouldn't tell him.

H: Yes, I'll look into it.

H.M.Jr: I'd appreciate it and then we had a very interesting talk with a Russian Ambassador and Herbert Feis sat in on that and he sat in on our talks on gold.

H: Yes.

H.M.Jr: So I'm glad you let him come-over and he'll give it to you.

- 3 -

H: Well thank you.

H.M.Jr: It's very helpful to have him here.

H: Well he's - he's a capable fellow.

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

H: Well thank you, Henry.

H.M.Jr: Thank you.

June 15, 1937

11:30 a. m.

Present:

President Quezon
Mr. Taylor
Dr. Fels
Mr. Oppen

Mr. Quezon: Good morning, Mr. Secretary

H.M.Jr.: Well, how was your stay abroad?

Mr. Quezon: Very nice. It was quiet. I think the most "saintly" visit that I ever made to Europe was this time!

H.M.Jr.: Where were you in Europe that it was quiet?

Mr. Quezon: I was just in Paris.

If I may, I would like to speak to you of the purpose of this visit. As you know, the Courts decided that that Act which provided the return to the Philippine Government of the excise tax on oil is constitutional. And there is money now in the Treasury Department and I should like to have that money in the Philippine Treasury where, in my opinion, it belongs. I was told by Mr. Sayre that there seems to be some difficulty offered in the Treasury Department and I just would like to know what, and why?

H.M.Jr.: No. Our position is this. Before you sailed, you wrote me a letter on April 26th, and pending your return I have been really waiting to hear from you. Now, the position that you take today, I take it, is you would like to have the money.

Mr. Quezon: Yes, sir. I was told by some officials of the State Department that the thought is in the mind of you people that this money has been granted to the Philippines on one condition, namely, that it should not be spent for the benefit of the coconut planters, either directly or indirectly, and that they are afraid that if this money

-2-

was turned over to the Philippine Government that we would violate, that we might violate, that condition imposed by Congress, and while if we had done that at the time when the payment of this money to the Philippine Government could have been stopped by Congress enacting a law prohibiting the full return to the Government of that excise tax, now that the money has been accumulated we would be pleased to have that \$50,000,000. I was told that is the reason there was some doubt in the Treasury Department and that you were contemplating, before delivering this money to the Philippine Treasury, submitting the case to Congress again.

RM, Jr.: No. I don't know just who gave you this, but my position has been that I have been waiting for your return. Now you have come back, but what I would like to ask is, give me a day or two to talk to the State Department and find out what they have in mind, and the thing for us to do is to give you an answer from the Government, not from one Department. I think that's why I asked that Dr. Feis be here, so that we would make it as easy as possible for you and not say one Department says this and another Department says this.

Mr. Quezon: Mr. Secretary, I want to put my cards on the table. I can understand that there may be some fear of the responsible officials of this Government that we might spend this money contrary to that restriction imposed by Congress. I want to say that in the first place there is not the slightest ground for that feeling, because I do not propose to recommend to the Legislature, and under our Constitution the Legislature cannot appropriate funds except upon the recommendation of the Chief Executive, and if they do and I vetoed it, it requires three-fourths of the vote of the Legislature to override my veto, whereas in ordinary cases two-thirds is enough to override.

I do not propose to recommend that that money be spent, directly or indirectly, for the benefit of the coconut producers. I want to spend it for the benefit of the Philippine people as a whole, but if I wanted to do it I would not because we have so many things that require to be done that that money can be spent in the interests of the country much more advantageously than spending it for the benefit of a particular group, so that there is not the slightest fear of that, and I hope my word is good enough to give you that assurance, but if it wasn't, I am willing to enter into this understanding

-3-

with you people, although the law -- I want to say in the first place, I want to say that in my opinion this money should go to the Philippine Treasury and the Philippine Legislature ought to have the right to spend it in any way it pleased provided it does not spend it in the interest of the coconut planters directly or indirectly, but I am willing to go further and agree with you that I will submit the plan of how I intend to spend that money to this Government so that the Government may be assured before the Legislature that we are not spending it, indirectly or directly, for the benefit of those people. I am willing to do that.

HM, Jr.: Well, frankly, I have not studied it. I had your letter which you were kind enough to write me. Your money is here. I haven't spend it. And I was awaiting your return.

Mr. Quezon: But, Mr. Secretary, there is one point I would like to call to your attention. This, to me, is of great importance, because it means more than that money. It means the future, the maintenance of the present very friendly attitude of the Filipinos to the Government of the United States. For the last two years there has been a growing fear in the mind of my people that the Congress of the United States is not very friendly, enacting legislation at the behest of private industry that was injurious to the Philippines. So far, this feeling has not affected the mental attitude of my people towards the United States, because they knew that the President has always fought every attempt on the part of some Committee of Congress to enact such kind of legislation. Therefore, their faith is in the Government.

After we secured from Congress, with the help of the Treasury Department -- I am going to be very frank with you, Mr. Secretary because there is no use of talking with mental reservations; in the first place, I don't know how to do that -- with the help of the Treasury we secured enactment of law for payment of funds which we lost. Then, later on, Congress refused to appropriate the money and we found that the Treasury Department was no longer interested in helping us to get that money. Now, if objection is offered to the payment of this money or if the payment of the money is delayed, my goodness gracious! our people will think that we are dealing with an enemy Government instead of a friendly Government and I am

-4-

beginning to feel that way myself. I am speaking the mind of my people as I am speaking my own mind. I am just beginning to feel we have no friends in the United States. Let's quit and let's separate at least as long as we are friends and not separate after we are no longer friends. America has been a friend to the Philippine Islands for thirty-five years, very wonderful work recognized and acknowledged by the Philippines and it has created a feeling of gratitude. They ought to be interested in preserving that. Even if we part company in the political field, we want to preserve that sentimental attachment.

HM, Jr.: I think there is every wish here

Mr. Quezon: We are really thinking you are trying to find every opportunity to kick us about. We are just human. You created this feeling of gratitude because you were kind and thoughtful and helpful. Well, the minute you began to be the opposite, the human reaction is noticeable.

HM, Jr.: Well, as far as I know, there has been nobody who has talked to me and certainly I have talked to nobody who has anything but the kindest feeling and appreciate what the friendship of the Philippines means to us and we have every desire to keep it and I wouldn't jump to any conclusions about this cocoanut money until I have the time -- it's Governmental; it's not Treasury. We are simply a bank. And if the Government will simply make up their mind what they want to do, the money is here and it isn't for us to put any rules or regulations around this money. It's here to your credit and just as soon as the Government says this is what we want to do, we will sign a check in five seconds, but as far as I know -- you see, you come in today at a quarter of twelve, say, it's June 15th, and the last I had from you was April 28th. Now I have simply been waiting for an expression and you have been very frank, and if you will give me a reasonable amount of time, I will try to be equally as frank and to the point, but this is the first indication that I have had that you were ready for the money. So if you will be just a little patient and give us a few days to turn about ...

Mr. Quezon: Yes, Mr. Secretary. I will be at your disposal any time.

HM, Jr.: I assure you there will be no time lost. I will

-5-

bring it to the President's attention at once and Feis will bring it to the attention of Secretary Hull at once and I will urge them that the Government make up its mind what they want to do. We are simply a bank and the money is there.

Mr. Quezon: All right, Mr. Secretary. Thank you very much. And as I said, I am willing to cooperate in the sense that the Government of the United States has some suggestions as to how in their opinion this money could be spent to the greatest advantage of the Philippines themselves, I will be very happy to cooperate in that.

HM, Jr: Thank you very much.

000-000

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 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)

MEMORANDUM OF THE DAY'S ACTIVITIES

June 15, 1937

To: Secretary Morgenthau
From: Mr. Magill

1. Excise tax extension

Senator Harrison succeeded in obtaining a favorable report on the resolution to extend the excise taxes, without amendment except a change in the period of extension from two years to one year. Senator Vandenberg's motion providing for hearings was defeated 6 to 7; a series of amendments by Senator La Follette to increase the surtax rates and lower the exemptions were defeated on a tie vote 7 to 7; and Senator Bulkley's amendment to increase the excise tax on paper-book matches was defeated.

At the same meeting the Senate Finance Committee reported favorably H.R. 6215, repealing section 143(d) of the Revenue Act providing for publicity of corporate salaries in excess of \$15,000; and S. 2473 eliminating the oath on income tax returns.

Senator Harrison hopes to put the excise tax extension through the Senate within a week.

2. Tax investigation

I had two long conferences with Senator Harrison and Mr. Doughton regarding the procedure, the second conference being attended by Robert H. Jackson. The two chairmen indicated that their idea was that the committee should have no counsel and that the Treasury should present its information by means of statements of Treasury officials cognizant of the facts. They felt that taxpayers should be invited to explain their cases if they wished, but that witnesses should not be called or subpoenaed.

We told them that we were quite sure that this plan differed completely from the President's and that he desired that witnesses be called and the evidence presented in that way. Senator Harrison said that the President had never made any such suggestion in his numerous conferences with them. The two chairmen felt that if the material was presented as they had in mind there was no need for counsel except to advise the Treasury in the organization of the material.

We agreed that I should advise the President of their understanding and that we should ask the President to see us in order that the procedure might be fully agreed upon.

I had luncheon with Robert Jackson in the Department of Justice and there met the Attorney General. He told me that he could not possibly spare Jackson for a job of this kind, since his work in the Department was too important. The Attorney General suggested that Thurman Arnold would give us all his time and Mr. Jackson said that Arnold would be glad to do so. I, therefore, arranged for Arnold to come back to the Treasury with me and start to work as chairman of a directing committee consisting of Messrs. Arnold, chairman; Irey, Tarleau, Kent and Mechem. This committee is to prepare statements for you and me; to go over the evidence and prepare statements with respect to each of the various items which will be delivered by various officials in the Bureau, such as Messrs. Helvering, Russell, Shafroth, Irey, etc.

In my conversation with the President over the telephone at 3:45 P.M., after I informed him that the Committee did not wish to call witnesses and take testimony as he had planned, he suggested that the Treasury might proceed with ten days of hearings, making the statements in the

- 3 -

form desired by the Committee, We might then inform the Committee that there were a number of other cases with different angles which the Committee should have in order to present a fair picture. We might then take a week or two of adjournment and present these other cases. He thought we could probably persuade the Committee to hear witnesses in some cases even though not in all. He felt that we should insist that when witnesses appeared the Treasury must have counsel to cross-question.

TREASURY DEPARTMENT

50

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Herman Oliphant

Responding to the President's request for the law as to the possibility of the Treasury Department conducting a tax investigation in disregard of the Joint Resolution No. 155, there are, from a legal standpoint, two possibilities as follows:

1. The President, in discharge of his Constitutional duty to recommend to the consideration of the Congress such measures as he shall judge necessary and expedient, ^{could} direct the Treasury Department to make whatever investigation he deems necessary to provide himself with the information needed or appropriate for formulating such recommendations. He can direct the Treasury Department to hold public hearings and to gather information and suggestions from people generally. He would be authorized to implement such an investigation by an Executive Order under Section 257(a) of the Revenue Act of 1926, making open for inspection such tax returns as ^{were} required by such investigation, and to use the returns thus opened for inspection in the examination of a witness called in such investigation. The limitation on the President's power thus to make tax returns open for inspection is that he may not permit inspection of returns for arbitrary and trivial purposes, but for appropriate official purposes in particular classes of cases when deemed in the public interest. Such investigation as is

outlined above for the limited purposes stated in the President's message to the Congress would constitute such an appropriate official purpose. In such an investigation there would be no power to summon witnesses or documents.

2. The Commissioner of Internal Revenue could conduct this tax investigation by calling a properly selected list of taxpayers "for the purpose of ascertaining the correctness of any return or for the purpose of making a return where none has been made." He could ~~employ~~ ^{compel} them to produce books and papers, and he could examine them in open hearings. He could require the attendance of any employe of a taxpayer and any third person having knowledge in the premises. He would have power to administer oath and could go into the appropriate Federal district court to enforce his subpoenas.

Such examination of taxpayers and third persons by the Commissioner have heretofore been conducted in secret, but there is nothing in the law to require this. An investigation so planned and conducted would be subject to certain minor limitations which need not be detailed here since none of them would constitute any insuperable obstacle.

Heruman Olshaus

Secretary Morgenthau

Bertram Olliphant

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June 15, 1937.
11:48 p.m.

Operator: Go ahead.

Hello

H.M.Jr: Hello - Roswell?

Magill: I'm up here at the Capitol, Henry, I just got through and I'm talking to the two men.

H.M.Jr: Yes.

M: I couldn't get Jackson to come up; he wouldn't do it.

H.M.Jr: Yes.

M: Ah - it's perfectly clear that they were not thinking in terms of having any counsel; what they were thinking in terms of is - was for me to do all the presenting on the part of the Treasury.....

H.M.Jr: Yes.

M:so I went all over that with them and told them that we - ah - I thought we had to have somebody from outside; it was very important to start it off right and so on and they all agreed to that.

H.M.Jr: Yes.

M: Ah - then I said we ought to have a further conference and I thought you and the big chief ought to be in.

H.M.Jr: Yes.

M: Ah - they said no they didn't want to get him in; they wanted to get their own ideas straight first and they finally met with the idea that I could get Jackson up here at 12:30.....

H.M.Jr: Yes.

M:and go over it with him at that time.

H.M.Jr: Yes.

M: Now if we're going to sell them the compromise here why that's the time at which you've got to do it.

H.M.Jr: Yes.

- 2 -

M: So I thought I'd go on down from here to Justice and get ahold of Jackson and bring him back.

H.M.Jr: Yes, you better phone him you're coming.

M: Yes, well I - he's expecting me to come.

H.M.Jr: Oh.

M: At some such time as this.

H.M.Jr: I see.

M: Now do you think of anything else we should do?

H.M.Jr: Not another thing.

M: All right, well I'll get ahold of him and try to get him up here.

H.M.Jr: Thank you.

M: Goodbye.

Mr. Oliphant

6/18/77

Mr. Oliphant will
notify Justice in
the Smith case.

McGuire

approved by the President and myself
1101
168
40
TREASURY DEPARTMENT *Morgenthau*

INTER OFFICE COMMUNICATION

10.15 A.M. June 16, 1937

DATE June 15, 1937

TO Secretary Morgenthau
FROM Harlan Oliphant

Attached hereto is a telegram from the United States District Attorney at Los Angeles, transmitted to the Treasury Department by the Department of Justice with the request for our recommendation in the matter. This telegram is E. M. Smith's offer to plead guilty to all counts in the two indictments now pending against him. This offer is made on condition that the indictments against the other defendants in this group of tax cases be dismissed.

We are advised that E. M. Smith, if permitted to plead guilty as stated above, will renew his offer to pay the full tax (when determined by the appropriate agency—presumably the Board of Tax Appeals) together with interest and penalty, and, when he comes before the judge for sentence on his plea of guilty to the criminal charges, will state to the court that he is not trying to escape his taxes but has made the foregoing offer.

I have before me the recommendation of Mr. Shafroth that this offer to plead guilty be accepted, and a memorandum from Mr. Irey stating that he has consulted his three men who have worked on the case and joins them in the opinion that this is a good offer and should be accepted.

I concur in recommending the acceptance of this offer. It

constitutes a real victory. Mr. Smith is, of course, at liberty to make any offer to settle his civil liability which he cares to and to state to the judge considering his sentence that he has done so. There is no way we could or should prevent this. The condition that the indictments against the other 23 defendants be dismissed is not unreasonable under the circumstances. In this group E. M. Smith was a wealthy and powerful man dominating it. We will, of course, proceed to collect any taxes which any of these other defendants may owe, and we will do what we can to see that a vigorous presentation is made to the judge that E. M. Smith be given a substantial sentence on his plea of guilty to the criminal charges.

Thomas Chabert

Enc. 1

*noted
mck*

ATTORNEY GENERAL WASHINGTON 280

US. ATTORNEY LOS ANGELES TO ATTORNEY GENERAL ATTENTION MORRIS TAX

DIVISION

INVEST E DOHERTY COUNSEL FOR E M SMITH ET AL BEING PRESENT AT THE TIME
OF DICTATING THIS TELETYPE OFFERS ON BEHALF OF E M SMITH A DEFENDANT
IN THE TWO INDICTMENTS NOW PENDING AGAINST HIM AND OTHERS TO PLEAD
SAID E M SMITH GUILTY TO ALL COUNTS IN THE TWO SAID INDICTMENTS UPON
THE CONDITION THAT I BE AUTHORIZED TO DISMISS ALL COUNTS AGAINST ALL
REMAINING DEFENDANTS STOP I RECOMMEND THAT I BE GRANTED THE AUTHORITY
TO MAKE SUCH DISMISSALS UPON SUCH PLEA AND UPON EITHER THE SENTENCE OF
E M SMITH BY THE COURT OR THE OCCURRENCE OF SUCH OTHER EVENT IN THE
PROCEEDINGS AS WILL PRECLUDE THE GRANTING OF A MOTION BY THE DEFENDANT
TO SET ASIDE SUCH PLEA OF GUILTY ON THE PART OF E M SMITH STOP THIS
OFFER DOES NOT ~~CONSTITUTE~~ CONTEMPLATE THE SETTLEMENT OF THE CIVIL TAX
LIABILITY OF ANY OF THE DEFENDANTS BUT I FEEL YOU SHOULD KNOW THAT DE-
FENDANTS COUNSEL EXPECTS TO MAKE OFFER OF PAYMENT OF CIVIL LIABILITY
TO TREASURY DEPARTMENT ON SAME TERMS AND CONDITIONS SUBMITTED TO THE
DEPARTMENT OF JUSTICE IN LAST OFFER OF ~~OFFER~~ COMPROMISE AND TO MAKE
A STATEMENT CONCERNING SAME TO THE COURT AT TIME OF SENTENCE AS A PLEA
FOR MITIGATION OF PUNISHMENT

PEIRSON M HALL

END ACK PLS

JUN 14 1937 PM

RECEIVED

Memorandum to: Mr. Oliphant
From: Mr. Shafroth
In re: E. M. Smith
Date: June 15, 1937

Attached hereto is telegram from United States District Attorney at Los Angeles setting forth offer of E. M. Smith to plead guilty on condition that indictments against other defendants be dismissed. As Smith is the party responsible for the plan and the one who profited by it, it seems to me that the offer should be accepted.

The Department of Justice would like our recommendation in the matter.

ms

Encl.



TREASURY DEPARTMENT
WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO:
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO:

June 15, 1937.

Memorandum for Mr. Oliphant:

You telephoned me this morning to the effect that a telegram had been received from United States Attorney Hall at Los Angeles, in which he stated that Mr. Dougerty, Attorney for the S. M. Smith Company, had proposed to him that his client would plead guilty to the counts in the indictments against him with the understanding that the indictments against the other individuals involved would be dismissed; further that the taxpayer would again present to the Treasury Department his offer of \$1,500,000.00 and an agreement to pay such additional taxes, penalties and interest as might be found due by the Board of Tax Appeals.

I have discussed this matter with Mr. I. W. Carpenter, the attorney in the General Counsel's office who handled the case, Mr. Ralph R. Reed, Special Agent in Charge of the Intelligence Unit at Los Angeles and Mr. I. W. Cowdery, Assistant Special Agent in Charge who conducted the investigation of the case. We are all agreed that the offer is a satisfactory one and should be accepted with the understanding, of course, that a full presentation of the facts in the case will be made to the court by the prosecuting officer at the time sentence is to be passed.

JEF

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 15, 1937, noon.

