

DIARY

Book 76

French Crisis: June-July, 1937

Gochran resume: Book 76

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Paris, July 7, 1937.

STRICTLY CONFIDENTIAL
AND PERSONAL

The Honorable Henry Morgenthau, Junior,
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Secretary:

In cablegram No. 309, dated 4 p.m., July 2, 1937, the Department of State gave me the message from you, requesting a detailed and systematic report by mail of the activities which I had carried on for the Treasury Department during the preceding ten days. When you talked with me by telephone shortly after noon on July 5, you confirmed that you desired a purely personal report for your own records, and that this should be submitted directly to you. When you had spoken with me a few days earlier, on the afternoon of Sunday, June 27, you had asked that I expand in a personal letter the

remarks which I had made over the telephone to you that day in regard to my recent trip to London. I am, therefore, in the present communication going back a little beyond ten days in order to make this one letter cover both the London trip and the French financial crisis of the past few days.

When I was last at Basel, on June 13 and 14, Jacobsson, who has been a close friend of Sir Frederick Phillips for many years and had recently visited him in London, and with whom Governor Norman speaks more frankly than he does with anyone in the B.I.S., told me that the British were anxious to talk to some one representing you. While the Tripartite Agreement had been conceived with the idea of helping France, the greatest benefit therefrom has been, according to Jacobsson and some of my other friends, to bring the British and Americans closer together. The British, Jacobsson continued, had come to realize, especially through the negotiations of last autumn and the successive steps under the Agreement, your effective way of getting things done and your very close relations with the President. Now the British wished to exchange ideas with you further on longer term propositions than your respective "Funds" are so satisfactorily handling from day to day.

I told Jacobsson that the British Treasury was in contact with Butterworth (as he already knew from the British) and that I had a fairly wide freedom in moving about for you. Jacobsson said the first alternative channel was not satisfactory. This he partly attributed to the comparatively recent relationship which Butterworth had established with the British monetary authorities. After much hesitation he reluctantly and most confidentially added that the British were aware that Butterworth was sending frequent cablegrams from London, which, considering the unofficial and market sources which he consulted, they felt might not be giving a fair portrayal of the situation.

Jacobsson said the British hoped to be able to talk with a representative of the American Treasury who could give a definite answer to questions which might arise, and who could commit the Treasury. I told Jacobsson that there was no one, technical or otherwise, who could come abroad even from the Treasury itself in present circumstances, equipped and authorized to bind the Treasury on such subjects as gold policy. I doubted very much whether the Treasury would even consider sending anyone

of its own men until it might know what the British wished to discuss and what the chances were for successful negotiations. In the meantime I suggested that the proper way would be for the British to make their approach through Butterworth or through their own Embassy in Washington. It could later be seen whether there might be occasion for a Treasury expert to go from one capital to the other.

Governor Norman, to whom I was fully aware Jacobsson would relay the above observations, talked with me on two or three occasions at Basel. In my cablegram reporting the B.I.S. meeting I gave his general views and reported his remark as to our need for cooperative study of long term problems, but I did not record his more confidential suggestions. Before having much to say to me, he asked whether he was talking to me as usual, personally and strictly confidentially, or whether in addressing me he was addressing my Embassy. He said that if the latter was the case, he would have nothing to say. I reminded Norman that he had been talking with me for several years, with no bad results, and that I had frequently been able to

pass his views on to the quarters in my country which would be most directly interested therein.

Any little success that I may have had in obtaining confidential information or frank expressions of opinion from Treasury, Central Banking and B.I.S. officials has come from two facts. In the first place these people have trusted me personally. Secondly, they have been under the impression, which I have endeavored to create, that I had direct and confidential contact with you and Secretary Hull.

Since January, 1934, I have been sending daily cablegrams for you. While I have, of course, endeavored to keep this fact confidential, there has been no hiding the fact that my various trips to European capitals and to Washington have been under your instructions. Last autumn I was definitely stamped as your personal representative in the Tripartite negotiations. Last August I obtained in London from Phillips what I think was one of the best interviews I ever had, since it so accurately pictured the attitude the British would take in the event of

French devaluation, a subject upon which at least Monick had provided faulty data. I had worked with Phillips at Geneva on the Preparatory Monetary Conferences of November, 1932, and February, 1933, and I had seen him when I had made trips to London at your order. He is ordinarily a most reserved and guarded official, but had come to speak quite freely with me, - not because I was First Secretary of the Paris Embassy but because I was thought to be a trusted officer acting directly and confidentially for you.

To return to my story. When Norman told me at Basel that he was genuinely perturbed over the gold question and thought that our respective Governments should get together in studying this and other long time financial policies, he said he was only speaking as the Governor of the Bank of England. He said he would personally like to have me come over to London for a conversation, but would consult with the Treasury people upon his return before saying anything more to me. He said that since Sir John Simon had assumed charge at the Treasury he had not had an exchange of views with him.

When Governor Norman telephoned me, from London to Paris, a couple of days after our Basel conversations, he invited me to come to London for luncheon at the Bank on Monday, June 21. He said that he would make some other appointments for me if I could come. I told him that I would have to obtain permission from Washington. I consequently telephoned you from my home and gave you the facts. I gained the impression that you approved my use of the telephone in the circumstances and that the matter would continue to be handled by telephone. When you called me back on Friday to give me an answer for Norman you made plain the conditions on which I should go to London, and the Department of State confirmed these in an instruction sent to the Embassy here the same evening. From our conversation I realized that you had your own problem in meeting this situation. I am afraid I made your difficulties even greater by mentioning Norman's reluctance to have the matter handled through Embassy routine. I am sure he meant to cast no aspersions on either our Embassy here or at London. He has a genuine lifelong fear of disclosure of confidential financial matters. Just as

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many modern-minded Treasuries suspect Central Bankers, so do most Central Bankers lack faith in diplomats when it comes to handling financial or monetary problems.

I informed both Norman and Butterworth of my pending departure for London. I then proceeded, with unmistakably clear instructions, and with the determination to demonstrate such gentlemanly and diplomatic cooperation that the most sensitive souls in London or in my own Department could not be offended. At the same time, at Basel and previously, I had led my British friends to think that I was a free lance who could listen attentively and report discreetly without copperplating the records.

The Butterworths had me for dinner on Sunday evening when I arrived in London, and the Athertons were the only other guests. After dinner the three of us talked about my visit. Atherton said that his Ambassador realized that I had developed at Basel perhaps better contact with Norman than any American other than George Harrison had enjoyed. He therefore had no objection to my coming to London to visit Norman. If, however, it was a question of seeing Treasury officials,

the Ambassador would feel quite differently. Atherton reminded me that his Ambassador, under instructions from Washington, had exchanged notes with the present Prime Minister of England which had established regular contact between the British Treasury and the London Embassy. There should be no misunderstanding that this was the manner in which conversations with the British Treasury should be carried on. I showed them my telegram of instructions. They seemed surprised that this should envisage conversations on my part with British Treasury officials. At the same time Butterworth volunteered that when you telephoned him to tell him of my coming visit to London he had posed the question as to whether he should accompany me if I went to the British Treasury and that you had said, "Yes, by all means."

I explained that I would not know until I called at the Bank of England the next morning at eleven o'clock as to the individuals with whom Norman had arranged appointments, but that I was quite sure that Phillips would be one of them. Atherton insisted that if I went to the Treasury Butterworth should go along.

After . . .

After Atherton had left, I mentioned to Butterworth that on one occasion Norman had brought Phillips to the Bank when I was in London and that the three of us had talked there. I volunteered to take the initiative in getting Butterworth to the Bank in the event that Phillips was there. It was arranged that Butterworth should be available at the Embassy in the event that I should call him around eleven the following morning.

When I reported at the Bank of England at the scheduled hour Governor Norman told me that, since he and I had talked over everything at Basel the preceding week-end, he was just going to have me lunch with him and the usual group in the Bank and turn me over for the remainder of the day to Phillips, who would shortly arrive for an hour's talk before lunch, to be followed by another session after lunch. I told Norman that I was in London officially, cooperating fully with the Embassy, and would make any report from there. He recalled that my former visits had been entirely informal. I told him that in the meantime regular meetings had been arranged between the Treasury and our Embassy, so that if I talked with a

Treasury official on this occasion Butterworth should be present. Norman said that he had never even met Butterworth, but that he had known Atherton for many years and realized that the latter did not understand financial and monetary matters. He said it was unnecessary for me to come to London to see him, the Governor, since we meet monthly at Basel. He said we should leave the matter to Phillips, who was then on his way to the Bank. He made the point that he himself planned to keep out and leave Phillips and me alone since he thought Phillips desired to speak quite confidentially. When Phillips arrived I explained the situation to him in Norman's presence. Phillips was visibly surprised. He said that he had opportunity to speak with Butterworth whenever he wished, but had especially desired that I come over to London for such an exchange of views as we had had last August. He hesitated and fumbled around for several minutes, asking me if the same rules of formality would obtain if he came to France to see me. Finally he suggested that he and I go into

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the room the Governor had allotted to us so that he could ask me some questions about France, to which subject he presumed that the Embassy in London could not contribute. I asked him if I should call Butterworth, to arrange for the latter to come down after lunch. Phillips put me off, evidently reluctant to decide.

After we had talked on France until lunch, I again suggested that I call Butterworth, but Phillips insisted that we should not trouble ourselves before enjoying lunch. When we came back into the room at 2:30, after lunching with the Governor and his colleagues, Phillips said I had better get Butterworth down. I telephoned the Embassy but could not get him until three, and it was almost three thirty when he arrived. Before four o'clock Phillips suggested that he should be getting back to the Treasury. Our three-sided conversation of less than half an hour had been extremely hesitant and restrained - certainly in no manner as frank and cordial as that which I had enjoyed with Phillips last August. We developed some points of a little interest, but Butterworth said later that nothing that I wrote into the cablegram was new.

Phillips and I took Butterworth along into the Governor's private office when we went to take our leave, and I presented Butterworth to the Governor. Butterworth and I then dropped Phillips at the Treasury and went on to the Embassy. I wrote out the draft of the cablegram reporting my London visit, using Butterworth's desk, and read the draft twice to him for corrections or suggestions. It was his idea that I mention Phillips' reference to some communication from you to the Chancellor of the Exchequer of which we were ignorant.