NO.: 791

RUSH.

FROM COCHRAN.

This forenoon I visited the Bank of France. The French stabilization fund in Monday's exchange trading lost 685 million francs foreign exchange and gold. This forenoon, up to ten-fifty-five o'clock, the losses had been 110 million French francs, with very heavy pressure. The transactions this morning wiped out the last of the gold and foreign exchange in the Stabilization fund, which has had therefore to begin taking gold against francs from the Bank of France.

My contact told me that financial circles are convinced that before the end of the week the Blum Government will fall no matter what measures may be introduced in the French Parliament.

Exchange control for France has consistently been favored by Governor Labeyrie, but during the past few days he is not known to have made any new recommendations with regard thereto. It is said that yesterday he submitted to Prime Minister Blum a long memorandum in which he accused the "200 families" of undermining the French Government.

Up

- 2 -

Up to the present the Bank of France has not received confirmation of the rumor that Rist and Baudoin had resigned from the technical committee of the Stabilization Fund.

The Bank of France just telephoned me (at 12:30 noon) that at noon both Rist and Baudoin failed to appear for the daily meeting of the exchange experts, which strengthens the belief that they resigned from their posts.

BULLITT.

EA:LWW

LMS

GRAY

London

Dated June 15, 1937

Rec'd 3:02 p. m.

Secretary of State,
Washington.

382, June 15, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

With reference to your 243, June 14, 4 p. m., I have made indirectly some inquiries in the bullion market and find that the Swiss have recently resumed gold sales here in substantial amounts and were today sellers of gold.

The city is receiving very confused reports from Paris and although dealings in franc futures have stopped in Paris, in London one month's francs are at a 3 point discount while 3 months are at a 6 point discount. The general attitude of the city and the British press towards the French situation is well expressed in an article in today's FINANCIAL TIMES which after enumerating the palliatives which might at the moment be indulged in concludes:

"They can only straighten out the difficulties of the Treasury for the time being. What the Government requires most of all to restore financial stability is the return
of the

LMS 2-No. 382, June 15, 7 p. m., from London.

of the hundreds of milliards of francs which have found voluntary exile in New York, London, Amsterdam and elsewhere. To do this it must restore confidence in the currency. And this is largely a question of internal economic policy. So long as the program of social reform stifles enterprise and burdens trade and industry with such liabilities as to put them out of effective competition, the Treasury returns will continue to fall below estimates and the foreign exchange weaken. The effects even of a further devaluation of the franc would not avail against the persistence of the United States factor. The danger of a renewed flight of capital is greater than it was in view of the fact that French investors, distrustful of the price of gold and the fall in commodities are seeking liquidity mainly through the medium of United States dollars. From the international as well as from the domestic standpoint therefore M. Blum is carrying a heavy responsibility for reasonable economics and sound finance".

The Chancellor of the Exchequer was asked in the House of Commons this afternoon whether he was aware that the surfeit of gold coming to London could be redistributed throughout the world and British export trade greatly increased by allowing the public issue in London of loans
to

LMS 3-No. 382, June 15, 7 p. m., from London.

to foreign borrowers, provided that British investors were prepared to lose their savings by uncreditworthy foreign borrowers defaulting again on their obligations as shown in the annual reports of the Council of Foreign Bondholders; and whether he would consider that aspect of the remedy for unwanted gold as a reply to the demand for raising the embargo on foreign lending.

Sir John Simon replied that foreign lending on a large scale may no doubt tend to reduce the movement of gold towards this country but the possible field of such lending was much restricted. He agreed that the making of loans to uncreditworthy borrowers was not a process from which good could result; it was the business of the lender to distinguish between creditworthy and uncreditworthy applicants for loans and it was not the function of the Foreign transactions advisory committee to settle that point.

BINGHAM

RR:WWC

LMS

GRAY

Paris

Dated June 15, 1937

Rec'd 5:27 p. m.

Secretary of State,
Washington.

795, June 15, 5 p. m.

FROM COCHRAN.

Pressure on franc continues very heavy this afternoon with French control still yielding sterling at 110.90. Discount on forward franc has widened to $5\frac{1}{2}$ francs for three months. Money is very difficult to find. Bank of France is scrutinizing rigidly all discount operations. Rentes down 65 centimes to 1.30 francs. All French shares weak and internationals in strong demand, Suez being up 1,000 francs.

Council of Ministers met this morning at 9:00 o'clock and adopted the proposal which was approved by the Cabinet. After the meeting, Minister of Finance Auriol made an answer to the press. According to the news ticker he said that while the Government had been endeavoring to work at extreme speed in the formulation of its policies, a speculative offensive had in the meantime developed. Now it has become so serious that the program cannot be held up pending a long parliamentary debate. The

Government

LMS 2-No. 795, June 15, 5 p. m., from Paris.

Government desires to restore public finances and strangle speculation. With these two aims, Auriol said, it had been decided to seek authority to take by ministerial decrees all measures necessary for the improvement of public finances and for the protection of savings during a limited period. The decrees would be submitted for ratification within three weeks at an extraordinary session of Parliament. He said that this proposal would be submitted to the Bureau of the Chamber at 3:00 o'clock this afternoon with emphatic recommendation that the speculative offensive must be checked. Auriol pointed out certain indices showing recovery. From the report which I have seen he said nothing about advances from the Bank of France to the Government. The definite terms of the bill were not disclosed.

Because of the significance which has been attached to it by certain foreign press correspondents, there is provided herewith a translation of an item in AGENCE ECONOMIQUE today which summarizes what it considers the principal points of the speech which M. Bastid, Minister of Commerce, made at the inauguration of the International Congress of Exchanges.

"Following the measures taken with respect to quotas and the lowering of customs tariffs decided upon last

October

123 3-20, 798, June 15, 5 p. m., from Paris.

October we have had the impression in France that this liberal gesture remains without echo from abroad. We have had the impression that we are trading 'one way only'. Opinion is disturbed by the increase of our imports and by the deficit of our commercial balance. This has given rise to a campaign which has been felt in the Chamber for a return to protection and the abandonment of liberal measures taken last autumn. This is a state of mind which we cannot disregard and it is necessary that this should be understood beyond our frontiers especially by our friends who signed the tripartite arrangement.

It is essential that the determination of the Government not to enclose itself in an autarchic system, which the diversity of our metropolitan and colonial products would render perhaps less difficult than for other countries, be supported by the active collaboration of other governments; otherwise French opinion will no longer understand and no Government will be able to resist re-awakening protectionism".

In connection with the declarations attributed to Bastid, AGENCE ECONOMIQUE of today contends that the policy by the Government has been exactly contrary to the principles of liberalism envisaged in the arrangement of

September

LMS 4-No. 795, June 15, 5 p. m., from Paris.

September last and that it is not surprising that under such circumstances it is forced to turn to a policy of autarchy.

Bank of France has invoiced to Federal Reserve Bank of New York for account of B I S 50,456,000 francs gold, steamship PARIS.

BULLITT

SMS:EMB

TREASURY GROUP ON GOLD AND RELATED QUESTIONS

June 15, 1937
4:20 P.M.

Present: Mrs Klotz
Mr. Taylor
Mr. Lochhead
Mr. Oppen
Mr. White
Mr. Bell
Dr. Viner
Mr. Riefler

H.M.Jr: Now Wayne, what do you want to say?

Taylor: Nothing. Remember you told me that you'd like to see the crowd at four, after you got back, just to.....

H.M.Jr: Well, if there are no other.... Are you (Riefler) up-to-date?

Riefler: Roughly, I think.

H.M.Jr: All right. Have they kept you occupied?

Riefler: Uh-huh.

H.M.Jr: Roomed your feet on some desks? What?

Riefler: All over.

H.M.Jr: All right.

Taylor: Not in connection with that bill, but I think maybe you'd better tell that story, Clarence, about Mr. Hester's session today.

Oppen: Well, I get it second-hand, of course. On Friday we were notified that the Banking Committee of the House wanted to hold hearings on the joint resolution sent down to provide for payment to the Federal Reserve banks of expenses in connection with the 1928 currency that we asked the banks to destroy. We decided that probabilities were that they'd try to make a field day of that on asking questions on the Treasury's monetary and gold policy, and so forth; so Hester went down with a statement which dealt only with that bill itself and the purposes of it, and he went through, I think, a rather difficult session this morning staving off questions; but he didn't - whenever he got a question that got into monetary policy and had nothing to do with the bill, he said that of course he hadn't prepared himself on that, because he was simply directing his

-2-

attention toward the four corners of that bill, and apparently the thing went off all right - but a good deal of fencing - Patman and Luce principally.

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

The only thing - other reason I really wanted to get you people together was this: that if it is agreeable to you, moved and seconded by Dr. Viner, we will meet at 8:30 tomorrow morning, and I think we ought to.

Mrs Klotz: They all look so pleased.

Viner: I'm sitting here so they won't.....

H.M.Jr: Here's this last telegram. Have you people seen this one?

Bell: Question in order?

H.M.Jr: This is June 14, 11 P.M.

Bell: Question in order?

H.M.Jr: No.

Bell: I just wondered how long you were going to live at the Hay-Adams.

Mrs Klotz: At the Carlton.

H.M.Jr: Oh, at the Carlton.

(Hearty laughter)

Bell: He just steps across the street and here's the Treasury.

H.M.Jr: "I was informed by Blum this evening unanimous decision was reached by the Cabinet this afternoon to demand....." - I'd just as leave make it a quarter of nine; I don't care. "I was informed by Blum this evening unanimous decision was reached by the Cabinet this afternoon to demand full powers to regulate all financial matters by decree laws tomorrow in the Chamber of Deputies, and later in the week in the Senate."

This is Cochran, this is not Bullitt.

-3-

"Blum told me that when he had left me at luncheon he had not known how his Cabinet would react and therefore had not known what to say to me. This afternoon when he made his proposal to the Cabinet, among certain Radical Socialist Ministers there was a sentiment to refuse to go along with him on this measure. This afternoon he had nearly fallen."

Mrs. Slutz: Who?

J. J. J.: Blum. He was out smiling - fallen, risen again.

"Blum had suggested after a discussion that the Radical Socialist Ministers Chautemps, Daladier" - please bear with me on my French - "and Delbos should have a conference and should meet him, Auriol, and Paul Faure for a definite decision on the matter. Following these conferences decision was reached by the Cabinet for unanimous support of Blum in his demand for full powers. Blum was confident that full powers would be given to him by the Chamber of Deputies, but abstentions of Radical Socialist deputies would reduce his majority."

"It was his hope that at a night session tomorrow, Tuesday, full powers would be voted him by the Chamber of Deputies, and by Thursday or Friday of this week he believed the bill would reach the Senate. It is highly probable, he said, that full powers would not be voted by the Senate, and that his Government would no longer be able to stand."

"No one except the intimate circle of the Cabinet, Blum asserted, knows about the decision taken, and he asked me to keep secret except from my Government what he had told me."

I've seen this thing. What's-his-name gave it to us this morning, didn't he?

Well, I don't know, but I think everybody might be thinking what will happen if they devalue further or put on exchange control, whatever they... Looks as though this is going to be the week. That's about all I got to say.

I'm sorry you (Riefler) weren't here this morning.

-4-

Steller: I'm sorry too.

H.M.Jr: But you'll have - I imagine they'll be back at us Thursday. I have nothing; anybody want to ask me any questions? Jake?

Viner: Would you care to talk about the question of limiting purchases to central banks? You had it on your mind.

H.M.Jr: Well - I mean I had that move in mind, in case of - if France left the tripartite, but I'm not in shape to go any length in the discussion this afternoon or this evening.

To keep you people posted, the Russian Ambassador has informed us that he is ready to start a discussion on the control of - export of gold outside of Russia. He feels that what their amount of production of gold in Russia - that is an internal matter, but he is ready to discuss gold once it leaves their borders. So that is something.

White: It's not enough.

H.M.Jr: That's all you'll get.

White: To begin with.

H.M.Jr: You won't get any more.

White: I think so.

H.M.Jr: No, you won't. That's the way they've worked on sugar, that's the way they've worked on lumber, that's their policy. Well, anyway, that's what he said; I thought it was pretty good.

Taylor: Ought to be able to arrange to send Harry over there as a special investigator. It's a nice place right now.

White: Shooting too many people.

Viner: Maybe that's what Wayne had in mind.

(Hearty laughter)

-5-

White: A public denial is in order.

Taylor: Harry was shaking his head about it - "That's not enough." I mean if he wants to go over there and get some more.....

H.M.Jr: You made him a diplomat this morning.

White: Now they want to shoot me.

H.M.Jr: No, now we want to make you a general.

Bell: He'd have to be a general so as to get shot.

H.M.Jr: Well, I hope that both Viner and Riefler can stay around for a couple days. Can you (Riefler)?

Riefler: Yes, sir.

H.M.Jr: And may I say I'm delighted that you could come, and you will be most useful.

Riefler: I wish I could have gotten here; I would have been here if I could have had the message.

H.M.Jr: He's going to be here for a couple years. What's the difference if we start half a day late?

Now if it's agreeable to everybody, I'll be here at 8:30 tomorrow morning.

Bell: I'll be here.

Oppen: Nobody has any objections to that, Mr. Secretary.



DEPARTMENT OF STATE
WASHINGTON

June 15, 1937.

My dear Mr. Morgenthau:

In compliance with your request transmitted through Dr. Feis, I am attaching hereto a memorandum giving such information as is available in the Department concerning Soviet participation in international arrangements dealing with the sale of Soviet timber and sugar in the world market.

Sincerely yours,

Robert F. Kelley

Enclosure:
Memorandum.

The Honorable

Henry Morgenthau, junior,
Secretary of the Treasury.

MEMORANDUM

Soviet Participation in International Arrangements
Dealing with the Sale of Soviet Timber and Sugar
in the World Market.

TIMBER

The Soviet Government was a signatory to a convention known as the European Timber Exporters Convention concluded at Copenhagen, Denmark, in November 1935, which had for its purpose the voluntary limitation of sawn softwood to be exported to European countries. This Convention entered into effect December 11, 1935. Previous attempts to reach an agreement limiting European timber exports had met with no success due to the position of the Union of Soviet Socialist Republics. Therefore the participation of the Soviet Union represented a change of policy on the part of the Soviet Government considered to have been motivated by purely commercial considerations based on the low price received for timber exports. By this agreement the total quantity of sawn softwood to be exported by the participating countries in 1936 was fixed at 3,850,000 standards. The quotas fixed for the participating countries were as follows:

Sweden

- 2 -

Sweden	820,000
Finland	1,005,000
U.S.S.R.	950,000
Poland	313,000
Czechoslovakia	96,000
Austria	275,000
Yugoslavia	168,000
Rumania	223,000
Total	3,850,000

An Executive Committee consisting of six members was formed of which Sweden, Finland and the U.S.S.R. each had one representative, the other five countries having three joint representatives. This Convention which was concluded for one year was renewed for a further period of one year at a general conference which took place at Stockholm on October 1, 1936. The above quotas remained unchanged, with the addition of a quota of 127,000 standards for Latvia, which had not participated in 1936 and an increase of 23,000 standards to the Rumanian quota.

In addition to the sawn lumber convention, the U.S.S.R. concluded in October 1936 an agreement with Finland concerning the exports of pitprops. By this agreement it is expected that the pitprops exports of these countries, which together supply about 85 per cent of the entire European exports, will be reduced in 1937 by about 20 per cent.

SUGAR

- 3 -

SUGAR

The Soviet Government was a signatory to the International Agreement Regarding the Production and Marketing of Sugar signed in London on May 6, 1937. Under this agreement the Soviet Government agreed to limit its net exports of raw sugar tel quel to the so-called free market to the amount of 230,000 metric tons per annum for the five years of the agreement. Exports to Mongolia, Sinkiang and Tana Tuva are specifically not included in this quota. In the agreement the Soviet Government gave notice that during the quota year beginning September 1, 1937, it will not make use of 11,500 tons of its basic quota. The agreement also contained general statements of intention on the part of the signatory governments in regard to the advisability of preventing the accumulation of excess stocks, the reduction of disproportionate fiscal charges on sugar, encouragement of consumption, etc. With reference to these expressions of intention, at the time of signing the Soviet delegate wrote in above his signature the following statement:

"It is understood that in view of the fact that the U.S.S.R. is a state governed on a planned principle, Chapter 5 of the Agreement dealing with stocks and all the other Articles in the various Chapters of this Agreement which in any manner refer to internal production, do not apply to the U.S.S.R."

On

- 4 -

On the general council which was set up to administer this agreement, the Soviet Government has five votes out of a total of 100, and in addition will be represented for three out of the five years of the agreement on an Executive Committee of nine members which will exercise any powers delegated to it by the Council.

It would appear that while the Soviet Government is willing to participate in agreements with other countries regarding the regulation and control of exports to the world market, it will not undertake, as was shown by the statement of the Soviet delegate in signing the Sugar Agreement, any commitment under such agreements which would affect or restrict the operation of its internal economy.

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TREASURY-FEDERAL RESERVE MEETING RE
GOLD AND RELATED QUESTIONS

June 15, 1937
3:40 P.M.

Present: Mr. Taylor.
Mr. Oliphant.
Mr. Lockhead.
Mr. White.
Dr. Viner.
Mr. Goldenweiser.
Mr. Oppen.
Mr. Williams.
Mr. Gardner.
Mr. Knoke.
Mr. Eccles.
Mr. Harrison.
Mr. Bell.
Mr. Feis.

(Eccles comes in)

H.M.Jr: O.K., we'll start now. We won't wait a minute longer. Sit down, Mr. Chairman.

Eccles: Good morning.

H.M.Jr: Well, I don't think we'll wait any longer. There are a few missing people.

The reason that I asked for this meeting was that I think all of us have been doing a lot of thinking about this gold question, and we have had various conversations, Eccles and I, and I know he's been working with his staff and we've been working with ours; and over the weekend I sort of concentrated on the thing, got it clear in my head, and I thought that I'd seriously discuss it with you people and see if we can't work out a successful plan.

Now, I just want to tell you what we have in our mind. There is the question of the handling of the gold, sterilization, and the handling of the foreign deposits, and the question of taxing aliens who invest here. Now this morning, we can make a start, if it is agreeable to you, and talk about this question of reserves against foreign deposits, and I'll just - we have jotted down in the agenda ten things; maybe I better just read through the ten and then we can open the discussion. There will be a few more people coming.

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And may I say at the start, I am fully convinced that this is a joint problem that we have to handle together, see?

"A. Should we try to get legislation permitting an increase in reserve requirements against deposits for foreign account?

"1. To what maximum? 2. Should there be any exemptions? For example, \$5000 to \$10,000 or \$25,000 on individual accounts, or more for bank accounts?

"3. Should such deposits be held only by member banks, or should any bank be permitted to carry them as now?

"4. Should deposits for foreign account be exempt from the F.D.I.C. fee?

"5. What should be the method of operation? The sequence of steps?

"6. If reserve requirements against foreign deposits are increased, ought the Treasury issue three-month bills, or doesn't it matter much?

"How soon should we try to get the legislation?

"Should we consult other club members before seeking legislation?

"Should we attempt to get other club members to adopt somewhat similar measures?"

Roughly, those are some of the questions we'd like to raise. I might say in passing that I've gone far enough with this idea of handling sterilization of gold through an increase in reserve requirements against foreign deposits - interests me very much; otherwise I wouldn't ask you people to come down.

I also think it might be interesting for you people to know in passing that Sir Josiah Stamp was in - I think he saw Mr. Eccles yesterday - and he asked me if I had any message to take back. It reminded me that last time, two years ago, I told him just what I

-3-

thought of England, and I told him this time I only had pleasant words. He asked whether I thought we should do anything together about gold, so I said I'd rather not discuss it. So he said, "Would you mind if I made a comment?" I said, "No." "Well, it seems to me the sensible thing for you to do is to increase reserve requirements against foreign deposits and in that way distribute the load." And I thought that was very interesting, coming from him.

(Harrison comes in)

- H.M.Jr: Harriner, I've outlined - would you like to say something? I mean is it agreeable to you that we concentrate on this question of - or on these things first, or is there something else you'd rather take up first?
- Ecules: No, I certainly think that is a very important part of any program, and of course there is the question of taxation and....
- H.M.Jr: May I - excuse me one minute - I want to say that Mr. Riefler is coming and from now on is acting as a consultant to our stabilization fund.
- Ecules: It seems to me that this is an important part, certainly, of any program, and it would seem in order to consider whether it is just as well to mention the tax aspects of the program along with it; it seems to me it is all involved. It is as important to do something to discourage capital coming here as it is to take care of the sterilization of such capital if it does come, and the idea of increasing reserves against foreign deposits tends to of course meet the problem created by capital coming here to the extent that it will be discouraged from coming. And I think it should be done.
- H.M.Jr: Well, may I just say this, that we see that right now - I mean as far as we have gone, there are three things. There is the discouragement of foreign capital through a tax program, which we can take up any..... - there is this question of increasing reserve requirements against foreign deposits; and there is a third thing, the question of if they should transfer their deposits....

-4-

- McCles: To a Reserve bank?
- M.M.Jr: No, I mean transfer their deposits into short-terms - the question of possibility of a transfer tax to discourage that. And that's why we brought up the question what kind of bills. But in order to make some headway, if it is agreeable to you, we thought we'd like to concentrate this morning on this question of whether or not it would be wise to do one - as one leg of the stool, this question of excess reserves. Is that agreeable to you?
- McCles: That's agreeable to me.
- Williams: I'd like to ask one question about it. I think your last remark may be contained in your answer. What happens when there is a transfer of a foreign deposit, say a transfer from Bank A to Bank B? I should think your excess reserve problem would be recreated for you right there, you see, because it would no longer be a foreign deposit. It would go from the bank of origin to a second bank, and there it has, it seems to me, the same value as the reserve. Am I wrong about that?
- Gardner: From a foreign deposit to a domestic deposit, not from A to B.
- Williams: From one bank to a second bank; it becomes a domestic deposit in the second bank.
- Gardner: If it were a foreign deposit in the second, it would be the same, but transferred from foreign to domestic it becomes domestic.
- Viner: But how can it be transferred from foreign to domestic?
- Williams: Foreigner buying a security, foreigner buying goods from an American.
- Viner: Well, if he buys goods it's another story.
- White: Then it's no longer a foreign deposit.
- Williams: What happens there, Harry, is that it creates an excess reserve.
- White: That is part of the problem.

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- Williams: Any kind of transfer, so long as it is from foreign account to domestic account, recreates your whole problem.
- White: Except it isn't a transfer; it is a change in the nature of the deposit.
- Viner: Change in the ownership of deposits.
- Williams: That's the transfer..
- Lucas: Yes, but if the deposits.....
- Williams: See, your problem is recreated.
- Viner: What you are saying, John, is what happens if we acquire a favorable trade balance on trade account.
- Williams: If they pass from the foreign deposit to the domestic, you see, and there is no increase of reserve requirements on domestic deposits right away, you've got your excess reserve problem.
- White: But this is designed to work both ways.
- Williams: That's why I said your last remark covers that maybe; I don't know - the transfer tax.
- White: Or even if the transfer tax is insufficient, if you have the foreign deposits being built down by virtue of expenditure or by virtue of purchase of securities, then there is another shift which needs to be met by some action.
- Williams: That's right.
- Viner: I don't think we've thought about this other one of a favorable trade balance.
- White: No, we don't worry about that.
- Gardner: No, but if you discourage them buying securities by a transfer tax or some other form of taxation, that discouragement still leaves them with some income on the securities. They may transfer from deposits into securities nevertheless. Having done so, the sterilization problem is fully recreated.

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Williams: That's right; having done so, you've got your problem all over again.

White: That's quite right.

(Feis comes in)

Eccles: Did you have some proposal to submit on it? Have you worked something out?

H.M.Jr: Well, we simply feel, as I say - you know what our proposal is on the taxes; our proposal on the taxes is a 35 percent withholding tax on all dividends of aliens, giving the alien a right to submit an income tax report, and if his income - and it is subjected to exactly the same tax as that of a United States citizen, and if his tax is less than 35 percent, we refund him the difference.

Eccles: That's not on dividends, that's on income.

H.M.Jr: On income.

Eccles: All income in this country.

H.M.Jr: Yes. We treat him just exactly the same as we do our own citizen. And on that basis the State Department is perfectly willing to go along. Right?

Feis: It would be happier with 25 percent, but I guess it has no choice.

H.M.Jr: We're a one-price house, Herbert. We had you all fixed on the 35 percent.

Feis: No.

H.M.Jr: Oh yes, I got the Secretary on record; Mr. Hull.....

Feis: I guess he's easier than I.

H.M.Jr: Well, you too.

Feis: But certainly on the idea - there is no trouble in the idea; just a question of the rate.

Harrison: Does that apply to pre-existing ownership, Mr. Secretary?

-7-

H.S.Jr: How do you mean?

Harrison: I mean it applies to all income from capital here; it doesn't apply to future movements of capital.

Viner: Is it all income, the proposal?

H.S.Jr: Well, when we move it I'd rather have Magill here and carry that; I mean I'm not prepared. Now, is this discussion going to be so short on this question of increasing....

Eccles: Well, this is a pretty involved question. There's a great many aspects to it, and I was just wondering if you had some memorandum, if anybody had worked out a proposal, or if they wanted us to do that. We have had no consideration of....

H.S.Jr: Well, here's the thing. White is ready to answer any questions on this thing. Let anybody ask any questions they want to. You (White) want to state the position, the argument for it? Then let them go after it. Is that all right, Harriner?

Eccles: Yes, sir.

H.S.Jr: Can you get going on this? Tell why you think it's a good thing and also point out the weak points.

White: Setting aside the possible differences in the procedure or the differences in amounts with respect to exemptions, with respect to whether it shall be all members - members only that shall be permitted to have foreign deposits or whether it should be all banks - setting aside all those questions, merely treating the thing in the large, there appear to be the following advantages for some such measure.

In the first place, it will place the burden of carrying a large portion of the inactive account, and possibly all - one cannot say for certain, because it depends on matters which will appear in the discussion - it places that burden on the banks, who in turn may if they wish pass it on to some of the depositors in the form of a small service charge, if and when the reserve requirement reaches a certain

-8-

point. By so doing, by permitting the Treasury to issue gold certificates against the inactive account, gradually and in such proportions as will not disturb the volume of excess reserves which exists at any one time, we remove one very important source of criticism against the Administration monetary policy, and, further, tend to take away some of the support for the growing attitude of fear and concern over the whole gold problem. I don't mean to say for a moment that that solves it; I merely say that the existence of that inactive account, for which the Government has to borrow to maintain, is receiving much more attention, and they jump from that into the whole question of gold; and you have repeated criticism with respect to digging up gold in one hole, paying for it, paying to maintain it, and sticking it in another hole.

Thirdly, the proper conduct of that arrangement will to some extent, to a rather substantial extent at a point, support the Government's obligations, bill market particularly. That is not a matter of prime importance; it is merely one of the additional factors.

Fourthly, it may act as a mild deterrent. Alone it wouldn't possibly be more than a very mild deterrent, but if accompanied by some other device, it may be; if made part of a larger program, it could be made - it could fill out the picture of becoming some discouragement to further inflows of capital.

Fifthly, it serves to insulate to a considerable extent the domestic economy against inflows and outflows of gold.

Obviously, this would work both ways, as John suggested when he came in; that is, we are merely considering it from the point of view of what happens when the balances are being built up. When the balances are being reduced, either because of movement into securities or because of more favorable balance of payments, then you have to take steps which will serve to take care of the excess reserves thus created.

I think those are probably the principal methods - the principal advantages for the procedure. There are other minor advantages.

-9-

Harrison: Does it apply to all deposits?

White: well, that is something open to discussion.

Harrison: You don't allow a man a normal working balance?

White: I spoke of exemptions, and we were in favor of some exemptions. Now, what those exemptions shall be, whether they shall be \$10,000 or \$25,000, whether they shall be exceptions on individual accounts or whether we shall permit a bank deposit to have a larger exemption, is something that let's hope we'll develop from this discussion.

Eccles: You said something about the assistance to the bill market. In what manner would it assist the bill market?

White: well, depending upon what point the reserve requirements reach, there will be a point at which it will be essential - at which you may drive some of the deposits out into the bill market, if you don't have the transfer tax.

Eccles: Oh yes.

White: And if that is so, then the demand for bills will be in excess of the sale for bills, which may be necessitated by the need of banks to get more cash.

H.M.Jr: May I just interrupt one minute. That is one of the reasons why I am anxious to concentrate on this question, because, if you (Eccles) remember, you and I said we'd talk about bills; then when we got into the bill thing and when we got into this, we saw that you couldn't consider the one without the other. And we thought that before we decided what our next method of raising money through bills would be, we'd have to discuss this. What we'd like to do, if you people are willing - we'd like to sit every day on this thing for a week, if possible, and see if we can come to some conclusion. I think it would be a mistake to settle what our bill policy is going to be and not have this.

Then the other thing - as you notice, they are getting quite active on the Hill and when we pass our billion dollar point - I mean they're going to get more active, and the inflationary crowd is getting busy, and commodity

-10-

prices are falling. And we'll have Senator Glass recommending going back to the old gold standard, '26 and '27. So I think the time has come that the Administration has got to make a move. And what we'd like to do, if the Federal Reserve and if the people who advise us concur - we'd like to sit right straight through this week and see if we can't come to a conclusion. I mean we're ready to do it, and these people that we've asked to come down - Jake Viner's ready; now that he's here, he said he doesn't care how long he stays.

Viner: I don't now.

Williams: I was going to Canada.

A.W.Jr: And Williams was - he much prefers Washington to Canada.

Gardner: On the bill market, Harry, wouldn't there be more support to the bill market if these funds remained on deposit? Then they'd carry themselves; if they go out into the bill market, the Treasury has to sell more bills to sterilize them.

White: No, I think you'll find, again with the given assumptions - I say at a certain point - a certain point is reached at which - and this presupposes an appropriate management of the fund in such a way, as I say, not to disturb the other excess reserves which will be brought into play.

Williams: Isn't it true, in so far as they buy bills or anything else, for that matter, you've got your excess reserve problem, so then the Treasury has to sell more....

White: I say there is a certain range, a certain point somewhere, let us say, roughly, for the sake of discussion, between 50 and 75 percent, in which you've got the movement increasing in one direction, in which the demand is in excess of flow. If they have 50 percent reserves, for example, if they draw down their balances, they can use part of that 50 percent cash, which is thus liberated, whereas the movement out utilizes a hundred. I mean there is a - you reach a range in which what you say is true, and you reach a range before that in which the situation is different. But I

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wouldn't say that is a major consideration.

Tiner: Well, the proposal would be admittedly incomplete if it didn't have some transfer proposition to deal with the bills.

White: It would be if the purpose were to discourage funds, but if the purpose were merely to eliminate a large portion of the inactive fund, that need not be so, unless there's a great deal more gold that comes into the purchase of long-term securities.

Harrison: Mr. White, isn't what you're trying to do really to discourage capital from coming over here for capital investment, and not money from coming over here for trade purposes, and doesn't the hundred percent reserve - I'm just asking a question because I haven't thought it out - doesn't the hundred percent reserve run the risk of discouraging foreigners from doing business with us for trade as much as from sending it over here for ultimate capital investment?

Taylor: Not necessarily.

Harrison: No, not necessarily, but doesn't it tend to make this an unattractive place for foreigners to put money for trade purposes? Now, let's stick to that alone. And especially if, as a result of the law, you indicate, for instance, that banks might recompense themselves by a service tax or something, it is just adding to the cost of doing business in America.

White: Only in so far as there is a service charge applied does the maintenance of bank balances here for the purposes of conduct of trade become slightly discouraged, - let's put it that way - depending, of course, upon the size of the service charge.

But there are two things to be said about that. First, that is one reason we were talking about exemptions. If a sufficient exemption could be permitted so as to take care of a reasonably substantial volume of deposits here, to take care of normal commercial balances, that would be one way of helping to meet that.

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Secondly, I think it must be made clear to the staff that there are two objectives. They may be combined or they may rest independently on different bases. One is to eliminate so far as the United States is concerned, or reduce rather, the problem created by the inactive account. Now, that can be done without in any way - without significantly, let's say, discouraging any inflow of capital. The second is a different problem and a more difficult problem to handle, and a more comprehensive problem, which might also involve the first; namely, the discouragement of further inflows. Now that's a separate problem. You see, you wouldn't get that except to the extent of the service charge, and you wouldn't even get it then unless - I mean you wouldn't get it effectively unless you combine with that some other portion of the program which is being suggested. But there are two separate problems, and even if the second were out of the picture just for the moment as a basis of discussion, the first itself, I think, would justify some such step, even though you might never reach a hundred percent; in fact, there is much to be said, probably, for not doing it.

Golden.: What level of percentage are you contemplating?

White: Well, let's say, tentatively, supposing you gradually approach somewhere between 60 and 75, for the first purpose. Now, I'm not speaking of the second; for the second purpose, there would be a different range. For the first purpose, if you approach gradually between 60 and 75, and if you didn't have a transfer tax - as you approach 75, and the opinions would differ - you may feel that you might approach it at 65 or 60; that's a matter of discussion and greater familiarity with the psychology of the investor - at that point you'd get a movement out of deposits.

Golden.: What do you mean by gradually approaching?

White: When I say gradually approach, I mean that you might preliminarily set what figure you are shooting at, but the achievement of that figure would be a gradual approach, because I think that we all felt, in discussing it, that above all we should not do anything to disturb the volume of excess reserves or the money market. I mean the thing should be handled in such a way as to create as little disturbance as possible.

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Galatin.: You mean you'd give a period of time.

White: Not only a period of time, but it could be in small amounts; it might be a hundred million at a time, possibly.

H.C.Jr: We also - if I may interrupt a minute - thought of it in terms of a hundred million because that would give us a chance to let the banks adjust their excess reserves and also judge on the bill market more carefully. If we did it in bits of a hundred million, as near as we could estimate, it would disturb the picture as little as possible; do a hundred million and then wait, then do another hundred million.

Golden.: You mean that you would release from the inactive account a hundred million at a time as the reserves against those deposits increased correspondingly.

White: And the cooperation of the Board would be necessary, very definitely, at some point in that picture, where there is a hiatus or a lapse, or there is apt to be, at which they might engage in minor open market operations to smooth over the transitional period for a brief period of time.

Taylor: But you would be thinking in terms of being able to increase it to a hundred percent. In other words, your flexibility would be that full.

White: The legislation would give us that, but the actual operation, I think, would depend on which of these two objectives you are shooting at, for the moment.

Golden.: What you are considering is discretionary legislation giving somebody authority to raise the requirements against foreign deposits up to a hundred percent.

White: Now, to raise the reserve requirements up beyond 75 and 85 and 90 without some restraint of the movement from deposits into other forms of high-grade short-term securities might be to defeat the purpose which you are achieving.

Golden.: May I ask now you arrive at the point at which it will defeat itself?

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- White: I say that is a matter of difference of opinion, and it is wholly a matter of subjective evaluation of at what point will the banks place a service charge. After all, the depositor doesn't move his funds out until he has to pay something for it. So it's a question of when certain banks will place a service charge on certain accounts; secondly, how much. The F.D.I.C. has a charge of 1-12 of one percent on deposits, which includes these deposits. Now, as the reserve requirements increase, that charge becomes a greater burden on the remaining portion, with the exception of the private banks, non-insured banks, which don't pay that. That is one of the factors to be considered.
- H.M.Jr: May I just at this time give them the information that we have as to where the money is. I think that would be helpful to them. I mean how many banks.
- White: We got it from the Federal Reserve Bank of New York.
- H.M.Jr: But the other people may not know it.
- White: A preliminary, rather rough, figure - about 26 banks hold about 95 percent approximately of the total, and of those 26 banks I think that there are 12 or 13 that are non-member banks, including the private banks, and so those banks alone have very little reserves, less than a hundred - about a hundred million; at least it was about a hundred million about a week ago. But your problem centers around virtually those 26 banks. Of course, there are banks scattered throughout the country which, as Archie pointed out, have small accounts from immigrants or some such, who would be interested in this as well as the banks in New York. But the bulk of the volume is contained among those 26 banks.
- Loeb: Would it be all right, as these reserve requirements were increased, to sterilize to that extent, and the fund would continue to buy gold just as you are doing at the present time - all gold coming in - and then would sterilize from the inactive gold fund to offset whatever action was taken to increase the reserve requirements against foreign balances.
- White: Yes, so that you wouldn't affect the volume of excess reserves.

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Taylor: You wouldn't have to do it exactly, Harriner.

Lucas: No, I mean approximately that would....

White: That's the objective.

Lucas: A difference of a hundred million or so wouldn't make much difference. Of course, the mechanics of the thing are pretty complex. The practical application of it is what worries me a good deal. The identification of foreign accounts - and, of course, for the larger accounts it wouldn't be a difficult problem, particularly the balances of foreign central banks and the balances of foreign commercial banks, and I suppose certain big corporation balances.

Winer: But this shouldn't apply to central bank deposits if they keep it.....

Lucas: Of course, if they are in the Federal Reserve they are already sterilized.

But what I have been wondering is whether we could accomplish the same purpose in a more simple manner by requiring either all or such portion as we may determine of the balances of central banks, and also other foreign banks, to be carried in the Reserve System and not disturb the commercial balances. Now, I think that would - it would depend, of course, to what extent the foreign balances are carried in the accounts of banks and central banks. If those accounts represent a substantial proportion of foreign balances, it would greatly simplify the problem by some such a requirement, because you would be dealing with a comparatively few institutions and you would not in that manner disturb in any way the - a lot of the normal accounts, and you wouldn't have the job of determining what balance would be permitted to any account, which in itself is a difficult administrative problem.

I would like to see this. What we want to accomplish primarily is to be able to sterilize or to increase these reserves to a sufficient amount to enable the Treasury to desterilize future acquisitions of gold, at least up to a very substantial figure. It is certainly to be hoped that within a year's period some

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more permanent solution will be met, and in the - this is an interim period to relieve the Treasury from borrowing money for the purpose of sterilizing.

H. S. Jr:

I will be even franker than that, and I am franker than you; but we'd like to remove the political pressure and possible unwise legislation to get us by - well, if we could get by for six months so that we can see this thing more clearly.

And there are other things, if you don't mind, which I'll mention which are in the offing, which will be helpful. The Finance Minister of Brazil is on his way up. Of course this whole thing is very, very confidential. When the President was down there, he talked about the possibility of selling them some gold on the installment plan. That meets up with the question of the redistribution of gold. We have Dr. Kung coming; don't know what he wants. The Cubans are here wanting us to help them. We are making some headway with the Russians.