I did not see the Ambassador (whom I have never met) but did talk with Atherton again for a few minutes. I left on what I thought were very pleasant terms with both Atherton and Butterworth, although the latter reminded me a couple of times of his unhappiness over the fact that I had seen fit to incorporate in my cablegram reporting my London interviews of last August (of which the Department had sent him a copy) the story of my unwillingness to pledge not to discuss with the British Treasury matters which were the subject of an Embassy memo that could only be shown to me on such a stipulation. Butterworth insisted that his action at

that time had simply been inspired by loyalty to Atherton. I told him that I made these trips to get information for you, with the full approval of the State Department, and that I intended frankly to let both Departments know the manner in which I operated as well as the reception which I received, and it was then up to Washington to decide whether I was acting properly. I made it plain that on this present trip I had cooperated in a Departmental sense as fully as I knew how to cooperate, but that I did not think the results had been worth the trip to London.

My conclusions from the London trip are as follows: Phillips did not let me know as fully and as frankly what he had on his mind as he would have done if we had been talking as formerly, alone and off the official record. In being formal in the above described fashion I "muffed" a story that might have been really worth while, and I have risked my own contact with Phillips. If you are satisfied with your present arrangement of periodical meetings between Atherton, or his unnamed and consequently inexperienced successor, and Butterworth and the Treasury, you should not send me

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to London. Phillips will say no more to me in Butterworth's presence than he would say to Butterworth alone. I see Norman sufficiently regularly at Basel. It will only complicate matters and cause misunderstandings all around if I return to London under instructions such as controlled my last trip.

I subscribe to all the rules and practices of the State Department when it comes to handling diplomatic and consular matters. The type of financial information and negotiation which you now require is something entirely different and warrants a departure from routine methods. I cannot emphasize too strongly the importance which the high officials over here dealing with such matters as exchange rates, stabilization funds and loans attach to the personal equation. Nor can I express too seriously my inherent objection and rebellion against the idea of making available to all of my colleagues in two Embassies, as well as to the code, file and mail clerks therein, important information which I get in strictest confidence for you from a foreign official who would lose his job if any leak ever developed. I think this type of material cannot be handled too

carefully . . .

carefully. I think I should be permitted to continue to communicate with you and Secretary Hull by personal letter and with you by telephone, without restrictions. You can decide how to use the information once you have it.

The official report of my London visit was incorporated in the cablegram which I filed at the London Embassy on the evening of June 21. That same night I left London, and arrived in Paris at 9 o'clock on the morning of June 22. During my absence from Paris the Blum Government had resigned, in the early hours of the morning of June 21. Chautemps had been asked to constitute a new Government.

Shortly after I got back to Paris I called at the Bank of France, and in my cablegram No. 830, sent at noon on June 22, I reported the operations of the French Stabilization Fund and also the impression had at the Bank of France that the French public did not realize the truly chaotic condition of the country's finances. I let you know that Governor Labeyrie was indicating no intention of resigning and that Rueff, who had been practically dismissed by Minister of Finance Auriol a few days previously, was

still functioning as Director of the Movement of Funds Section in the Treasury, since the Minister who was getting rid of him had been obliged himself to step out of office. You are, of course, aware that Vincent Auriol became Minister of Justice in the Chautemps Government.

In my messages of the next few days I gave you some of the details of the letter through which Messrs. Rist and Baudoin had on June 14 submitted their resignations from the Technical Committee which had been set up to advise the French Stabilization Fund. I kept you currently informed of the deterioration in the French monetary situation that was taking place awaiting the arrival of Bonnet, the newly selected Minister of Finance who was proceeding from Washington to Paris to assume his duties. I informed you that the Treasury had exhausted its own resources and had been meeting its immediate requirements through the assistance of the Caisse des Dépôts et Consignations, which had covered the Treasury's overdrafts at the Bank of France. I revealed from day to day the terrific losses of foreign exchange which the French Stabilization Fund was undergoing during the period of uncertainty as to the

policies which the new Government would enunciate.

In my cablegram No. 869, dated June 28, 12 noon, I reported that Bonnet was arriving at Paris that noon and that the French Stabilization Fund had that morning endeavored to carry off a bold gesture by offering sterling at 110.55, which was several centimes per pound lower than the rate which had prevailed in Paris on the last bourse day, the preceding Friday. In spite of this attempt at courage, the forward discount on the franc against sterling continued to widen. At 4 p.m. on June 28, I told you, in my 871, that Bonnet had lunched with Chautemps and was working with his Treasury experts on the plan which was to be submitted at five o'clock that afternoon to the Cabinet.

at about midnight of June 28-29, Rueff asked me to come to the Ministry of Finance. I at once left my home and proceeded to his office, not without a little difficulty, since the Ministry of Finance is undergoing repairs and the corridors and stairways in the rickety old wing of the Louvre, which, you may recall, the Ministry of Finance occupies, were unlighted. Rueff gave me

a message for immediate communication to you, as he put it, "in the spirit of consultation envisaged by the Tripartite Agreement." I came from the Ministry of Finance to the Embassy and put in a call for you at 1:10 a.m. I obtained communication with you at 1:50 a.m. While awaiting the call I had written down the message which Rueff had given me orally, and I transmitted this to you over the telephone. At your request, I called the code clerks to the office after our conversation was terminated, and I confirmed the conversation through code message No. 874, dated 3 a.m., June 29, which the clerks finished at about five o'clock in the morning. I was quite happy to be able to transmit to you this message, since it gave us very precise advance information as to what the French Government planned to do.

The essential points in their plan were to seek authority to carry out financial measures by decree, and then to proceed with efforts to bring the ordinary 1937 budget into balance and to reduce importantly the expenditures planned for 1937 in the extraordinary budget. To tide the Treasury over the emergency period, it was proposed that a credit be obtained from the Bank of France. The most

important part of the plan was that of suppressing the limits of 43 and 49 milligrams within which the Stabilization Fund was charged by the Monetary Law of October 1, 1936, with maintaining the franc. It was planned that the Stabilization Fund would be retained and that there would be no new profit taken from revaluation, since stabilization would not be attempted for the present and no final rate for the franc would yet be envisaged. I let you know that the Treasury assured you that no competitive advantages in international exchange relationships would be sought through monetary manipulation, but that a cheaper franc had been made necessary by the increased charges upon French economy which resulted from the heavy disbursements and social legislation under the Blum Government.

In my oral and cabled messages I told you that French exchange and security markets would be closed on the morning of June 29 and would remain closed until the required financial legislation was enacted. I communicated to you the request of the French Ministry of Finance that the American authorities limit, as they did last September, and in so far as possible, beginning that Tuesday morning,

exchange operations in the French franc on the American market. Such control was desired until the French legislation might be passed. The French Government hoped to get this legislation through Parliament on Wednesday. The British Treasury had been asked to give the same cooperation which was being sought of you.

In conclusion the French Ministry of Finance wanted to assure you of its earnest desire to adhere to the Tripartite Agreement and to avoid exchange control. It was the opinion of the Ministry of Finance that the above outlined steps were imperative if even greater dangers to the franc were to be prevented. Rueff asked me to let him know any reaction from the American Treasury to the French plans as confidentially divulged, and he promised to keep me informed as to French developments. When I communicated this message to you by telephone you told me that you would do everything you could to keep the American exchanges as quiet as possible. You necessarily wanted to consult your associates on the general questions involved by the French decisions. You indicated your appreciation of the French giving us the information in the premises.

In my cablegram No. 875, sent at 12 noon on June 29, I gave you the verbatim text, in English translation, of the provisions of two official decrees which appeared that morning implementing the plans anticipated in the message above summarized, namely, in regard to closing stock and produce exchanges and in providing for the temporary exchange moratorium which this involved.

At 11:30 on the morning of June 29 Rueff telephoned me from the Ministry of Finance to state that he had just talked with Monick, the French Financial Attaché in London. According to Monick, the British Chancellor of the Exchequer thought that he might be questioned in Parliament that afternoon in regard to the French situation and the status of the Tripartite Agreement as a result of French developments. It was the intention of the Chancellor, so Monick informed Rueff, to reply that the French Government had consulted with the British Government, in accordance with Paragraph 3 of the Tripartite Agreement, and that this Agreement continued in effect. Monick added that the Chancellor had inquired as to whether the French would welcome a gratuitous statement

in the same sense, even though the direct question might not be posed in Parliament. Rueff had sent word that this would be very much appreciated. Monick had told Rueff that he was of the impression that the American and British authorities were in communication with each other. Rueff asked me to let you have the above information and to indicate to you that the French would consider it very much to their advantage and would be much gratified if in the circumstances you might see fit to issue some sort of a statement along the above suggested lines.

I forwarded the foregoing message to you at 12 noon, June 29, under Serial Number 877, and put in a long-distance call for you. I obtained connection with you at 1:30 p.m. from my home and gave you the above information. You told me that you had covered all of the important banks the preceding night and that they had agreed to cooperate thoroughly in suppressing French franc operations. You told me that some of your Assistants were of the opinion that the new French program would prohibit the continuation by France of giving gold reciprocally to the United States. You wanted me to find out definitely whether if you bought francs

that day you could exchange them for gold at the Bank of France and, if so, at what price. I told you that it was my understanding that the technical arrangements which obtained between the Tripartite countries under the arrangement of last October would continue, the only change being that France was suppressing the gold limits within which the French franc might fluctuate. I promised to confirm this point and to call you back.

Immediately after talking with you I got in touch by telephone with Cariguel at the Bank of France and posed the questions which you had raised. Cariguel consulted with Undergovernor Fournier and then assured me that the changes which had been effected by decree that day, as well as those which, as far as he could then tell, were envisaged in the program of the Chautemps Government, would not affect in any manner the technical arrangements which had previously obtained between the French and American monetary authorities. On the contrary, he said that it would be more than ever to the interest of the French Stabilization Fund to have the privilege of acquiring gold against foreign exchange and that the French would consequently be entirely willing to continue to give gold reciprocally to the United States.