So - I mean everything looks towards some solution, so that this thing is - the thing that I am afraid of is that people like Thomas and Dies in the House will use this gold sterilization of the Treasury as an excuse to make us do something inflationary to stop the seasonal drop in commodities; and they fix it up in a package and the Treasury mustn't borrow any more money, and they make us stop sterilizing. And of course, the crowd doing it is the old inflationary crowd, and all you've got to do is look at the price of cotton or wheat and you can see what's motivating them.

I'm not attempting to do anything more than something which the economists and technicians will tell us is sound, and something that we won't regret, but at least is a step forward and at the same time will take this pressure off us to do something which would be very unsound. I mean I can't be any more frank than that. I don't want to do this or any other thing that may be suggested unless everybody, or at least a majority or two-thirds of the people, agree is a sound step, something that we won't have to go back on, and which will also disturb the financial centers to a minimum. But I want to be as frank as that. I believe we have

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to think something out. I think we can.

I want to say something for those that came here late, and that's about Sir Josiah Stamp, who was in to see me. He asked if he could take back any message from me as to what I wanted to do on the gold question, and I said I was sorry, I didn't want to discuss that. "Would you mind if I discussed it?" I said, "Not at all." Then he said, "Well, I think a movement we ought to make on both sides of the waters is to make the commercial banks share this responsibility with the treasuries of sterilizing gold." And he said, "I think we ought to do it in England and I think you ought to do it in the United States. I think it's the answer to a lot of questions."

McCles: Of course, the United States has done - I told him this; he raised the same point - I told him, "If England will do what the United States has done, and also the whole sterling area, the problem of the existing gold supply would be pretty well solved. The question of further production is another question."

W.W.Jr: I didn't want to interrupt you, but I wanted to say very, very frankly - I always try to - that what we are talking about - I've got negotiations which we have on now; we have our negotiations; I'm encouraged - but I think what I'm trying to talk about is something to do now which is sound economically and in every way sound, but - and then later Harriner, see, as.... After all, if Herbert Feis doesn't mind my using him as an example, the State Department will be moving heaven and earth trying to get a trade treaty with England, and you can only move them so fast; it isn't a thing you can do in weeks; when we begin to talk with England on this thing, it is a matter of months. But in the meantime it is to be hoped that we might go part way - I mean on our own, independent of action of any other country. Now I'll stop.

White: Can I direct remarks to his (McCles) last suggestion? I don't know whether you (McCles) were through or not. Were you?

McCles: Well, what - this action, it seems to me, is designed to meet a temporary problem, and if it can be simplified to meet the thing for the next six or eight months, then we can cross whatever bridge that confronts us at that

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time. We haven't had any chance to study this other, on the possibility of dealing with certain classes of accounts, large accounts, by requiring either all or a portion to be carried in the Reserve System; whether that would be practical or not I don't know, but if it is and if it involves a sufficient amount, say a possibility of a billion dollars of further sterilization, it would relieve the Treasury of the need of any borrowing, certainly, until we get a chance to get other legislation, if need be, next January and February. Whatever we can do that will be the easiest of administration and will cause the least disturbance to the normal banking function by foreigners, certainly I think we ought - should try to do it.

Now, what were you going to say, White?

White: Along that suggestion, I agree with you that anything that would make for simplicity should be sought for. I'm not sure that the suggestion that you tentatively offer would make for simplicity or for complexity. In the first place, you raise the difficulty of segregating the type of deposits. I am wondering whether - if these large deposits were by central banks, the problem would be very simple, but there are very small amounts from central banks in the Reserve bank. Consequently, it would become a question of segregating among bank deposits and individuals. Now, in the first place - Jack (Viner) raised this point, that a great many of the individuals abroad carry accounts which are in effect bank deposits here; that is, they are carried here in the name of some foreign bank; so that you would have the problem of attempting to unscramble a bank's particular deposits into what were individuals' and what were its own deposits.

Leedes: Wouldn't attempt that. I think that's only the case in France, isn't it, where they make dollar deposits. The English - that isn't true in England. And I wasn't only thinking of central banks; I was thinking of all the commercial bank balances which are carried in the banks here. Now, we ought to be able to get - have you got an idea, George, of what those balances amount to in total?

Garner: They're in the hundred millions, and they're probably about a billion. We know they're 700 million at least

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and we know they are probably more than a billion, because we don't get the reports of the non-members, the private banks.

White: Those bank balances are compounded, as I understand it, made up of individual accounts abroad.

Eccles: We could answer that. It would be merely that the balances are carried here, for instance, in the name of the foreign bank, and the American banks, as to who that money belongs to, use.....

Viner: For your exemption, if you start segregating them and say that a certain percentage must be kept with the Federal Reserve, then they will do the unscrambling and send them over as individual deposits.

Eccles: That is true to some extent, but you say - as I understand it, the only place where that situation exists is in France, and there's no banks outside of France that are taking dollar deposits at all. And that, as I understand it, involves a comparatively small amount. And if we did this and the French depositors who are making dollar deposits in France - the bank, of course - the French bank would either have to absorb any cost that was put on, and I imagine the Reserve System would want to put some cost on, because there would be some expense involved.

Viner: I think English banks, Swiss banks, take dollar deposits. I've had dollars with English banks.

Harrison: They do it indirectly. If I'm a Britisher and I've got a dollar obligation coming due in 90 days, I buy future dollars and the bank sells them by dollars.

Eccles: There would be some loss to the banks of those funds, and they would open up individual accounts here. I think that any legislation might give the power to the Board to require the transfer of these balances to the Reserve System or also to require an increase in reserves on all foreign balances. The idea would be that you would then.....

White: The individual that shifts would always know....

Eccles: Well, if too much of that is done, why, we can require the reserve, the proposition that we have discussed.

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I think that the law should be sufficiently broad and flexible so that the problem can be dealt with, no matter what shifting transpires.

- White: Would you want to point out wherein it makes it simpler? So far as issue of gold certificates is concerned and its effect on the market, etc., it appears to me that that problem would be identical; any simplicity which exists would exist by virtue of segregation of accounts. I am not sure it is in the direction of simplicity. It may be in the direction of favoring commercial accounts, but I am wondering whether it isn't in the direction of complexity and not simplicity; I'm not sure.
- Lucas: Well, the other would be terrific. You've got a lot of foreign accounts, various names, and the possibility of evasion would be very great.
- Williams: Wouldn't we have to run a foreign exchange commercial department?
- Viner: You'd have to operate those accounts.
- Williams: Be a tremendous thing. You'd take over the whole foreign exchange market if you take over those balances.
- Viner: Then your bank would become an important bank.
- Lucas: You could require giving the Board the power to not only increase reserve requirements on foreign balances - all foreign balances, but to also - the right to classify them and increase the reserve account of certain balances more than other balances. In other words, you could take foreign banks, both central banks and commercial banks, and you could require that the reserve requirement against those balances be, say, a hundred percent, whereas the reserve requirement against other balances you may do nothing about. In other words, just a requirement to make a blanket increase covering all balances, I don't think it would.....
- Williams: But that's not - as I understand it, you are now discussing the alternative; that is White's proposal. Either you increase the reserve requirements or

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require that the balances be held in the Federal. Now, the objection to holding them in the Federal is that you really have to take over the whole foreign exchange set-up unless you confine it to central banks, in which case there's nothing to it.

Lozier: But then, you could require that reserves against foreign bank accounts could be increased up to a hundred percent - that is, the other proposal - without necessarily increasing the reserve requirements against other balances at all, having the right to increase them if the situation warranted. That, of course, would be dealing with only a part of the foreign balances, but it would be dealing with that part that represents fully half of all the foreign balances that are here at the present time, and they would be comparatively few in number and very large in amount, so that the problem of policing them would be very much simpler than if you made it cover every balance. An immigrant's got a small balance in some bank throughout the country here. Well, technically, a reserve has got to be carried against that.

Lozier: We'd figure out exemptions to take care of that.

Harrison: Mr. Secretary, may I ask a question?

H. J.: That's what we're here for.

Harrison: Let's assume, for instance, that there are a billion dollars of foreign deposits in this country.

H. J.: Don't you want to use the accurate figure?

White: Billion eight.

Gardner: Foreign bank deposits - you mean deposits by foreign banks, as distinct from foreigners individually.

Harrison: I want to get a mathematical equation here, and it starts easier with a billion. Or let's put it differently; suppose there were a billion dollars of foreign deposits in New York City; that means they are carrying, I will now say, 25 percent reserve against that billion.

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Salter: Only if they are in member banks.

Harrison: All right, I'll simplify it by going that far, then. Supposing there are a billion dollars of foreign balances in member banks in New York City, and they are carrying 250 millions of reserves with us now. If you slip a hundred percent reserve requirement on, that means they've got to put 750 millions more in the Federal Reserve Bank out of the New York market, which has now only got a hundred to two hundred millions. Now the plan, as I would understand it, would be to desterilize proportionately so as to build up those excess reserves.

H.M.Jr: Dollar for dollar.

Harrison: Dollar for dollar, but you couldn't, see, determine it in such a way as to put 750 millions back in New York.

Viner: Or back to the same banks.

Harrison: Or back to the same banks. It would go all over the country. And there is your bill market running, and what are you going to do to your Treasury bill market if you take excess reserves out of New York, make them deficient; even though you try to put it back dollar for dollar, you don't put it back into the locality or into the banks from which you take it. Don't you ruin the bill market?

H.M.Jr: Well, that's just why I figured that I didn't want to discuss with the Federal Reserve the question of the future bill market until this was settled, if possible.

Harrison: I should think if you did this, you'd have to do something very drastic about bills. Is there some fallacy in that?

Garner: 750 would be used either to purchase bills or in lieu of floating new bills.

Harrison: But who would purchase them?

Garner: Treasury.

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Harrison: But not if you require the hundred percent reserve, they won't.

Gardner: The process of sterilizing would be one by which you either repurchased bills in the market in order to replace the funds in the banks, or failed to float new issues and instead used this 750 as Treasury cash.

Harrison: Even then you do not restore the reserve position of the New York banks.

Viner: The regional distribution of reserves and the regional distribution of balances do not go together. The real problem, to me, is that of the individual banks. The funds may flow back to the same region, but are there any banks which would be made vulnerable by this arrangement because they operate largely on foreign balances?

Harrison: Mr. White, how much of that - you say the 26 banks, and 13 are members and 13 non-members - how much of the percentage of the deposits were in the 13 non-member banks, do you remember?

White: I couldn't say. I'd like to get that figure, in any case.

Harrison: Have we any right to require a hundred percent reserve of non-member banks?

White: Not under existing legislation.

H.W.Jr: You weren't here when I read off my list. In this thing we made it one or the other. Now, Oppen's been studying this, and.....

Oppen: Well, the legal problems involved there would not be insuperable. That is, you'd be dealing there with the Government's right to control foreign commerce. It would be a little more difficult problem if you tried to forbid non-member banks from holding foreign balances at all.

H.W.Jr: That's the other. And then the thing, Eccles, that you and I have got to decide on that particular phase is about our friend Steagall and the question of the state banks and non-member banks - which is easier, see?

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Eccles: What?

H.H.Jr: Which is an easier way to handle it?

Eccles: Well, you've got to cover the non-member banks. Of course, you defeat the program completely if you don't. And the question of getting - increasing reserve requirements, getting power to increase reserve requirements of the domestic banks would be inadvisable with the present banking set-up without unification; they'd slip out of the System. Mr. Patman, in his bill, makes the suggestion that the Reserve Board be given power to designate the reserve requirement of non-members as well as member banks. I doubt that....

Golden.: At the option of the banks, though, Mr. Chairman.

Eccles: What?

Golden.: His proposal is to make it at the option of the banks; that if they want to have the privilege of borrowing from the Federal Reserve banks, then they've got to keep their reserves. Otherwise, they don't.

Eccles: I understood that they'd have the right to do that. Well, in any case, that field isn't open to us, because that would be an endless legislative job, to get unification. So that all we've got now is this field; that is one thing that seems to me is pretty certain - dealing with foreign balances - and I think will get a good deal of sympathy on the Hill. There would be no political problem in connection with this. It is purely a question of what we think is the right thing to do and the practical way to handle the situation.

H.H.Jr: If you don't drag in the question of members and non-member banks and make that an issue.

Golden.: Mr. Secretary, the fact is that under existing law the Federal Reserve Board has authority to impose marginal requirements on non-member banks. That right has been contested, but it is existing law.

H.H.Jr: That's a good point.

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- Opfer: There's a few little further frills that they put on that, and that was the use of the mails and any instrumentality of interstate commerce, which is the way they got by that. Of course, you might do the same thing in connection with this.
- Harrison: But the thing would be futile, I should think, unless you could make this applicable to non-member banks in some way or other.
- B.S.Jr: And talking for myself, the Treasury, we'd be very glad to add to another precedent giving the Board additional control over all banks. I mean we'd be glad to be a party to that.
- Viner: There is also the problem of insured and uninsured. Some of these banks are uninsured.
- Eccles: Some of the non-members; none of the members.
- B.S.Jr: Which ones are they?
- Viner: These foreign banks - all these foreign banks are uninsured.
- Harrison: You take this list here. The Chase Bank, for instance, has about 280 millions of foreign deposits now. Some of that is probably time, against which they carry 6 percent, and some of it is demand, against which they carry 25 percent; so that if you made a hundred percent reserve requirement it would increase a minimum of 75 percent of that total. Now, for the Chase Bank that would make a very, very difficult position, taking that bank as an individual bank.
- Eccles: How many bills have they got? They'd let the bills run off and other banks would buy bills. It wouldn't change the total reserve picture. It resolves itself, George, in the problem of making effective the existing excess reserves, and to the extent that you - we can't treat the excess reserve problem purely by taking into account the position of the individual bank.
- Harrison: You can if he is one of your principal buyers of bills. Look what you're going to do to him.

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- Ecceles: He'll quit buying bills to the extent that his reserve requirement is increased, but somebody else will get that excess and will have either idle money or they'll buy bills with it. It is merely a shifting of position and that is happening all the time.
- Harrison: Well, but as you start you don't create any additional excesses; it's all minus then, and you go down that amount, say 750 million.
- Viner: We might create a cushion beforehand, just to safeguard that.
- Gardner: You could start dewatering any time.
- Viner: I think the thing to do would be to start dewatering a few days before this increase in reserve requirements became effective, so that the thing could be cushioned.
- White: But that doesn't quite meet the Governor's question wholly. His problem is that an individual bank might be confronted with the necessity of getting rid of so many assets that it would be confronted with a serious problem, even though the excess reserve situation, as a whole, remains as is.
- Harrison: And the question of secondary distribution of those assets.
- White: But I think what might be said is that all these banks that have these large foreign deposits have a very large portion of very liquid assets, and if this proposal is carried out - see, you speak of a hundred percent reserve; there is no intent to suddenly jump to that. It would be done with sufficient gradualness so that - of course, they're going to - they'll have to get rid of some of their earning assets.
- Lockwood: They'll be hurt in profit and loss more than their reserves.
- Ecceles: You can increase this at the rate of a hundred millions at a time.
- White: Yes.

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Acles: And you wouldn't increase the reserve requirements first; you'd do that - you'd delay that; that would come second.

White: That's the cushion.

Acles: That's the cushion.

Gardner: If this came at a financing date, the Treasury just wouldn't float any bills on the first occasion.

Harrison: I was trying to see what bills.....

White: We're trying to get the exact status of some of those large banks - what those holdings are. We'll have them this morning. Unless you have them already there....

Harrison: I haven't got these broken down into bills. The Chase has got \$26 million of governments.

White: But you don't know what breakdown.

Harrison: They have a very substantial amount of bills.

White: Their problem would be very simple.

Acles: How many have got call loans? They've got those.....

Harrison: I'm not thinking of the individual banks from the point of view of the bank, but rather.....

White: Its repercussions.

Harrison: Its repercussions on the bill market and liquidation of assets to take care of the increase in reserves.

White: On the bill market, I think that would be quite adequately taken care of because the assumption is that the fund would be appropriately managed, and the appropriateness depends on the cushioning effect and the proper time, so that there will not be that result that you fear and that we all feel would be undesirable.

H.M.Jr: Well, may I say this - what I'd like to do, if it's agreeable.... I've got, unfortunately - I've got a

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sort of tough schedule. I have the Polish Ambassador - and who's this man from their Department of Commerce?

Reis: Under Secretary.

H.E.Jr: And the Russian Ambassador. And President Quezon at 11:30; before I see Quezon, I've got to find out what the Army wants. Do you (Reis) want to sit in on any of those or not?

Reis: The Russian, I would like to.

H.E.Jr: The Russian - all right.

Now, what I think we've got to be careful about is going out of here. I have this room below here, and what I'd like to do - I mean I don't know how you feel, Eccles, and some of the rest of these people, how much more time you can give it this morning. What I'd like - just now would you suggest we continue the discussion today, leading up to another meeting tomorrow morning - what would you suggest?

Eccles: Well, I'd like to suggest that you let us - this is quite a job,....

Harrison: Right.

Eccles:something that - I think I'm in favor of bringing it to a conclusion just as quickly as it can be done, but....

Harrison: I think what you should do is get a memorandum of the.....

Viner: Go into a lot of unnecessary detail in that.

Harrison: But you can't decide on which alternative you want to adopt without details. You might have to do that with each one of the alternatives.

Eccles: I was going to say that I'd like - I wish you'd let us see if we can't develop something.

H.E.Jr: All right.

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- Lucles: Now, Dr. Currie, who isn't here because I didn't know just what phase of this was going to be discussed this morning, has possibly given more thought and study to this particular phase of the problem, as we have assigned him this job. I'd like to get one of our attorneys to also work along with some of the people on our staff with the idea of seeing what we can develop. Now, I believe that if we could take some of our group and White and Oppen, somebody here, and let's - after we've had time to spend a day or two on it, and then let them.... I think we can sit around like this and we really won't get very far.
- H.A.Jr: You don't think you'd be ready tomorrow morning?
- Lucles: I don't think so. I'd like to say day after tomorrow, give them this afternoon and tomorrow to give the thing a little more... Then they ought to have something tentative in view of this discussion. I think we've got a sort of - I've got a sort of better suggestion.
- H.A.Jr: Well, will you let Taylor know whom you'd like to have from the Treasury to sit in on this, and anybody here is available.
- Taylor: And when.
- Lucles: Now, what do you think of that idea, Dr. Goldenweiser, the suggestion I've made; what do you think of that?
- Golden.: You mean of getting together and studying....
- Lucles: Having our people spend this afternoon and tomorrow so as to just formulate some tentative plan with some alternatives, and then get together with such people here as are available in the Treasury - just a small group, say three or four people from our shop and three or four here, to bring in before our group this program and the alternatives, with the arguments for and against. Let's see what they, under the circumstances, would feel would best meet the situation, if they can get together on it, and then with such modifications or alternatives as seem to be possible. Then, it seems to me, we'd have a basis upon which we could possibly make a decision.
- Harrison: I don't think there is a chance of getting anywhere

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until you take up each alternative and go right straight on down by steps and see where you come out, from the point of view of the banks, the money market, and the Treasury bill market.

H.M.Jr: That is why I held up - there's no use settling this bill market question until.....

Eccles: Well then, we don't want that meeting tomorrow, do we?

H.M.Jr: I don't think so.

Agenda

A. Should we try to get legislation permitting an increase in reserve requirements against deposits for foreign account?

1. To what maximum?
2. Should there be any exemptions?
(For example: \$5000 or \$10,000, or \$25,000 on individual accounts, or more for bank accounts?)
3. Should such deposits be held only by member banks?

or

Should any bank be permitted to carry them as now?

4. Should deposits for foreign account be exempt from the F.B.I.C. fee?
 5. What should be the method of operation? The sequence of steps?
 6. If reserve requirements against foreign deposits are increased, ought the Treasury issue three-month bills, or doesn't it matter much?
 7. Who should be granted the necessary powers to raise reserve requirements - the Federal Reserve Board or the Treasury?
 8. How soon should we try to get the legislation?
 9. Should we consult other "club members" before seeking legislation?
 10. Should we attempt to get other "club members" to adopt somewhat similar measures?
- B. Should we purchase foreign gold only from Treasuries, Central Banks (and designated agents)?

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Tuesday, June 15, 1937.

Press Service
No. 10-60

Secretary of the Treasury Morgenthau today announced the final subscription and allotment figures with respect to the current offering of 1-3/8 percent Treasury Notes of Series D-1939 and 1-3/4 percent Treasury Notes of Series A-1942.

Subscriptions and allotments were divided among the several Federal Reserve districts and the Treasury as follows:

Federal Reserve District	1-3/8% NOTES, SERIES D-1939		1-3/4% NOTES, SERIES A-1942	
	Total sub- scriptions received	Total sub- scriptions allotted	Total sub- scriptions received	Total sub- scriptions allotted
Boston	\$ 243,693,700	\$ 41,492,000	\$ 221,147,200	\$ 37,726,500
New York	1,225,023,700	208,394,700	1,252,004,900	213,044,700
Philadelphia	119,080,500	20,308,200	159,076,500	27,125,200
Cleveland	156,021,900	26,616,000	145,593,100	24,996,700
Richmond	75,511,900	12,890,000	83,870,000	14,369,300
Atlanta	53,640,200	10,898,000	67,950,700	11,673,100
Chicago	252,494,100	43,260,800	253,459,800	43,444,100
St. Louis	64,465,700	11,427,400	67,016,100	11,807,000
Minneapolis	18,269,900	3,106,500	20,536,200	3,550,000
Kansas City	50,117,500	8,631,000	37,376,400	6,428,000
Dallas	42,164,500	7,243,700	40,268,300	6,925,700
San Francisco	188,135,500	32,013,500	147,511,500	25,110,000
Treasury	750,000	127,500	516,700	89,700
TOTAL	\$2,499,349,100	\$426,194,300	\$2,496,326,400	\$426,290,000

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MEETING RE FRENCH CRISIS

June 16, 1937
8:45 A.M.

Present: Mr. Taylor
Mr. Bell
Mr. Oliphant
Mr. Lochhead
Mr. Oppen
Mr. Upham
Dr. Viner
Mr. Riefler

(Secretary talking on phone to Mr. Cochran as
conferees entered; conversation follows:)

June 18, 1937.
8:40 a.m.

Cochran: Good morning Mr. Morgenthau.

H.M.Jr: How are you?

C: All right, thank you. I'm calling from my home because I have one special thing to take up with you.

H.M.Jr: Go ahead.

C: I can tell you first about the French situation.

H.M.Jr: Well that's what I'm calling up about.

C: Ah - this morning at 6 o'clock the Chamber passed the bill giving special powers to the government.

H.M.Jr: Yes.

C: And they amended it to give him such powers only during the present period of parliament.

H.M.Jr: Well how long does that last?

C: Officially until July 14th.

H.M.Jr: Until when?

C: July 14th.

H.M.Jr: July 14th.

C: And they have also specified that the ^{must} be controlled between the limits fixed by the monetary law last October.

H.M.Jr: Say that again.

C: That no exchange control is to be a code.

H.M.Jr: Say that again will you please.

C: They must maintain the Franc within the parity - within the limits fixed by the French monetary law of October 1st.

H.M.Jr: I see.

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C: And they must not resort to exchange control.

H.M.Jr: They must not.

C: They must not.

H.M.Jr: I see.

C: So that may upset some of his plans a little.

H.M.Jr: Ah-ha.

C: But I sent you a telegram on that.

H.M.Jr: You sent me a telegram.

C: Yes, it left this noon.

H.M.Jr: Ah-ha.

C: And the bill goes to the Senate tomorrow.

H.M.Jr: What's that?

C: The bill goes to the Senate tomorrow.....

H.M.Jr: Yes.

C:and the chances are a little better than 50-50 that it will be passed.

H.M.Jr: It will.

C: Not because they have faith in it solving the problem,.....

H.M.Jr: Yes.

C:but on the contrary they're afraid to turn the government out under any circumstances.

H.M.Jr: Say that again please.

C: They are afraid to turn the government out.

H.M.Jr: I see.

C: They would rather let him use this special power, which he has requested.....

H.M.Jr: Yes.

C:they - that will probably cause more trouble.

H.M.Jr: I see.

C: And then see what comes.

H.M.Jr: I see. Well - ah - ah - do you see anything that may happen within the next 24-48 hours?

C: I do not because the Senate will get the bill tomorrow so there might be a discussion of it tomorrow night.

H.M.Jr: Yes.

C: But there - nothing can happen before then.

H.M.Jr: That's before Thursday night.

C: Thursday night, yes.

H.M.Jr: I see.

C: And on the other matters which I wanted to tell you is this.

H.M.Jr: Yes.

C: If you have received my last cablegram describing my Basel trip you may have seen that I had a number of conversations with Governor Norman.

H.M.Jr: Well I had not seen it.

C: Well it should all be this morning.

H.M.Jr: Well there's only one section in.

C: Oh I see, well it - it was all cabled yesterday.

H.M.Jr: What?

C: It was all cabled from here yesterday.

H.M.Jr: Well I'll get.....

C: Anyway in this I gave a lot of views which he expressed very frankly to me.

H.M.Jr: Good.

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C: But he insisted that they were just his personal views.

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

C: And in one place he said that he thought the two governments had been cooperating together very well on the , that is, the two.....

H.M.Jr: Wait a minute. I - I didn't get this thought. Repeat it.

C: He thought that during this troubled period of the scare that the Americans and British.....

H.M.Jr: Yes.

C:had been cooperating very well as far as the day to day operations, which are handled by telephone, are concerned.

H.M.Jr: Yes.

C: so that the need for cooperative study of longer term problems.

H.M.Jr: I see.

C: that this - our country is going to continue to .

H.M.Jr: He what?

C: That this gold question is going to the both of us.

H.M.Jr: Yes.

C: And he said that - he asked me if you could send some technical person over to discuss matters with them.

H.M.Jr: Ah-ha.

C: And I said well I was quite sure you would not send anyone unless you had some indication as to what they were thinking about and that, considering the nervous atmosphere, you wouldn't risk the publicity until you found that there might be some chance

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C: And I said well we don't want any publicity to this.....

H.M.Jr: Yes.

C:and he said, "That's why I have approached you
". And I told him - I said, I have my
colleagues in London that I can talk to at any time.
And he said, well I'm just speaking for myself now
but, he said, I'm going back to London and, he said,
I want to get in touch with you sometime later
that is, the Treasuries are
interested but, he said, if I do get in touch with
you, he said, it will a preliminary
idea with the idea that

H.M.Jr: Ah-ha. Now Cochran.

C: What?

H.M.Jr: Is this in your cable?

C: No, I'll - I'll tell you just why.....

H.M.Jr: Oh.

C:because he said we do not want this to get
to your Ambassador but to me.

H.M.Jr: Oh.

C: He said - he said I - he said I don't want to em-
barrass you by speaking too frankly.....

H.M.Jr: Yes.

C:but, he said, he talks too much.

H.M.Jr: Ah-ha.

C: And that's why I called you from my home.....

H.M.Jr: I get you.

C:because it would put me in an embarrassing
position and I really believe they actually have
something they want to say.

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A.M.Jr: Well I - I'll

C: He would rather keep it out of this Embassy and out of all the Embassies.

A.M.Jr: Well I understand and when I - and when I.....

C: He wants to keep it entirely out of his Embassies.

A.M.Jr: Yes, well Cochran -hello - hello

Operator: Hello

A.M.Jr: An - Miss Spangler.

Operator: Yes sir.

A.M.Jr: He's disconnected. Hello.

C: Yes, I'll get him right back.

-1A-

H.M.Jr: (Following cut-off conversation with Mr. Cochran)
He said he didn't want Bullitt to know it, that
Bullitt talks too much.

If you can't get it, that's going to be good - I
mean whoever's making a record of this for them.....

Viner: It wouldn't be easy. Have to strain.

H.M.Jr: (To Operator) Are we talking on the French phone
or English phone?

Operator: You're talking on the English phone. He called you
and he requested it.

H.M.Jr: Who?

Operator: Mr. Cochran - via London.

H.M.Jr: Uh-huh, I see.

Operator: He called you at 7:30 and I told him to call you at
the office at eight.

H.M.Jr: Yes, I know.

well, I always say that these things never come out
of a clear sky. I'm not going to answer right away.
I mean I've got a fellow on the water right now. .

Viner: I'd prefer that you start talking with the Treasury
rather than....

H.M.Jr: Yes, well that's just the way these central banks....
I mean Cochran wanted to write a letter the other day
to George Harrison and to Governor Franck; he wanted to

-2-

write a letter. We went all through this business and had all this trouble of establishing this thing between governments, and I'm going to keep those channels open. We got that after days and days and days. The last time Norman was here, he fished around about coming down. They phoned from the British Embassy and said, "Governor Norman is asking to be invited to luncheon, asking how he can get an invitation. What do you recommend that we do?" Well, if Governor Norman comes to Washington, he knows how to get an invitation; he doesn't have to worry about that. When he got back to England, he said he came over especially to see me and was unable to arrange it. The British Embassy said, "Norman wants to see you."

Have we passed the depth of our depression on revenue?

Bell: Probably not. Looks like today might be a little short.

H.M.Jr: Really short? How short?

Bell: Oh, 15 million.

H.M.Jr: You mean minus?

Bell: Uh-huh.

H.M.Jr: Really.

Bell: I think we'll pick it up though; still have hopes. They never come in twice alike.

H.M.Jr: Has anybody got a program worked out for me - the steps, the legal papers necessary, alternative plans, in case France should put on an exchange control or devalue further? Has anybody worked that out?

Taylor: Working on it.

H.M.Jr: But you have nothing for me this morning.

Taylor: It isn't finished yet.

H.M.Jr: What?

Taylor: It isn't finished.

H.M.Jr: (On phone) Hello, Mr. Cochran. (Conversation follows)

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June 16, 1937
8:53 a.m.

H.M.Jr: Hello
O: Mr. Cochran.
H.M.Jr: Thank you.
O: Go ahead.
H.M.Jr: Hello
C: Hello
H.M.Jr: I lost you in the middle of the ocean.
C: Yes.
H.M.Jr: Well I understand about this gentleman seeing you
and saying he'd like.....
C: I told you about the invitation to come over?
H.M.Jr: No.

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- C: He telephoned me this noon and said that he wanted to refer to our conversation at Basel and to tell me that he would be very glad if I could have lunch with him at the Bank in London on next Sunday. He said that if I would tell him that I was coming over he would make certain appointments for me with people whom he thought I should see, both in the forenoon and afternoon on Monday. I told him that I would have to speak to my chief before I could say anything and that if I did come it would just be for lecture and for anyone to talk to me whom he suggested but that I could say nothing until I talked with you.
- H.M.Jr: Yes.
- C: And I think you understood that they said they did not want this thing to go through the Embassies.
- H.M.Jr: I understand.
- C: I mean there - they're are matters, he said, that there are certain things there which they would have difficulty in agreeing on among themselves and, he said, they didn't want any suspicion of conversations arising whatever.
- H.M.Jr: Ah-ha. Well I've got to think this over - I can't give you a snap answer.
- C: I understand but I didn't know how else to get it to you.
- H.M.Jr: Well this is the proper way.
- C: Yes.
- H.M.Jr: This is the proper way.
- C: In my telegram I just made
- H.M.Jr: Yes, this is the proper way to do it.
- C: Cooperative study on longer term problems.
- H.M.Jr: Yes.

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C: I didn't mention anything about your sending someone from Washington or letting me go over. The Governor wanted to talk to his own people in the Treasury before he went any further.

H.M.Jr: Ah-ha.

C: He'll talk to them now and phone me this noon.

H.M.Jr: Ah-ha, well let me think this thing over and you - I'll - I'll give you an answer one way or the other within 24 hours.

C: All right, fine.

H.M.Jr: Thank you.

C: I should tell you that my Chief is away right now. He went on this morning.

H.M.Jr: He went where?

C: On a tour of southern France.

H.M.Jr: Ah-ha.

C: to , Marseille, and so on.

H.M.Jr: Ah - what's the idea of that?

C: Inspecting Consulates for some reason.

H.M.Jr: Well it's a good time to do that, isn't it?

C: Well anyway he's not here.

H.M.Jr: All right.

C: But this other I'll have to leave from here and call you. I - I'm up in the air as to how you'd want to handle it.

H.M.Jr: Well I'll say this - I - I certainly won't give you any instructions without talking, in confidence, to Mr. Hull first - hello.

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C: It should be to him personally.

H.M.Jr: I understand.

C: That's right.

H.M.Jr: So whatever order you get from me, it will have been cleared with Mr. Hull.

C: Surely - surely.

H.M.Jr: So you'll be protected on that.

C: Fine.

H.M.Jr: Do you understand?

C: All right, then you can send me one, if you do send me, a cable or a letter or telephone or.....

H.M.Jr: Telephone.

C: Telephone.

H.M.Jr: Yex, but I won't - I will discuss it with Mr. Hull.

C: Surely - surely.

H.M.Jr: Yes.

C: All right, I'll be here all the time.

H.M.Jr: Do they feel the same way about the Embassy in London?

C: Well he said we - I said you can take it but I have a colleague who does the same thing and he said, well you see more of your Chief than he does and he said we'd rather keep this out of the Embassies.

H.M.Jr: I see.

C: I don't think they feel quite as strongly about the one there as they do about this one.

H.M.Jr: Ah-ha.

C: But to put it through that Embassy if I couldn't put it through this one.

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H.M.Jr: Well it's safe to use the telephones because the only persons that can listen in are governments.

C: That's right.

H.M.Jr: So - ah - ah - so I would say it was perfectly safe.

C: I think so, yes.

H.M.Jr: All right.

C: Goodbye.

H.M.Jr: Goodby.

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H. A. Jr.: I want to let this thing kind of pass further through my own brain. You get the thing; I mean it's a - I mean Norman is injecting himself into this thing. After all, he doesn't set the policy. Pretty difficult decision for us to make.

White: It was very difficult to hear the telephone conversation. Could you give us the gist of it?

H. A. Jr.: The whole point is this. Norman sees Cochran - this is what I get out of it - and he says, "Now, a lot of problems" - seeing him in Basle - "we've got a lot of problems and I wish that the United States could send somebody over to talk things over with us and see where we can get." Cochran says, "We can't send anybody over; too much publicity." He says, "Well, we don't want publicity over it, but I wish you'd think it over. Maybe you could come, or somebody."

Now, he goes back - now I'm just talking for myself - goes back to London, talks the thing over with his own people and with the Treasury, and again asks would he come over there and have lunch with the British, and that he'll make appointments for him to see people. So he now tells him he's talking things over further, and so he (Cochran) says, "Why don't you see Butterworth? He's all right." He says, "No, he isn't sufficiently close to Morgenthau. We want to see you."

Is that about the way you people got it?

Oliphant: That's the picture.

H. A. Jr.: Now we've got the situation of - well, it wouldn't be very much different than it would be over here, except that Eccles doesn't work that way on this foreign thing; he leaves himself entirely out of the picture; or if he gets a letter, he doesn't answer it without sending it over. We get full cooperation over here. But if he'd start seeing people from Great Britain without letting me know or letting the Embassies know, and all like that, I'd be pretty damn sore.

You know what my reaction is? I think I'm going to ask the British Ambassador to come and I'll talk to

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him about this; then he can send word to Sir John Simon that, does Sir John Simon want this?

Viner: You're not disclosing to him that you've received this....

H.W.Jr: Oh no, tell him no facts.

Taylor: You've got to tell him.

Lockness: Norman states he's.....

Viner: Norman's taken it up with his Treasury people.

H.W.Jr: No, the Embassy's the.....

Viner: It's a respectable thing then.

H.W.Jr: The Embassy he's objecting to is our Embassy. He's objecting to Bullitt.

Taylor: No, Norman did what he should have done - absolutely.

Viner: That's what I was worrying about; it seems so strange.

H.W.Jr: I wouldn't take his word for it. I mean I wouldn't send Cocaran over there unless Sir John Simon invites him to come over.

Oliphant: Particularly since you sent a message to him; otherwise you might leave him up in the air.

White: Absolutely.

Oliphant: He'd say, "What is this? You....."

White: They can extend the invitation.

Viner: Couldn't you operate this way? You'd tell Norman that you'll send him over after informing Chancellor that he is coming at his request.

H.W.Jr: No, I wouldn't send him over there - I wouldn't send him over there unless Sir John Simon asked for him.

Taylor: This time you can have it confirmed.

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H.M.Jr: "Is it agreeable to Sir John to have.... "

Taylor: I wouldn't ask for a direct invitation.

Viner: No.

White: Why should they object to giving a direct invitation if they want to see him?

Viner: Makes it too important.

Taylor: Certainly ask for confirmation.

Whelan: After you have undertaken to communicate with Sir John directly, I don't see how you can leave him out of this without making him feel foolish.

H.M.Jr: (On phone) Leave word, the minute Mr. Hull comes in I'd like to talk to him please.

Well now, listen, children, has anybody got anything for me on what we're going to do in case France moves?

Taylor: (Nods yes) Have to see the move first.

H.M.Jr: Oh no.

Taylor: Well, we've got all these 98 different things.

H.M.Jr: Well, let's put it this way: Move One - if the French do Move One, the United States can do A, B, C; if the French make Move Two, the United States can do 1, 2, 3. That's the way I'd like it. And there's only about three moves the French can make, and if the French do one of them, then I want you fellows to come in and say, "All right, let's talk over the things we can do as counter-moves to this." I don't want to wait; we've got another 24 hours to do this thing. I'd like very much to have the alternative things that the French might do, and then the alternative things that we might do to offset that. Now, that's not asking for too much.

Taylor: Well, that's been done for some time.

H.M.Jr: Well, where is it?

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White: Well, we started out and there were four things that we thought they might reasonably do. Then we discussed those; I don't know whether we all came to a formal conclusion, but the gist of the conversation....

H.M.Jr: I don't want a formal conclusion. I simply want to put down on one piece of paper Move One on the part of France and then the alternatives; don't have to agree on the alternatives, just agree there are alternatives. Then Move Two - alternatives. I mean I'd like to familiarize myself. Then, as you saw the other day, once I get the technique of the thing, then I can begin to put my brain on it. But until I see it that way - see, I want it so I can study it.

White: Give us a little time to put it in that form.

H.M.Jr: I want it in that form. And on each alternative thing I want to have the legal papers ready and finished.

Oliphant: Finished and ready.

H.M.Jr: Ready for the President's signature, if you don't mind, Herman.

Oliphant: Everybody's initials except the President.

H.M.Jr: Everybody's initials except the President.

Oliphant: All right.

White: When do you want it?

H.M.Jr: As soon as the human brain can prepare it; as soon as the human brain can prepare it.

Taylor: Well, there is one fundamental question involved there, and that is, you can stretch this thing pretty far. That's my opinion, that you can. Can't you, Clarence?

Sparr: You mean our action in connection with the tripartite?