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While I was talking with Cariguel he had to leave the telephone to take a call from New York. I talked with Cariguel again at 2:50, on the afternoon of June 29. In my cablegram 879, dated 4 p.m., June 29, I reported the foregoing information and also the following additional data. Cariguel told me that his telephone call had been with Knoke and that the latter had raised questions similar to those which you had asked through me. Cariguel said that he had explained the situation over the telephone to Knoke and that he was that afternoon sending him a cablegram confirming the conversation by telephone. In this message, which Cariguel read to me, he confirmed that the prices for gold quoted in his telegram 337 of the previous day to the Federal Reserve Bank of New York were still effective until further notice. He asked Knoke to sell francs for the account of the French Stabilization Fund on the basis of the preceding day's rate of 110.55 francs to the pound sterling. Cariguel explained to me that he preferred to indicate this rate in sterling because of the fluctuations then existing in the dollar-sterling rate.

Cariguel . . .

Cariguel said that he could assure us that the French Stabilization Fund would continue to buy and sell gold as previously. He told me further that when Knoke had asked him if the balance in French francs which the American Stabilization Fund held on that date could be converted into gold, he, Cariguel, had answered affirmatively without any hesitation. In view of the fact that Cariguel had told me that he had given Knoke full details in regard to French approval of certain types of urgent franc transactions which might arise on the American market, I did not repeat this technical information. I should add that in our conversation Cariguel confirmed that he was asking the Federal Reserve Bank at New York to provide francs to New York banks which absolutely needed them. The price, as above indicated, was that of the last business day before the Paris markets were closed, and I understood definitely that this rate was to continue until legislation might be enacted, that is, during the period of suspension of official markets.

During the day the Guaranty Trust and other Paris American banks informed me of the instructions which they had received orally from the Bank of France in regard to the transactions which they were privileged to carry on in foreign exchange and currencies

during the closing of the markets.

At 4:20 p.m., June 29, you telephoned me. I told you that I had not been able to get in touch with Rueff, but I gave you the information which I had just set down in my telegram 879 above-mentioned, as provided by Cariguel, after consultation with Fournier. I gave you the rates at which the franc was being transacted on various European markets and I let you know that London was cooperating very well with the French. When I told you of the message that Cariguel was sending Knoke, you inquired and found that it had just reached the Treasury from New York. You got Knoke on the telephone while you still held communication with me. Knoke seemed entirely satisfied with the assurances which Cariguel had given him. You told me that you would telephone Sir John Simon in regard to the functioning of the Tripartite Agreement. You asked me to find out what arrangements had been made by the French with the other four members of the "club": Great Britain, Belgium, Switzerland and the Netherlands. Referring to the message which Monick had given Rueff in regard to the British willingness to state that the Tripartite Agreement was still functioning, you intimated that Monick's

veracity was a virtue to be questioned.

At 4:45 p.m., as reported in my 882, June 29, 6 p.m., I talked by telephone with Cariguel. He told me that while England and Belgium were the only ones of the European club members with which the French Stabilization Fund ordinarily had gold dealings, he had that morning taken it upon himself to get into contact by telephone with the Central Banks of the Netherlands, Belgium and Switzerland, and that he had been having numerous conversations throughout the day with the Bank of England. He said that while these Central Banks had not posed the question so precisely as had we, it had been clearly understood with each of these Banks that the arrangements which control their relations with the Bank of France under the Tripartite Agreement and the technical arrangements of October would be continued.

I succeeded in getting in touch with Rueff at 5 o'clock at the Chamber of Deputies, where he had been following the proceedings that afternoon. Rueff confirmed entirely the information which Cariguel and Fournier had given me earlier in the day, to the effect that there would be no change in the technical relations between the French and American

Stabilization Funds and that reciprocal gold facilities would continue to be extended by France to the United States.

I passed on to Rueff your statement as to the full cooperation which the American banks were extending in the matter of restriction of franc transactions. I told him further that you were giving consideration to the question of an American statement on the Tripartite Agreement. In answer to my query as to whether any of the club countries other than the United States and Great Britain had been asked to give a statement, Rueff insisted that his people had not directly requested a statement from any of us. Monick had told him that the British had voluntarily indicated their willingness to make a statement.

While an exchange of views had been initiated by the French with the British and American authorities, Rueff had considered the situation of the three major powers so different from that of the three countries which had been added to the club, that he had not had any exchange of views with the latter. He had, however, seen that official instructions were sent to the French diplomatic officers in the Netherlands, Belgium and Switzerland, informing them of the present

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situation and instructing them to explain this to the respective monetary authorities and to ask the latter to continue to collaborate, as in the past, with the French monetary authorities. Rueff did not expect any public statements from the three minor powers in regard to the Tripartite Agreement and their attitude toward its continuation in so far as they were concerned.

At 6 p.m. on June 29 I provided you in cablegram No. 881 with a translation of the text as published in the press that evening of the single article of the Finance Bill which had been laid before the French Chamber of Deputies that afternoon, wherein the Chautemps Government was seeking special authority to take by decree until August 31, 1937, "all measures of a nature to assure the repression of attacks on the credit of the State, the fight against speculation, the economic restoration, the control of prices, the equilibrium of the budget of the Treasury, and the defense, without control of exchange, of the gold holdings of the Bank of France." I did not endeavor to report to you all the various votes in the Finance Committees and in the two bodies of Parliament, since from our conversations I knew that you were receiving the results by news ticker more quickly than

I could transmit them by cable.

At 7:45 on the evening of June 29, Rueff telephoned me at my home. He said that the British had gained the impression from communicating with you that a new parity of 4.46 cents to the franc had definitely been promised you by the French. Rueff said that you desired further to be assured that no change in this price of the franc would be made without giving you twenty-four hours' notice. Rueff seemed quite unhappy over the London interpretation of your conception of the situation. He explained to me that the French were doing their utmost to cooperate toward maintaining the Tripartite Agreement and that if it could not be maintained the political position of the Government would be so much weakened that it would be difficult to carry through the measures which were actually being considered, and greater harm to the franc would ensue. I assured Rueff that he had obtained an incorrect story from London; that I had turned in no message which could give basis for the misunderstanding; and, furthermore, that I was aware that Cariguel had sent a very explicit cablegram on the question of rates. I warned Rueff to depend upon direct messages from Washington to Paris for his understanding of

the American attitude.

At 9 p.m. on June 29, you telephoned me at my house. I let you know of Rueff's uneasiness as above indicated, and you realized that Moniek had gone wrong again. You told me that Sir John Simon had sent you the draft of a statement, in which he proposed to scold the French. You told me that the British had received absolutely no assurances from the French as to the way technical relations between the French and the British Funds would function. You said the British Embassy had just received a message from Sir John Simon for you which would require considerable time to decode. You informed me that you had sold only six hundred thousand francs at New York during the day. It was agreed that I should not get in touch with Rueff, but that if the French pressed me for information I could simply state that the question of an American declaration was still under advisement.

At 12 noon on June 30 I sent my cablegram No. 885, reproducing the text of a letter dated June 29 which I had that day received from President Bachmann of the Swiss National Bank in regard to gold and exchange relations between Switzerland and the United States.

At 3:20 p.m. on June 30 you telephoned me. You stated that you were going away at 1 p.m.,

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Washington time, and would not be back from the Roosevelt-Dupont wedding until 7 o'clock, Washington time, that evening. You instructed me to telephone Assistant Secretary Wayne Taylor if there was anything new. I told you that I had not cabled to you several statements which had appeared in the press as to declarations attributed to Bonnet and to the Reporter of the Chamber Finance Committee, since there was doubt as to their correctness and the official text was not yet available. You told me that you were not giving out any statement, especially in view of the press report that a really important devaluation was to be expected from France, until the situation was clearer and until you were in agreement with the British. I told you at this time of the letter from Professor Bachmann which I had cabled you earlier in the day. I also gave you current information with respect to the market and the parliamentary proceedings on the finance bill.

In my cablegram No. 886, dated 5 p.m., June 30, I confirmed the statements which I had made by telephone and stressed the seriousness of the French financial and monetary situation, as revealed by Bonnet to Parliament. I ventured the opinion that American and British Treasury authorities

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were correctly hesitant in issuing any comprehensive declaration with respect to the present and prospective status of the Tripartite Agreement until the situation was more clarified and until the French Government had definitely revealed its plans. In my message I reported that the Senate had adopted the finance bill and that the markets were expected to reopen the following day.

At 9:50 p.m. on June 30, Assistant Secretary Taylor telephoned me. He explained that you were still absent. He told me that conversations were still going on with London and that our Treasury was desirous of cooperating with the French, but that no particular comment could be made until after the President and yourself had returned to Washington, which would probably not permit a public statement before the expected opening of the Paris markets. In our conversation I told Taylor that decrees had been taken to President Lebrun at 7 o'clock that evening which would be promulgated the following day to set into operation the financial plans of the Chautemps Government. I explained as far as was possible at that time the provisions of these decrees. I also let Taylor know that Cariguel had told me during the evening that the Council of the Bank of France

had voted its approval of the new convention between the Bank of France and the Ministry of Finance which opened up a new credit of fifteen billion francs to the State. Furthermore, the Stabilization Fund was to be continued in the sum of ten billion francs.

At 10:30 p.m. June 30, I again spoke with Cariguel. I had not been able to find Rueff after talking with Taylor. I told Cariguel of my conversation with Taylor and I explained to him that it would be easier for me to recommend to the American authorities the issuance of a declaration on the Tripartite Agreement if I could let them know exactly what program the French Government and the French Stabilization Fund planned to institute when the markets reopened. Cariguel told me that an official from London had been in Paris that day seeking such definite information, but that the French authorities had given him no figures and had merely indicated their general plan. Cariguel told me, however, in strictest confidence, and as a favor to us, that the Fund would on the following morning let the exchange rate run up to about 130 francs to the pound, and would then gradually bring this rate back toward 125. The range very soon after the opening would be between

125 and 130. He told me that the rate that day in "black" trading in London and on the Amsterdam and Zurich markets had been at around 121 to 123 French francs to the pound and that the markets generally expected a rate of 125. He told me that I was the only one to whom the above information in regard to Exchange Fund strategy plans had been revealed and that he knew that I would protect him entirely. In reply to my further questions Cariguel told me that there would be no new rules or restrictions imposed on exchange trading. The main points of difference from previous proceedings would simply result from the fact that no definite gold limits would be fixed for the franc.