Taylor: Yes, depending on whether you want to keep them in

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the club or whether you want them out.

H.M.Jr: That's another alternative.

Taylor: That's the only one.

H.M.Jr: No. Now listen, don't - if you don't mind, don't argue with me. You've got this - argue with these fellows and get it down to the various possible alternatives and then when you are ready to talk.... But I'd very much like to have it that way. Do you want to ask - do you understand what I want?

Viner: No, I don't.

H.M.Jr: You don't?

Viner: No, I think that I'd follow that (Taylor's point), that we can leave them in and say, "Your action isn't in conflict....."

H.M.Jr: Do it both. We're not taking any action; they're going to take the action.

Wite: The question is simple, Jake: what are the alternatives and what are the merits of each alternative step?

H.M.Jr: Now listen, you're Professor Rist, and....

Viner: I don't see the legal side.

Wite: That has to be brought in.

Viner: Simply what I don't understand is how these alternatives would lead to any legal action.

H.M.Jr: They certainly would, if you rescinded the right of private banks to bring in gold.

Whiphant: Or if we embargoed the movement of gold.

H.M.Jr: Listen, you're Professor Rist just sitting on that committee.

Lochhead: Professor Rist is off the committee now.

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Viner: I was until yesterday.

A.M.Jr: Well, they've put him off and they've just employed Dr. Viner to take his place, and you're sitting there, and what are the things that you would advise them to do? That's the way I'd approach this thing. Then - first from the standpoint of good economics, and then, what are the things they might do because they are forced by political pressure.

Alphent: Or because they didn't have Jake.

Viner: Or in spite of him.

A.M.Jr: And having decided what the French might do in these circumstances, then what could we do to take care of ourselves? Now, I don't see how a person can state the problem any clearer than that without my sitting down here and doing the thing myself. Now, my proposition is - so far I have no engagement tonight and I'll keep it open; you (Taylor) got any engagement tonight?

Taylor: (Nods no) Do you want them in or do you want them out? That's the....

H.A.Jr: Do I want them in or want them out? I want them in just as long as they can keep in it.

Taylor: You can stretch the rules a mile.

A.M.Jr: But can they live up to them without.....

Taylor: Yes

A.M.Jr: Explore it, will you? Explore it. Of course I want them in. We want to keep it going as long as possible.

Taylor: Well then....

A.M.Jr: I mean that's been the whole objective.

Viner: That answers it. That simplifies our task a great deal.

A.M.Jr: In talking with the President here two weeks ago, he was saying that he is very much discouraged about this - what you call trade treaties, and the

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results, and all this thing, and all he could see was that the world was moving, due to the expense of armaments - moving gradually toward one form of exchange control after another, and it would only be a question of time before they would all be on that basis, and England and ourselves would be left to do business with each other on one kind of a basis, and the rest of the world, with their internal economies, left on a basis to do business within themselves and a little bit with each other. He said, "That's the way we're drifting. What we going to do about it?" My answer is, if France goes - it goes toward the Schacht method, that is - and Japan goes - just tottering on the edge of it - why, I'd say it was bad medicine. After all, the longer we can keep France going, I think it's better for our system of doing trade.

Taylor: It will be on crutches.

A.M.Jr: Pardon me?

Speaker: It will be on crutches.

A.M.Jr: One's been on crutches.

Taylor: Yes, but on the fourth foot, in addition to the hind legs.

A.M.Jr: To answer your direct question, if the decision was mine, I'd say I'd like to do everything we can within the spirit of the law, and I'd even go so far - I'd bend it a little bit to keep it going. I'd bend it a little bit to keep them going. What? Riefler?

Riefler: I agree with that.

A.M.Jr: What?

Riefler: I agree.

A.M.Jr: Anybody want to say anything? Well, gentlemen, when you're ready - I'll keep tonight....

Cliphant: It's probably tonight, then, is it?

A.M.Jr: I don't know what these fellows can be able to have. I know I'm crazy to do it tonight, but I'll hold it open and....

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White: I think we can come to a conclusion before tonight, because we have covered a great deal of the ground already.

H.M.Jr: Are our two advisers comfortable? Did you (Riefler) see the statement in the Tribune today?

Riefler: No.

H.M.Jr: See whether that's agreeable to you.

June 16, 1937.
9:20 a.m.

H.M.Jr: Hello

O: All right.
Yes.

H.M.Jr: Hello - Cordell.
Oh just a moment please, Mr. Secretary.

H.M.Jr: Hello

O: He'll be on in just a second.

H.M.Jr: Hello

Hull: Hello, Henry.

H.M.Jr: Cordell.

H: What's going on?

H.M.Jr: Well I'd like to talk to you - ah - as between us
officially but privately, see?

H: Yes.

H.M.Jr: And, as I say, if I may talk to you confiden - ah -
ah - Cochran called me a little while ago.....

H: Who did?

H.M.Jr: Merle Cochran.

H: Oh yes.

H.M.Jr:and said that he had had a talk with Norman in
Switzerland.

H: Yes.

H.M.Jr: Montague Norman.

H: Yes.

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H.M.Jr: And Montague Norman wanted to know whether he, Cochran, could come over to London.....

H: Yes.

H.M.Jr:and talk things over with them so Cochran said, well you've got Butterworth over there why don't you talk to him so he said, no we feel that you're closer to Morgenthau and we'd like to talk to you but he said I'm only talking for myself. He said I haven't discussed this matter with other people.

H: Ah-ha.

H.M.Jr: But he said I'll let you know. So this morning he called him up on the telephone. He said, I've talked it over and we'd like you to come over Monday and have lunch at the Bank of England but he said we're very anxious to keep this out of the channels of the American Embassy in Paris.

H: Ah-ha.

H.M.Jr: He said we want to keep it very quiet and we don't want Bullitt to know about it.

H: Ah-ha.

H.M.Jr: And he said - ah - but if you can come over we'd like it and we'd have appointments for you in the morning and in the afternoon so Cochran said under those circumstances he'd call me up and wanted to know what's what so I said that I would talk it over with you and see how you feel.....

H: Yes.

H.M.Jr:and then after that I thought I'd ask - get the President's advice.

H: Well now we've got this situation, Henry. We have to talk you know, in our own circles sometimes, very frankly.

H.M.Jr: Yes.

H: Ah - Bill - ah - ah - I suppose is closer to the President than any of us in the State Department by far. I don't mean by that that there's any friction in any way but you understand what I mean.

H.M.Jr: Yes.

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H: Ah - he's - ah - so he spreads out over Europe some little.....

H.M.Jr: Yes.

H:and feels, I think, that he's got that side - ah - that right.

H.M.Jr: Yes.

H: Now - ah - if he should ever find this out why I - of course, the British think that he's not friendly to them.

H.M.Jr: I see.

H: That's what they think and that is French-German

H.M.Jr: Yes.

H: Now I'm not pressing on those things but that's what they think.

H.M.Jr: Ah-ha.

H: The only thing is if - ah - if he finds that - that we're keeping things from him there around his office - I don't know - I think you'll have to let the President pass on that. If the President should give instructions but even then my - my view is that it's always best just to let one of our fellows know where he's at the head of things in a given place.

H.M.Jr: Yes.

H: And especially if he's liable to find it out.

H.M.Jr: Yes (laughs).

H: Now that's the point.

H.M.Jr: (Hearty laughter)

H: Yes.

H.M.Jr: In other words (still laughing) proceed with the best policy if you know you're going to get caught.

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W: Yes sir, that's the point I'm making.

B.W.Jr: (More hearty laughter)

W: Yes.

B.W.Jr: (Still more hearty laughter)

W: Yes.

B.W.Jr: Well I found that to be true also.

W: Yes.

B.W.Jr: Ah - well I'll tell you. I'm seeing the President in a little while and before I saw him I wanted to talk to you because I never would do anything like that without first talking to you.

W: Well this is - I - I'm just trying to be helpful, you understand, I'm - I'm a 100% in my relations all along the line.

B.W.Jr: Because, as I told Feis yesterday, when Mallett left.....

W: Yes.

B.W.Jr:I sent a message to Sir John Simon.....

W: Yes.

B.W.Jr: - - I don't know whether he told you.

W: Yes, he told me about it.

B.W.Jr: So I feel this way that - ah - maybe Norman wants to horn in on this thing and I'd better keep my channels open with Sir John Simon on that other angle, you see?

W: Yes - yes.

B.W.Jr: But the thing that came to my mind was that I - if you thought well of it - that I'd ask the British Ambassador to come down here and tell him this is what's happened. Now my contact over there is with Sir John Simon and I'd like them to advise me what they - how they'd like to.....

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- Wt Well now that's another point - that's another point. I think if - ah - if Norman should meet up - up in Switzerland or any of those places where they often meet.....
- H.M.Jr: Yes.
- H:- should meet Cochran and they have any kind of a conversation - that's one proposition or if - if Cochran just unofficially and individually should meet and talk with this fellow, Norman, that's another - that's all right but if he's to have - if we are to authorize him to go over.....
- H.M.Jr: Yes.
- H:and make him a part of the government situation to talk with Norman without the British - the regular British officials knowing about it you get into trouble.
- H.M.Jr: Yes, and then, of course, the other thing - ah - the last couple of months Butterworth has been doing very well.
- H: Yes, of course.
- H.M.Jr: Butterworth's been doing very well.
- H: Yes, I'd be - I would want - I think it's better - I believe, the more I think, that Cochran could say now we want - we're glad to talk with any of you anytime in a way but we have to have regard for this broader situation - this gold metal situation.....
- H.M.Jr: That's right. I don't particularly like it.
- H:without getting wires crossed.
- H.M.Jr: I don't like it - I don't like it very much.
- H: I think that Norman probably just wanted to go over a lot of odds and ends in the general financial situation.
- H.M.Jr: No, he has the gold thing in mind.
- H: Well that's what I - I meant that as the in the conversation.
- H.M.Jr: Yes.

- 6 -

H: To talk it over perhaps with a view of - ah - spadework in advance of some possible suggestion relating to the governments - just some informal general talk, you know.

H.W.Jr: Yes.

H: He - he probably had that in mind. Well if he has there's no reason why it should be concealed from the governments.

H.W.Jr: No.

H: That's the way I see it.

H.W.Jr: I - I - I - I - I don't - I just don't react kindly to it.

H: Well it's best to have - ah - just to let the impression get out that - whether this is intended for governmental purposes. Then the governments will have to - if it's - if it's preliminary spadework - exploratory work -

H.W.Jr: Yes.

H: - ah - then there's no reason why the government shouldn't know about it.

H.W.Jr: That's right.

H: Yes.

H.W.Jr: Well -

H: And then we'll be glad to talk, you understand, and then Cochran will be glad to talk with him.

H.W.Jr: Yes.

H: Yes.

H.W.Jr: Well I - I - I won't do anything without talking to you further.

H: Well that's - ah - that's my impression about it right now.

H.W.Jr: And - an don't forget that I'm still on the Philippine hot spot.

- 7 -

H: Yes, I'm talking that out this morning.

H.M.Jr: I'm cooking in cocoanut oil.

H: Yes sir, well I've done that; had that myself and I'm glad for somebody else to have the same experience.

H.M.Jr: Thank you very much.

H: (Laughs)

H.M.Jr: (Laughs)

H: Goodbye.

June 16, 1937.
11:53 a.m.

H.M.Jr: Hello

U: He'll be right on.

H.M.Jr: Hello - hello
(Long pause)

U: Do you want me to ring you when he comes on?

H.M.Jr: No, I'll wait. Tell I'm talking on this wire.

U: All right, I'll tell him.

H.M.Jr: Hello - hello

Hull: All right, Henry.

H.M.Jr: Cordell.

H: Yes.

H.M.Jr: I talked to the President about this request of Montague Norman.....

H: Yes.

H.M.Jr:and we thought that the thing to do is to just tell the British Ambassador the whole story and ask him to ask Sir John Simon what he'd like us to do, see?

H: Well that's the other way around - I - it just occurred to me - here's - here's what I had in mind -

H.M.Jr: Yes.

H: Ah - Montague Norman has changed his attitude and got more economic - ah - ah - understanding - arrangements between the two countries and here's another thing that we might on and he's been doing some valuable work, of course, from what I've heard. I've had no communication with him at all except people who and tell me what he said. Ah - it just occurred to me that he might, in the future, go if we keep him feeling all right. If we should talk up to tell him that we've had to consult the government.....

- 2 -

H.M.Jr: The what?

H: This is the British government - that the British government would have to be consulted and know about this - ah - and then he'd go straight to the British government and we could tell the British government. Then - ah - matters that he wouldn't feel that we had ignored him and gone straight to the government.

H.M.Jr: Well he acted so peculiarly when he was over here before and my relationship with the British Treasury is so good that I want to keep that.

H: Well I wouldn't - we wouldn't think about talking to him, of course, without the British Treasury knowing it.

H.M.Jr: Well I don't - and then this idea of not letting Bullitt know and all that - ah

H: Well that - you know I suggested that Bullitt should.

H.M.Jr: Yes, I know you did. No, I don't - ah.....

H: I'm not - I was just suggesting this because if Norman, who has been working for our program the last few weeks, should suddenly wake up and find that we have gone to the governments - London, Paris and around on his individual - for an individual conference with this fellow he might feel that - ah - ah - out of sorts or he might not but it was just to avoid that.

H.M.Jr: Well this isn't - I'm - I'm sorry. I've asked for it and if you don't mind.....

H: Well it's all right. I'm just giving you my reason for the other thing.

H.M.Jr: Well, of course, I suppose you think I've talked to Feis. I haven't talked to Feis.

Hull: Yes.

H.M.Jr: So I mean I'm getting it from you first-hand.

- 5 -

- H: Well this is what I - yes - anyhow this is - this is - I'm giving you the reason for what I said at first blush this morning when you called.
- H.M.Jr: Yes, well the point is this. I reverse it. Supposing Eccles asked to see somebody here in connection with this Great Britain and didn't let me know about it and wouldn't let it go through the State Department or anything else - how would we feel?
- H: Well if we - if the fellow he spoke to said, no I can't come to you without my government knowing it.....
- H.M.Jr: Yes.
- H:you go to your government - ah - you go to the government and that would be - and then we can talk.
- H.M.Jr: Yes.
- H: Ah - that's what I was trying to get.
- H.M.Jr: Well:-
- H: When he comes to him and says - I mean - I put it up - we've got to collaborate with governments and Central Banks and to talk up - I'm not in a position to accept your invitation without your government knowing about it. Now what do you say about that? And he says, well I'll take it up with my government or he'll say, that's all right and then we'll - and then we've made our record.
- H.M.Jr: Well, frankly, it gets down to I don't want to talk to Norman.
- H: I see.
- H.M.Jr: And the President doesn't either.
- H: Yes.
- H.M.Jr: Now that - that gets right down. We want to keep our lines open to the British Treasury.
- H: Well, of course, this would mean - this would mean the British Treasurer would come - the only thing - you know the Treasury and the Bank over there don't work well together on some things.

- 4 -

H.M.Jr: Yes, that's just it.

H: And - ah - that - this would keep us - we'd say, we can't talk through the bank unless the government first knows all about it and tells us what it's pleasure is in that respect.

H.M.Jr: Yes.

H: Now, of course, if you want to take it up first with the government why that's all right.

H.M.Jr: Well I went over and talked to the President and that's the way he felt.

H: Yes, well then - then that's their side of it, of course.

H.M.Jr: And - ah - I - I feel that way too.

H: Yes, well then that's still their side. I was just - the only thing I've had so much trouble trying to get help over there on our Trade Agreement and to get the Bank of England in behind it. I'm just watching to avoid - to avoid getting that.....

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

H: - That's a minor matter.

H.M.Jr: No it's not a minor matter but on the other hand I don't want to - knowing that the last couple of months that the British - that the Bank of England has made several suggestions.....

H: Yes.

H.M.Jr:with which the British Treasury didn't agree with.....

H: Yes.

H.M.Jr:I don't - I feel I can serve my government best by keeping my relations with the British Treasury as friendly as they are now.

H: Well that's - of course, I would - my feeling hasn't been entirely wrong but I had exactly that thing in mind just as much as you do.

- 5 -

W.M.Jr: Yes, and I don't want to offend them.

H: Yes, and the only reason I'm - I'm giving this comment is so you'll have the whole picture.

H.M.Jr: Well I asked for it Cordell and I told you I wouldn't do anything without calling back.

H: Yes, well I'm 100% in on anything you and the President decide on .

F.M.Jr: And, if you don't mind, I - I - I'd like to do it this way unless you say.....

H: Oh I'm not going to - of course, anything the President says why we're 100% behind him and.....

W.M.Jr: And the other thing that influences me is the fact that Mallett carried this message, which was delivered about three days ago.

H: Ah - ah - who carried it?

H.M.Jr: Mallett, the Consul of the British Embassy.

H: Oh.

H.M.Jr: Carried this message to Sir John Simon that I'd like to talk to him.

H: Yes.

W.M.Jr: Now before I get an answer if I start talking to Norman through Cochran.....

H: You see - well I don't make myself clear at all. My proposition is not to anymore think about talking to Norman than you're thinking about talking to him. The only difference is I would tell Cochran - I'd have Cochran to tell that to Norman that we couldn't think about talking to him without his government knowing the whole thing and expressing to us what it's pleasure is.

H.M.Jr: I see.

H: That's the point I'm trying to put over.

H.M.Jr: I see.

H: Then - and then we would have good faith with the government and Norman would have found it out directly instead of through - instead of the other way around.

H.M.Jr: I see.

H: Now you get - of course, the President had to take the other view of the matter - why that's 100% all right.

H.M.Jr: Well, listen - and may I digest it?

H: Yes sir.

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

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 16, 1937, 1 p.m.

NO.: 802

FROM COCHRAN.

At 10:30 this morning I visited the Bank of France. Yesterday the French Stabilization Fund lost 670,000,000 francs pegging against sterling at 110.90; this morning no heavy pressure on the franc had yet developed. Better opening for Rentes and French shares.

The bill for special financial powers for the Government, quoted in my telegram No. 797 of June 15, 11 p.m., was accepted by the Chamber this morning after amendments which state that the authority the Government is to receive is "to maintain the franc at its parity under the terms of the monetary law of October 1, 1936 and to rule out exchange control". The bill is limited to the duration of the present ordinary session of Parliament. This session usually terminates by the fourteenth of July. On June 17 the bill will go before the Senate.

Presumably the amendments would hamper Blum's action if, as reported, he had planned to prohibit capital exports and to effect definite stabilization of the franc. Should the latter be attempted against the warnings of leaders such as Reynaud and Flandin, it will undoubtedly

be

- 2 -

be in order that the Stabilization Fund may be terminated by Blum, who would utilize its 10,000,000,000 francs and perhaps another 7,000,000,000 francs profit that would come from franc devaluation to the lower limit and then stabilization. The Bank of France would then have the job of defending the new rate of the franc with the gold resources at its command. The Bank of France statement which will on June 34 show heavy gold losses will undoubtedly lead to further worry by the public.

BULLITT.

EA:L^{WW}

Dated June 16, 1937.

Received 1.07 p.m.

Secretary of State,
Washington.

804, June 16, 4 p.m.

In a dramatic special session of the Chamber of Deputies which opened at midnight and lasted until 6 O'clock this morning the Prime Minister's bill asking for plenary powers until July 31st to decree all measures deemed appropriate to restore public finances and to prevent speculation and attacks against the currency and public credit was passed by the Chamber by 346 voted to 247.