The above information which Cariguel was good enough to give me was, in my mind, exactly the data which could be most useful to you in deciding whether you could appropriately issue or participate in a statement to be issued the following day in regard to the Tripartite Agreement. Consequently I came down to my office and put in a call at 11 p.m., June 30, for Taylor. I did not succeed in getting through connection until 12:30 a.m. I gave Taylor the information which Cariguel had given to me. While I had been waiting at the Embassy for my call to Taylor to be put through,

Rueff telephoned me, saying that he had understood that I had called his house earlier in the evening. He again asked me to urge that the American Treasury say something on the Tripartite Arrangement, and told me of British declarations which had been made in the House of Commons that afternoon. I told him that I would pass on his remarks whenever I talked with Taylor or yourself. I did not let him know that Cariguel had given me the rates, and he has never been informed of this fact. In my conversation with him he merely stated that the Bank of France would get in touch with the Federal Reserve Bank of New York the following morning and would indicate its desires for operations on the American market. In my conversation with Taylor I referred to this talk with Rueff. Taylor told me that you would be back later in the evening, that he would give my message to you and that I might hear from you before morning.

You telephoned me at my home at 6:10 a.m., July 1. You told me that you had arrived back in Washington at 9 o'clock the previous evening and had seen the day's cablegrams from Europe. You said that Butterworth was still talking with the British, from whom an answer was

expected later in the day. You asked whether Butterworth should be permitted to pass on to the British the information in regard to the plans for operations of the French Stabilization Fund when the markets opened that day. I explained the confidential manner in which the information had been given me, and made the point that the Ministry of Finance had not seen fit either to disclose the plans to the British official who had visited Paris, or to myself. You asked me, therefore, to call Butterworth at once at Langham 22-57, to let him know that these figures should not be divulged. You incidentally mentioned the difficulties which you had experienced as a result of the statements given to the press by the French Chargé d'Affaires at Washington and the French Financial Attaché in New York.

As soon as our conversation was finished, I telephoned Butterworth at London and asked him not to let the British know that we had obtained the above-mentioned confidential data from the French, and not to use the figures.

When I talked with Cariguel at the Bank of France at 11:15 on the morning of July 1, I learned that sterling had opened at around 124 and that he was following the plan which he had revealed to me of pushing the rate toward 130. During the day I kept in touch with the

Guaranty Trust and the National City Bank as to market operations.

Under date of 11 a.m., July 1, I sent you cablegram No. 887, setting forth the official decrees in regard to the change in monetary policy which had appeared in the JOURNAL OFFICIEL of that morning.

At 1:35 p.m., when I was home for lunch, a call was announced from London. Butterworth communicated to me the following message which you desired me to transmit to Bonnet as soon as possible:

"Now that the French Ministry of Finance has been given the powers which it sought to meet the present situation, I look forward to a continuation of close cooperation between our Treasuries under the Tripartite Declaration.

"May I express to you the sincere hope that France will soon emerge from the temporary difficulties with which she is now confronted."

Butterworth explained to me that both the American and British Treasuries were to send this identical message to Bonnet, and that the text thereof was to be made public at 3:15 p.m. London time. That is, the American Treasury

would give the announcement to the press and Sir John Simon, appearing before Parliament, would announce this declaration as soon after 3:15 as opportunity might be afforded.

I immediately telephoned the Bank of France, where the members of the Council of the Bank usually lunch on Thursday. I was not able to find Rueff there or at the Ministry of Finance or at his home, and no one with whom I spoke at either place could tell me where he was. Likewise I failed to find Bonnet. While I was still busy with the telephone, my office told me that you had placed a call for me at 2:45 p.m. I then came to my office in time to take the call.

You said that you desired to check up on our plans. I told you that I had not yet been able to deliver the message. Two o'clock here is in the middle of the long lunch hour which the French observe, and it had been absolutely impossible to find either Bonnet or Rueff. You reminded me that the message would have to be delivered before 3:15. I told you that I was only five minutes from the Ministry of Finance and that I would proceed there at once, as soon as our conversation was terminated, and I assured you that Bonnet or a responsible assistant would have the message before 3:15. You asked me to call you back to confirm delivery of the message.

I went from the Embassy to the Ministry of Finance as soon as our conversation ended. Neither Rueff nor Gilet, the officers in the Movement of Funds Section who serve as the Ministry's contact with us, had returned from lunch. Minister Bonnet himself arrived, however, in time to receive me alone in his office at 3:05 p.m. I read to the Minister of Finance your message as Butterworth had transmitted it to me and as I had taken it down. I read it slowly in English and then translated it into French.