During the afternoon the Communists met and issued a resolution in which they declared the intention not to vote for the bill on the grounds that some of the revenue which the government intended to procure (particularly with respect to increases in indirect taxation) would mean a blow to the laboring classes and an increase in their cost of living. The resolution closed with the statement that the Communists were ready to assume all their responsibilities in a "reinforced" government thus clearly implying their willingness to accept cabinet positions in a remodeled front populaire government. The Radical Socialists also registered decided opposition to the bill.

BULLITT.

RR :WWC

LHM

GRAY

Paris

Dated June 16, 1937

Rec'd 3:09 p. m.

Secretary of State,
Washington.

804, June 16, 4 p. m. (SECTION TWO)

During the debate despite severe attacks on the Government by Flandin and Reynaud, which under more normal circumstances might well have brought about its downfall, it became evident that Blum's appeals for confidence addressed during the evening to the various groups in his majority might prove successful. All depended, however, on the Communists who up to the last moment through their leaders Duclos and Thorez categorically refused to change the decision. It was the sudden and totally unexpected Communists' volte face at 4 o'clock this morning that enabled the Prime Minister to obtain his majority vote of confidence of 99. Twenty Radical Socialists voted against the bill.

Political observers appear at a loss to explain the reasons which induced (?) (?).

The bill with certain modifications particularly the introduction of the clause stating that the Government would maintain the franc at its present parity and would avoid exchange control now goes to the Senate where it

will

LMS 2-No. 804, June 16, 4 p. m., Sec. 2, from Paris.

will be tabled tomorrow. While there is strong opposition to the bill in the Senate where a bitter debate will take place either tomorrow or Friday, there are many who believe that the Blum Government met its real test in the Chamber of Deputies and that the Senate in view of the above-mentioned modifications and the desire to avoid a political crisis at this juncture may pass the bill by a narrow margin.

(END MESSAGE)

BULLET

CSE

110

Plain

London

Dated June 16, 1937

Rec'd 2:20 p.m.

Secretary of State

Washington

RUSH

386 June 16, 8 p.m.

FOR TREASURY FROM BUTTERNORTH

Lewley, on behalf of British Treasury, has called my attention to British United Press report published late this afternoon under Washington dateline to the effect that French Representative there has intimated that France may be forced to withdraw from Tripartite Agreement presumably due to institution of a control system.

British Treasury would appreciate receiving any information in this connection which American Treasury may have.

BINGHAM

HPD

June 18, 1937

3 p. m.

Present:

British Ambassador
Mr. Trentham
Er. Feis
Mr. Taylor

HM, Jr.: The reason that I asked you to do me the courtesy of coming down was this: I have, through the cooperation of yourself and your staff, established what I consider a very fine relationship with the British Treasury. I think it has been most important to your Government and mine. I want to keep it.

Ambassador: Yes.

HM, Jr.: Did you know, when Mallet left, I sent a message to Sir John Simon?

Ambassador: Yes.

HM, Jr.: This morning I got a message which, frankly, I don't know just how to handle. And that's what I want to tell you about.

As you know, every month they have this meeting of the Bank at Basle, the Bank of International Settlements, and Sir Montague Norman goes over there and we have our Mr. Cochran, who is in Paris, and he goes there as a very unofficial observer. Well, he met Sir Montague Norman and they always talk things over and he said that he wished the United States Government would send somebody to London to talk things over with him. Cochran naturally did not know how to answer it and said he would simply think it over.

This morning, Sir Montague Norman telephoned Cochran inviting him to come to London for lunch at the Bank of England on Monday.

Ambassador: Next Monday?

HM, Jr.: This coming Monday.

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Ambassador: Yes.

HM, Jr.: I could not get it very well over the telephone, but I gathered -- and this is what I wasn't sure of -- that we had consulted with the Treasury, but I could not understand over the telephone whether he had or had not. Cochran pointed out that we have Mr. Butterworth in London who calls on the Treasury every Friday and Sir Montague Norman said, No; that we wanted to see Cochran and that he wanted this kept entirely out of all embassies and all diplomatic channels and that he felt Cochran was closer to me; therefore, he would like to see him.

Well, in the first place, in my mind, is my relationship with Sir John Simon, also my relationship with Mr. Chamberlain when he was Chancellor of the Exchequer.

Ambassador: Yes.

HM, Jr.: The fact that the whole Tripartite Agreement is based on relationship between Governments and not between private central banks; the fact that over the last couple of months we have had suggestions from the Bank of England, from Clay, their economic advisor, which when it was put up informally to the British Treasury they completely disagreed; that nothing that I have done with your Government or ever will do or anything that they have done has been anything except just across this table, man to man. I think it's most important we keep it that way.

Ambassador: Yes.

HM, Jr.: You saw the letter I received from Mr. Chamberlain and my answer. I don't want to do anything to offend Sir Montague Norman, but if anybody had to be offended I would rather offend him than the British Treasury. Furthermore, if I let Cochran go without telling the British Treasury they would say 'Mr. Morgenthau just sent us this message; he must be very impatient that he can't wait until he just gets an answer.' On the other hand, if you could advise me that it is quite all right as far as the British Treasury goes to have Cochran go, then I would have no objection.

Ambassador: I see.

HM, Jr.: But I can't let him go without disclosing it to

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the British Treasury and first finding out whether it's agreeable to them, even if I offend Sir Montague Norman through doing it.

Ambassador: Above all things, you don't want to cross the wires.

HM, Jr: Not let me tell you what happened two years ago. Sir Montague Norman was here in New York. He talked to Mr. Eccles and said, How do I go about to see Mr. Morgenthau? (I may be a little rough in my memory.) He said, If you want to see him, just ask. Well, he didn't want to ask, so when Bewley came to see me, up to Cape Cod, I asked him, I said, How would you handle a situation like this? and the answer I got was, Well, if Sir Montague Norman wants to see you, he knows how to do it. He can call up the Embassy and ask them to arrange it. Then when Sir Montague Norman got back, he took the occasion to tell friends so it came back that the only reason he came to America was to see me and he had been unable to see me. Now, I am telling it to you just the way I feel and, frankly, I want some advice.

Ambassador: I see. Yes. I see.

Mr. Trentham: May I offer some. I feel perfectly convinced that the relations between Mr. Norman and any Chancellor of the Exchequer are so close -- he goes to the Treasury several times a day to see the Chancellor -- that there could be no possible objection to a meeting between Mr. Norman and Mr. Cochran. That is my view.

Ambassador: That would be my own view too.

Mr. Trentham: I am perfectly certain of it.

HM, Jr: Well, it's only Wednesday. You would have time to find out.

Ambassador: Oh, yes! I think so.

HM, Jr: You see, Sir Montague Norman, I am sure, does not know that Mr. Mallet took a message.

Ambassador: No. No, probably not. He only landed yesterday. He only got to London yesterday.

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HM, Jr: And among other things, I told Mr. Mallet that if there was going to be any conversation, I wanted it right out and not -- you see, there have been different hints the last two or three months, so much so that I am confused.

Ambassador: Yes. Yes.

HM, Jr: And what Clay thinks at the Bank of England is not what the British Treasury thinks. And what Clay has been saying for the last couple of months is not the same as the British Treasury.

Ambassador: Yes. Yes.

HM, Jr: And if you will remember, at the time of -- let me get this straight -- check my memory, Wayne -- if I remember rightly, when the French wanted to do that so-called dollar-pound loan and they wanted a depository here, as I remember it there was that crossing between Montague Norman and Sir Frederick Leith-Ross, wasn't there?

Mr. Taylor: I don't remember.

HM, Jr: As I remember it, I think Montague Norman didn't want it and Sir Frederick Leith-Ross went to Paris and tried everything he could to get it across.

Ambassador: We didn't hear anything about that.

Mr. Trentham: News to me.

HM, Jr: If you are right, it's fine. All your Government can say is that I am -- I want them to feel that I am leaping over backwards to make sure that there can be no misunderstanding.

Ambassador: You want it straight from the horse's mouth.

HM, Jr: As I say, I don't want to offend Sir Montague Norman. If he has some ideas he can contribute, fine! But my relationship, after all, is with the British Treasury.

Ambassador: Yes. That's quite plain.

Mr. Trentham: Yes.

HM, Jr: Now, we have time. If I could hear Friday

-5-

morning, if that is not asking too much.

Ambassador: We will send a telegram off tonight and they will get it the first thing tomorrow morning.

H.M. Jr.: He wanted to surround it with complete secrecy; didn't want it to go through the Embassy. As far as we are concerned, we can keep it secret here, but it's a little difficult.

Dr. Feis: May I say on that point, as regards not going through Embassies, I know Mr. Hull feels that of course Mr. Bullitt would have to know about this.

H.M. Jr.: I did not want to say that. All right, I will say that. In the message, Sir Montague Norman said that he did not want Ambassador Bullitt to know anything about it.

Ambassador: I see. Oh, yes!

H.M. Jr.: And the position that Mr. Hull has taken, whom I have consulted about this, is that Mr. Cochran has the position of Counselor, and while he is detailed just the way you (Trentham) are to work with the Treasury, he is part of the State Department's staff and he's under Mr. Bullitt and the point I think you (Feis) make (I overlooked it) is if Cochran does go to London, Ambassador Bullitt will have to know about it.

Ambassador: Yes. Clearly.

Dr. Feis: I don't know whether it's necessary to say this and I don't believe Mr. Hull meant that Mr. Bullitt would have to be informed about the substance of the conversation, but merely about the errand and its general purpose.

Ambassador: And it adds some point.

H.M. Jr.: Cochran said I can't even cable you; I have to telephone you, because Sir Montague Norman says I must not even tell my Ambassador.

(At this point the Ambassador and Mr. Trentham left, Dr. Feis remaining.)

H.M. Jr.: (To Dr. Feis) I know this is not what Mr. Hull wanted me to do, but knowing what he did want I wish you

-8-

would tell him just what I said and I don't think the way I have put it ought to make an enemy of Sir Montague Norman.

Dr. Feis: No. On my own observation of Sir Montague Norman, I don't know who has told Mr. Hull that Mr. Norman is an active and useful factor for trade agreement, but I am decidedly skeptical. Mr. Hull, as I understood it, suggested as a first step, which was to say to Cocaran: tell Sir Montague that you will have to consult and in the course of that consultation you feel sure that your Government will want to ascertain whether it's agreeable to the Treasury. I think Mr. Hull was merely suggesting that intermediate step.

H.H.Jr: Do you think I handled it all right?

Dr. Feis: Yes, I do. That's because I personally do not greatly estimate Mr. Montague's part in international affairs, but Secretary Hull has somewhat divergent judgment on that.

May I say another thing about Clay. It so happens that Henry Clay is one of my very oldest English friends. There is no more simple, direct, well-wishing Englishman alive. He is an economist of a sort of quiet gentility and feels himself quite free in talking with someone like myself who go over there, talking in terms of his personal judgment, not necessarily the Bank's judgment and so I think perhaps when considering anything ever wired regarding Clay's judgment, you would want to take it as his own.

H.H.Jr: Policy, as far as stabilization is concerned, is set in the British Treasury and they undoubtedly have their same troubles with the Bank of England, behind the scene, as we do here with the Federal Reserve, and they always will have.

Dr. Feis: The only report on that comes from this very fellow Clay. A year ago he said, I can describe precisely what the relationship is. The Treasury gives us liberty within designated sums -- my memory of the sum he mentioned was \$30,000,000 -- either way; beyond that we don't consult; approaching that point, we go to the Treasury for instruction.

H.H.Jr: With Mallet just going there, taking this message, why should we let Sir Montague Norman stick his nose into this thing? I want to do business with the British Treasury.

Dr. Feis: I have no qualms because of my estimation of

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Montague Norman's role. The Secretary has qualms because
of his own estimation. In my personal judgment, I am satis-
fied.

oOo-oOo

EDA

TELEGRAM SENT

GRAY

June 16, 1937

5 p.m.

AMEMBASSY

LONDON (ENGLAND)

246.

Your 386, June 16, 8 p.m.

FOR BUTTERNORTH FROM SECRETARY MORGENTHAU.

Please inform Bewley that we have had no intimation from the French Government of any intention of withdrawing from the Tripartite Agreement; nor as a matter of fact has the subject been discussed with any French representative.

HULL
HF

EA:HF:LWW

RECEIVED

JUN 17 1937

TREASURY DEPARTMENT
Office of the Secretary
Telephone Room 1010

NC

Plain

London

Dated June 16, 1937

Rec'd 2:20 p.m.

Secretary of State

Washington

RUSH

326 June 16, 8 p.m.

TO TREASURY FROM BUTTERNORTH

Dowley, on behalf of British Treasury, has called my attention to British United Press report published late this afternoon under Washington dateline to the effect that French Representative there has intimated that France may be forced to withdraw from Tripartite Agreement presumably due to institution of a control system.

British Treasury would appreciate receiving any information in this connection which American Treasury may have.

BINGHAM

HPD

PARAPHRASE OF TELEGRAM RECEIVED

No.: 805

From: American Embassy, Paris

Date: June 16, 1937, 5 p.m.

FROM COCHRAN

Paris exchange market nervous with prices varying considerably but more quiet than for past few days. Control had to yield fair amount of sterling. Rentes did not hold their opening gains. International shares lost heavily.

According to our market contact, gold is still being sold at London by the Swiss National Bank. There is again a rumor going around here that within a week the United States will reduce the price of gold to \$32. However, today gold is generally being bid. Thirteen bars of gold were shipped by Paris American Bank to the Belgium National Bank from the London market. The Paris American Bank, however, found that the Belgium National Bank is also shipping gold from London, thus not leaving much opportunity for outside arbitrage arrangements. Operators of the market here are of the opinion that chances are about even for Blum's financial measures to pass the Senate.

BULLITT

EA:EB

BRITISH EMBASSY,
WASHINGTON, D.C.

June 17th, 1937

My dear Mr. Morgenthau,

As agreed with you I telegraphed to the Chancellor of the Exchequer immediately after our interview yesterday on the question which you raised, and have just received a reply from him reading as follows:-

"Please inform Mr. Morgenthau that Mr. Norman's suggestion arose from the fact that it will be necessary to give very close attention in the immediate future to the French position on which we are very much in the dark. From the amounts of gold which have passed to us in the last six days it is obvious that they are losing gold at extremely heavy rate even for them. Governor of Bank of England who/

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D. C.

-2-

who had seen Mr. Cochran at Basle suggested if he could find it convenient to visit London his opinion on situation in Paris would be most valuable. The Treasury concurred and said that they would be most glad of opportunity of discussion of position informally with Mr. Cochran if it suited his convenience. Chancellor hopes that Mr. Morgenthau sees no objection."

I much hope that this message will clear your doubts.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "R.C. Mitter". The signature is written in dark ink on a light background.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 17, 1937, 1 p.m.

NO.: 807

FROM COCHRAN.

This morning at 11 o'clock I had a talk with the Bank of France. Yesterday about half the amount (of 670 million francs) of what was yielded the preceding day was lost by the French Stabilization fund. The three months discount of the franc against sterling had declined from 6.50 to 4.00 this morning. Quiet but fairly steady opening for sterling, with money very scarce.

I mentioned to my Bank of France contact that this morning traders had a rumor that France would withdraw from the Tripartite Agreement. He said he had not heard any official suggestion in this regard.

As soon as study of official text of debate proceedings in Chamber is finished/^{today} we will cable re Blum's reference in debate to France and tripartite agreement.

Today the Finance bill is to be considered by the Senate Finance Committee, and probably tomorrow there will be discussion in the Senate in answer. It is expected that there will be a tendency on the part of the Senate to modify the powers sought in the Chamber bill.

Most

- 2 -

Most confidentially information has come to me that the Bank of France shipment of gold on the PARIS to the Federal Reserve Bank of New York represents a further step of the BIS to liquidate its own holdings of gold. So far I have not made any attempt to confirm this report with any responsible BIS official.

The press here carries an item from the London FINANCIAL NEWS of today which predicts that the third article by Brand to appear in the London TIMES tomorrow will strongly recommend that the gold price be reduced.

BULLITT.

EA:LWW

London

Dated June 17, 1937

Rec'd 2:40 p. m.

Secretary of State,
Washington.

390, June 17, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

British Treasury expressed appreciation for the information contained in your 246 of June 16, 5 p. m.

With reference to the last sentence of your 243, June 14, 4 p. m., I might mention I have an appointment with British Treasury tomorrow noon. In this connection Exchange Telegraph ticker report may be of interest: "The Netherlands Bank in agreement with the Minister of Finance has decided to grant unilateral exemption from the embargo on the export of gold. This measure does not affect the monetary policy in any way but will give private holders of gold an opportunity to sell on the London market which would tend to eliminate the existing discount relative to the Amsterdam gold price."

The Chancellor of the Exchequer was asked in the House of Commons this afternoon whether he was aware that Sweden during the war refused to accept gold for payment of goods on the ground that Sweden was not sure that
other

LMS 2-No. 390, June 17, 5 p. m., from London.

other countries after the war would accept gold in payment for foreign goods purchased by Sweden; if he would endeavor to obtain guidance whether the United States Government would accept large volumes of gold or dollar exchange obtained from gold from Great Britain in payment for goods and services should Britain in time of war be able to offer only gold as the means of payment. Sir John Simon replied "according to my information it is not the case that Sweden during the war refused to accept gold in payment for her goods. Swedish currency was allowed to rise above its normal value. I am not disposed to accept the view that gold appears likely to lose its importance as a medium of international exchange. In any case I should not consider the action suggested in the last part of the question appropriate".

Asked whether in order to increase confidence in the sterling exchange position the Chancellor would give a rough estimate of the total of British short term obligations to overseas creditors and the amount in the hands of responsible British authorities of gold available as a reserve against these obligations, Simon replied "I am not in a position to give any formal estimate. It is very difficult to draw a line between short term obligations to overseas creditors such as deposits and foreign holdings

LMS 3-No. 390, June 17, 8 p. m., from London.

holdings of British securities which might be realized and the proceeds withdrawn, putting some strain on the exchanges as the withdrawal of foreign deposits, but from such information as is available I am satisfied that any increase in our liabilities in the last six years including the increase in our liabilities to other parts of the Empire has been more than covered by the growth in our reserves".

For the condition six years ago see MacMillan Committee report.

On the while the new profits tax announced last night of 5% on trade and business profits with exemptions to professions, public utilities and special area industries has been well received. In a full year the yield is estimated at pounds 25,000,000 and the duration is limited to the five years of the armament borrowing program. In the new proposals British Government has met many of the objections raised against the old: by taxing absolute profits instead of gross profits it clears itself of the charge of letting off the persistently prosperous while fleecing those who have brought their businesses through hard times to great expectations and those who have started new businesses at a venture; it is easily computed and collected. However, this has entailed dropping also any attempt to tax differentially those who have profited largely out of the rearmament program.

BINGHAM

CSE

LMS

GRAY

Paris

Dated June 17, 1937

Rec'd 3:30 p. m.

Secretary of State,
Washington.

809, June 17, 4 p. m.

FROM COCHRAN.

The text of the emergency bill giving government full financial powers has today been made available in the official report of Chamber debate of June 15, it reads as follows:

"In order to maintain the franc at its parity under the terms of the monetary law of October 1, 1936, and to avoid exchange control the Government is authorized during the ordinary session of 1937 and at the latest up to July 31, 1937, to take by decrees approved by the Council of Ministers the measures necessary for the restoration of public finances as well as for the protection of savings of the currency and of the public credit without being able to proceed to forced conversions. These decrees will be submitted for ratification by Parliament within three months of the promulgation of the present law or in any case

BULLITT

RR:CSB

EDA

GRAY

PARIS

Dated June 17, 1937

Received 6:45 p.m.

Secretary of State

Washington

809, June 17, 4 p.m. (SECTION TWO)

soon after the opening of the Extraordinary Session of 1937".
(The amendment prohibiting forced conversions did not appear
in first press reports).

It is noted that several references were made in
the debate to the tripartite arrangement. The most
important in this connection was the assurance of the
Minister of Finance that the Government "would not take
measures that would place the principles of the arrange-
ment in danger". Much notice has been given in the press
to Blum's statement in this connection. Textually he said
referring to the action to lead expatriated capital to re-
turn to France:

"This has nothing to do with the tripartite agreement.
This arrangement in fact concerns free dealings in and
negotiation of capital between countries and this is a
question of French sovereignty which no international
agreement can limit for the reason that it is the French

law

WDA - 2 - #809 June 17, 4 p.m. from Paris

law only which is sovereign as concerns the French, their persons, and their property wherever in the world it has pleased them to hide it".

It does not appear from an examination of the official report that a reference was made to stabilization by the Government. However, Paul Reynaud who is a member of the Chamber Finance Committee revealed that the Minister of Finance had stated to this body earlier in the day "that it was very probable that the Government would stabilize" and in this respect Reynaud was at pains to recall to the Chamber that on February 4 last, the Minister of Finance had definitely agreed that France was not ripe for such an operation as the pound was free and French economy was not prepared. Reynaud warned the Chamber that stabilization would be "pure folly" in view of the present state of world conditions and especially conditions in France.

Sterling has continued in fair demand throughout the day with control holding sterling rate at 110.90. Dollars were offered from New York presumably on account of American strike. Bank of England took part of gold offered at London. Price was such that Bank of Belgium was not called upon to take gold. International shares lower; French shares irregular. Feature of Paris market has been jump in French rentes from 2.25 to 3.40 francs.

Investors

EDA - 3 - #809, June 17, 4 p.m. from Paris

Investors believe Government will under proposed full financial powers force French banks, insurance companies and certain other business concerns to invest part of their reserves in rentes and other Government securities. Hence the rise. Bank of France statement as of June 10, showed no significant changes. Coverage 55.64 versus 55.56. Banking circles fear Government may devise scheme for forcing those having foreign currency deposits in banks in France to convert them into francs.

END OF MESSAGE.

BULLITT

NPL:EMB

STATEMENT OF SECRETARY MORGENTHAU
BEFORE THE JOINT COMMITTEE ON TAX EVASION AND AVOIDANCE
THURSDAY, JUNE 17, 1937.

The problem of closing loopholes in tax laws is continuing and ever-present. It is never settled by any particular legislation. Tax administration today requires a succession of laws to prevent the use of ingenious devices which distort the original purpose of the act and which create what to the average man seems unethical and unwarranted avoidance of taxes.

This is not the result of activities on the part of any particular group of persons. Nor is it the result of concerted action on the part of taxpayers as a whole. It is caused by pressures which come from deep-seated attitudes in certain quarters toward taxation. These attitudes and these pressures must be realistically considered as part of the problem of tax administration. I will describe them briefly because they furnish the background against which tax administration must operate.

In the first place, we have developed in this country a group of ingenious lawyers and accountants who make their living by showing to people who can afford to employ them ways by which they may pay the least possible taxes. This may be a legitimate business. Nevertheless, by virtue of its highly competitive character, it brings about the following situation. The ordinary accepted standard by which many wealthy taxpayers judge the efficiency of the tax attorney is the amount that he can save in taxes. The most ingenious attorney, therefore, becomes the most

- 2 -

successful and the most sought after. He feels that his sole duty is toward his client. If he is honest, he will not condone perjury but he feels little moral or social responsibility to the Government. Therefore, if he can invent a new scheme for circumventing the intent of tax laws, which will be upheld by the courts, he is well within the ethics of his profession, regardless of the unfortunate effect that such a scheme will have upon the general application of such laws. We have now a bar of registered attorneys and tax accountants numbering approximately 45,000. Against them are pitted some 2800 field agents actively engaged in tax investigations for the Government. The contest is, of course, unequal. The fees of the tax lawyer exceed by thousands of percent the pay of his opponent employed by the Government. In this manner the most resourceful brains of the legal world are engaged actively in trying to avoid taxes for their clients. Among these are men who received their early training from the Government, and who use the skill they acquired in that service against the younger men who take their places. The Government then becomes a training school for many of its opponents.

I am not attaching any blame to anyone in particular for this situation. I am only pointing out that it exists and that it is one of the reasons requiring continual revision of the tax laws.

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A second factor which creates the problem which now confronts us is the fact that tax avoidance, as opposed to tax evasion, is considered by many a legitimate and honorable aim. Where private obligations are concerned, the same people who now hire ingenious attorneys to cut down their taxes would scorn to use the same subtle devices in avoiding payments to their creditors. Here again I am simply calling attention to an existing attitude. The ethics of tax avoidance have grown up out of a variety of circumstances and the problem is not solved by blaming anyone. It is only important to recognize these ethics as an existing fact because they are a very important element in the problem which faces the Treasury.

I hope that in the future an atmosphere may be created in which men will hesitate to use ingenious devices to avoid the payment of taxes. Nevertheless, that happens to be the present attitude of some persons toward payment to the Government.

A third factor in the situation is the difficulty of distinguishing, at least before a case is tried, between tax avoidance which is supposed to be proper, and tax evasion which is supposed to be immoral. I will not attempt to define these terms. So hazy is the line between tax evasion and tax avoidance that it is always possible to classify any complicated scheme as tax avoidance, so long as there is no absolute certainty that it will be adjudged invalid at the end of long litigation.

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These attitudes have created what might be called the sporting theory of tax administration. So long as these attitudes exist, the process of tax legislation will be somewhat as follows: A law will be passed; ingenious devices for circumventing its application to individuals will be tried out. This will take time. Finally, when sufficient of those devices have become current so that a great loss in governmental revenue begins to appear, legislation will have to be drafted specifically directed at the new tax-avoidance inventions which have appeared since the last law.

Today because of the variety of devices to avoid taxes, the situation calls for remedial legislation. That this is a recurring situation is illustrated by the tax history of the last few years. Prior to 1934, the provisions permitting deductions for losses resulting from stock sales had become one of the largest loopholes in our tax administration. Ingenious use of these deduction provisions permitted individuals to establish losses by exchanging stocks with each other and calling the transaction a sale. However, it was the kind of a sale which would never have taken place had it not been for the desire to avoid taxes. That loophole was plugged in 1934. Since that date new devices of even greater complexity and ingenuity have been developed, imitated and copied until they are now in very general

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use. As is usual in such cases it takes time before sufficient interest is created to demand reform. For example, in 1935 - two years ago - under my instructions, Mr. Robert H. Jackson called to the attention of the Committee on Finance many of the methods of tax evasion which are now the subject of this inquiry. The use of those devices was then a less serious obstruction to the collection of revenue and nothing was done about them. Resort to them has now increased to such an extent that some reform is imperative.

Of course the attitudes which create this continuous task of circumventing new tax avoidance devices cannot be legislated away. The immediate objective in the present emergency is practical tax legislation. Nevertheless, I am hopeful that the continued publicity which hearings of this sort give with respect to the game of tax avoidance may help to create an atmosphere in which men will hesitate to use these artificial devices to avoid the payment of taxes just as today they hesitate to use such devices to escape the payment of private debts. The great body of citizens already display the same attitude toward their obligations to the Government that they display toward their private obligations. An examination of their returns year after year discloses no attempts to push the letter of the law to its limit, and no use of corporate forms or other elaborate subterfuges for the sole purpose of avoiding their normal

tax burden. Perhaps continued publicity given to the more fantastic methods of tax avoidance now considered legitimate may make such an attitude more nearly universal. This may be an important by-product of public hearings on current tax devices.

I will therefore attempt briefly to describe the general character of some of the methods now in use in terms which the average taxpayer may understand. One characteristic runs through all of them. It is the creation of a multiple personality in the taxpayer. By this device he ceases to be a single individual and becomes a whole group of people, some of whom are earning money while others are losing it. He divides himself into several people, sometimes incorporated and sometimes not. He purports to carry on business transactions with his family at arm's-length. Often he convinces himself that these separate people actually exist. Each one of these imaginary individuals into which the taxpayer divides himself deals and trades with all the other imaginary individuals.

The total result is a series of losses which would not have been deductible for tax purposes had the taxpayer remained a single personality. The different methods by which the parts of this multiple personality deal with each other are varied and intricate. We will attempt to classify them later. They are, however, of this general character. A taxpayer creates a separate personality to engage in an activity which is a hobby or a luxury or an ordinary living expense or even a pool of investing funds. He then charges the expenses and the losses of such activity against himself. Thus, he is able to pay interest to himself, to charge himself for vacations and pleasures, to give himself pensions, to be his own insurance company and so on. These transactions partake of the same general character as if a small taxpayer incorporated his household kitchen as a restaurant and deducted the expenses and losses from his taxable income because he had so few customers.

Practically all of the devices which we will cite later would look absurd if applied to persons of small incomes whose activities were necessarily more restricted. They are important as tax-dodging devices only for the very rich. Not only do they look absurd when applied to the small taxpayer but they are also too expensive to be useful unless large sums are involved.

The analogies which are used to support these devices are found in the corporate structure by which business in this country is conducted. The distinguishing feature, however, between the corporation used for a business purpose and the corporation used for a tax avoidance purpose is the fact that in the latter case were it not for the tax laws no such corporations would have been formed.

The use of the corporate device in order to split a single man into a number of personalities is often extraordinarily intricate. However, of late some tax attorneys have felt that it was not necessary to go to so much trouble. They have in effect split individuals up into different persons without bothering to incorporate. A rich man runs a racing stable as a hobby. He calls himself a horse-breeder and in this character loses money very heavily indeed. He never makes a financial success as a horse-breeder because racing demands too much luxury on his farm. This raises his expenses. He then charges off the loss on his racing stable against his income.

No small taxpayer would think of calling himself a golf instructor and then charge the expense of his golf game against his income because he got no pupils. However, we find an individual who in one capacity charters a pleasure yacht to himself at a loss and deducts it from his income because though as a business man he is successful, as a professional yachtsman he is a heavy loser. These instances are not yet as frequent as the use of the complicated corporate personality which is harder to see through. Nevertheless, unless legislative action is soon taken such pleasant methods of taking vacations and getting rid of taxes at the same time will be imitated

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and constitute a serious threat to the revenue.

Most of these people have talked themselves into believing that the methods which they use are socially legitimate. They profess complete personal irresponsibility, contending that if their methods are wrong it is the duty of the tax administration to ferret them out and to conduct long and expensive litigation in order to determine their validity. The individual believes that he is morally entitled to take the sporting chance and that he has nothing to lose and everything to gain by taking it.

The device of the multiple personality of the single taxpayer is of course not the only loophole which requires immediate attention. The Under Secretary of the Treasury, Mr. Roswell Magill, who will follow me, will undertake to classify the principal ones for you in detail.

I will only summarize the principal schemes which are being devised, copied and imitated today. They may be divided roughly into three classes.

First, there is the device which I have just described of making the taxpayer a multiple personality whose characters deal with each other.

Second, there is a variation on that device by which the taxpayer deals with his family at arms-length and creates taxable losses out of the performance of personal obligations which he owes to them. He takes his wife into partnership with him. He splits his income between himself and his children instead of maintaining them.

The third device is one where the individual doing business in this country makes it appear by a series of corporate personalities which he controls that he is actually doing business abroad in some country where he cannot be taxed. In other words, transfers of title which might result in taxable income are made to appear to have occurred outside of the United States.

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We do not know how extensively this latter device is being used. We do know that within the last two years, 585 foreign corporations have been formed which probably represent business interests in America. We do not know how many have been used for tax avoidance purposes, but we do know that some have been so used. We believe, however, that the use of this device is spreading. It is most important that its growth be stopped before vested interests arise which make it a still more difficult problem to deal with in the future.

For these reasons I believe that the use of the multiple personality by the taxpayer has now reached the stage where Congress should consider corrective legislation. The process of fighting in the courts all the different schemes which may be woven around this concept is too slow for efficient tax administration. We intend to give examples of a large number of cases, not all of which would be upheld by the courts but many of which are sufficiently plausible so that they can delay and hinder tax collection. It is the history of tax litigation that it takes years to finally outlaw a tax avoidance device, once it gets a foothold among tax attorneys. In the meanwhile, the Government revenue is impaired in two ways; first, by the actual loss of revenue in specific cases; and second, by the expenditure of the time and energy of the tax-enforcing agencies in litigation.

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It is true that many of the devices which we have referred to are being limited and restricted by the courts. Nevertheless, the situation is sufficiently confused so that a great deal of litigation is required because each case deals with only the particular facts involved and distinctions in intricate situations can always be made.

And what effect has the increasing use of these devices on revenues? That, of course, cannot be exactly determined. Nevertheless, it is a substantial factor which is cumulative in effect, just as the influence of a continued course of sharp practices in bankruptcy cases tends to reduce the total dividends to creditors. The nearest estimate which we can make of the loss in revenues caused by such practices in the tax field has been arrived at in the following way:

As you know, each November the Treasury Department is required to make an estimate of the revenue of the Federal Government for the balance of the current fiscal year ending on the following June 30th. I need hardly say that the problem of estimating the revenue is an exceedingly complicated one; and that some margin of error in the annual estimates, resting as they do upon forecasts of business conditions, prices, and a host of other factors, is inevitable. I take great satisfaction in the

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accuracy of the revenue forecasts made since I assumed the responsibilities of the office of Secretary of the Treasury. The first estimate of income tax receipts made under my supervision was for the fiscal year 1935. Actual receipts for that year proved to be 4.6 per cent greater than my estimate. In the following fiscal year, 1936, actual receipts were only 1.5 per cent under my estimate for that year. For the fiscal year 1937, the Treasury Department employed the same methods and the same personnel in making the revenue estimates as had been employed in the two preceding years. When, therefore, the March 15 income tax collections indicated that total income tax receipts for the fiscal year 1937 might be as much as 10.4 per cent below the estimate made last November, I became concerned. I realized fully, as I am sure you do, that all the care in the world could not always prevent a substantial error from entering into our revenue estimates, for, as I have already said, these estimates depend upon forecasts of the future; and the capacity is not given to mere human beings to foretell the future with accuracy. I was aware also that my predecessors in the Treasury Department had over-estimated the Government's income tax receipts in the three years 1931, 1932, and 1933, by 15.1 per cent, 7.3 per cent and 13.3 per cent, respectively.

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Nevertheless, I decided to investigate the details, so far as possible, of our March, 1937, income tax collections. This investigation disclosed the following very significant fact: Collections in certain areas where there is a considerable concentration of wealth and income had not increased by as large a percentage as had the total income tax receipts for the country as a whole. In connection with this fact it is particularly important to note that dividends represent a larger percentage of the net income of people with large incomes than they do for people with small incomes. We knew that dividend disbursements by corporations during the calendar year 1936 had increased materially over those of the preceding calendar year.

It seemed reasonable to suppose, therefore, that part at least of the discrepancy between our original estimate of income tax receipts and the receipts that might be estimated on the basis of our actual collections in March, 1937, might be due to a wider use of various methods of tax evasion and tax avoidance. And when Mr. Magill undertook a field investigation of this possibility at my request, he found much to support this conclusion.

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Mr. Magill will describe to you in some detail the character of his investigation. Necessarily, it was a quick survey, and the further audit of the 1936 returns will undoubtedly disclose additional data to enable us to determine with greater accuracy the methods of avoidance employed by some taxpayers. In this connection, it must be borne in mind that the Bureau of Internal Revenue faces tremendous physical problems in the audit of the returns and in its effort to prevent tax evasion and avoidance. There were about 6 million returns filed for the taxable year 1936, and it has been our experience in the past that only about 500,000 can be audited with the force of about 3,000 men that we have available.

I believe that it may be appropriate to say a few words regarding the Bureau's progress in the last few years in connection with the making of these detailed audits. Prior to 1935, the field investigations of returns were not commenced until approximately 1 year after filing and were not completed until about 2 years after filing. At present, field investigations are begun $3\frac{1}{2}$ months after filing and are completed $15\frac{1}{2}$ months after filing - an advance in the conduct of the work of field investigations of approximately 9 months.

The collection of additional taxes, a substantial portion of which represents recoveries in instances when tax avoidance or evasion has been attempted, has constantly been increasing. Our revenue agents'

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recommendations for the assessment of additional taxes increased from \$203 million in 1934 to \$355 million in 1936. Experience has shown that, through litigation or agreement with the taxpayer, about 70 per cent of these recommended additional taxes are ultimately collected by the Treasury. For the first ten months of the present fiscal year, agreements with taxpayers for the collection of additional taxes amounting to about \$130 million, have been secured, and Commissioner Helvering has informed me that he is confident that the Bureau will collect by agreements more taxes during this fiscal year than it has ever collected in that manner at any time in its history.

Undoubtedly, prevention of tax avoidance and evasion would be aided by an examination of a greater volume of returns. I think that fully 750,000 returns, rather than the present 500,000, deserve yearly audit. However, in consideration of the small personnel of the Department compared with the very large number of accountants and attorneys who are constantly engaged in the preparation of returns and in the defense of the taxpayers' contentions, the record of the Bureau is good. With our limited force, we must collect the maximum of revenue, and we must do so in such a way that we are not years behind in our work.

These tax avoidance devices to which I have alluded have affected revenues of the Government in the following ways:

- (1) They create the belief that rich men with expensive attorneys do not have to pay taxes. There is just enough truth in this to have far reaching consequences on the morale of hundreds of thousands of

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taxpayers. No one can possibly calculate how many petty evasions which can never be detected among 6 million returns are due to the belief that cleverness rather than fairness is a proper criterion of the taxpayer. Thus, tax ethics generally today are where business ethics and trade practices were in the nineties.

(2) In the highly competitive situation which exists among expert tax attorneys, plausible devices spread rapidly and tax evasion and avoidance increase without anyone realizing the extent of the impairment of tax administration until the end of the taxable year. Even then an exact estimate of the effect of tax avoidance is impossible.

(3) Vested interests grow up in tax avoidance devices in the course of time so that it becomes very difficult to change them after they receive a semi-respectable standing. This factor makes quick action advisable to decapitate new schemes before they achieve the force and respectability of law.

(4) After tax avoidance devices have become an accepted part of tax law, any attempt to change them is heralded as a persecution of the rich. Today, for example, we are met by the charge made in some quarters that this attempt on the part of the Treasury, forced on us by a gradual accumulation of tax avoidance devices since the passage of the Revenue Act of 1934, is an attack on wealth. Actually, anyone who gives the matter unbiased consideration will realize that it is for the benefit of the rich to plug loopholes in tax laws, since this raises more revenues without raising rates. The prevalence of the devices

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we are going to describe has cast a suspicion on many rich men who do not deserve such suspicion. There is certainly no possible advantage to the conscientious man of large income to allow fantastic schemes of tax avoidance to continue.

(5) And finally there is the very important question of the revenue. Those tax devices which defeat the intent of Congress cost the Government huge sums which Congress never actually intended to give away. Moreover, they create continual and expensive litigation. No collecting agency can operate effectively if it is hampered at every turn by law-suits.

For these reasons, I considered it imperative to call these matters to the attention of Congress at this time.

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