In my cablegram No. 896, sent at 6 p.m. on July 1, I reported the delivery of this message and I mentioned that when I read the part of the communication in regard to France's emerging from her temporary difficulties, Bonnet shook his head rather sadly. He told me his own idea of the situation and his plan to endeavor to distribute tax burdens on all sides. He repeatedly indicated his regret at leaving Washington and his desire to return to his ambassadorial post if he did not receive support for his program as Minister of Finance. The Minister asked me to tell you how much he was touched by your message and how much he appreciated the assistance and good wishes which had been extended to him. He regretted that he had not been able to see you before leaving Washington, and he told me that he would send a personal acknowledgment of

appreciation for the above message.

Upon returning to the Embassy I put in a call for you at 4:15. I confirmed the delivery of your message and gave you the above information. I told you that earlier in the day I had received from President Bachmann of the Swiss National Bank at Zurich the following message: "Could you give me information about consequences of French monetary measures on Tripartite Agreement stop Does it remain unchanged ?" You told me that your Department was calling the Belgian, Swiss and Dutch diplomatic representatives in Washington to the Treasury in order that they might be informed of your communication to the French Minister of Finance. You instructed me to telephone Bachmann, Trip and Franck and let them have the latest information in the premises.

In my message No. 896 above referred to, I told you that I had read your message over the telephone to Governor Franck (Brussels) at 4:40 p.m., to President Bachmann (Zurich) at 4:55 p.m., and to Director Beaufort (Amsterdam) of the Netherlands Bank at 5 o'clock. All of these officials were very appreciative of our consideration in informing them in the premises and seemed pleased with the decision which had

been taken by you. Bachmann assured me that there would be no change in the status of the Swiss franc as a result of the French franc decline.

At 7:30 on the evening of July 1, Rueff telephoned me at my home and read to me the text of a message which he said Bonnet had communicated to the French Embassy in Washington for delivery to you. The following is the French text as read to me over the telephone:

"Je tiens à vous remercier très vivement des vœux que vous avez bien voulu m'adresser.

"Le gouvernement français attache un grand prix à l'étroite collaboration qui unit les deux Trésoreries. L'effort énergique de redressement financier que nous sommes décidés à réaliser nous permettra de poursuivre fructueusement la politique de la déclaration tripartite et de mettre un terme aux difficultés auxquelles nous avons dû faire face."

The following is a translation of the above message:

"I desire to thank you very heartily for the good wishes which you were good enough to address to me.

"The French Government attaches great importance to the close collaboration which unites the two Treasuries. The energetic effort of financial reconstruction which we have decided to carry out will permit us to follow profitably the policy of the tripartite declaration and to put an end to the difficulties with which we are now confronted."

I did not think it worth while to repeat this message to you directly since Rueff said that it had already gone forward through the French diplomatic channels.

In the press of the next morning, your message to Bonnet and his reply were given prominence, and the maintenance of the Tripartite Agreement was warmly welcomed. The bankers and financial people with whom I spoke on that day and have since kept in touch are unanimously of the opinion that our attitude was a proper one in the premises. My cablegram 906, sent at 6 p.m. on July 2, gave you the market news of the day.

At 1 p.m. on July 3, I reported in my cablegram No. 916 that Governor Azzoïni of the Bank of Italy had informed Pennachio, his representative in France, that the Italian Government considered it superfluous to confirm

that Italy had no intention of altering the gold content of the Italian lira. Pennachio was instructed to issue no communiqué but emphatically to deny any rumor in Paris that might allege that the lira would follow the French franc.

I visited the Bank of France on the morning of July 5 and in my cablegram No. 920, sent at noon on that day, let you know that the French Control had acquired a little over one billion francs of foreign exchange during the latter part of the preceding week, after French monetary policy had been changed, and that the market was opening with a strong demand for francs.

On July 5 you called me at my home at 3 p.m. You suggested that I see Bonnet the following day to learn how capital was returning to France. I told you that I had already obtained the latest figures from the Bank of France that morning and had incorporated the data in the cable to you. I also let you know that Bonnet was lunching that day alone with my Ambassador, and that the latter would send a cablegram later in the day reporting any significant information which he might obtain from the Minister of Finance. You were good enough to let me know your holiday plans and to make some suggestions for my

future travels.

President Beyen of the B.I.S. lunched with me on July 5, and in my message No. 925, sent on July 6, I reported his unhappiness over the rumor that Van Zeeland was endorsing a plan which would seek funds from the United States for deposit in the B.I.S. and for eventual lending to Germany and Italy. I also reported that Beyen was still of the opinion that no action, other than study, should be taken for a while in the matter of the gold problem. My message No. 929, sent at 6 p.m. on July 6, reported the market developments of the day.

At 9 p.m. last night, July 6, I sent you my message No. 930, reporting a visit which I had had with Rueff that evening at 7 o'clock. In my communication I summarized the text of the confidential and personal note which the Chancellor of the Exchequer had addressed to Bonnet under date of June 30, and also the text of the reply to Simon which Bonnet had despatched yesterday to Monick for delivery to the Chancellor of the Exchequer. The French Treasury officials are unhappy that the British have seen fit to press them for a statement as to the exact level to which the franc may be depreciated. As you will have noted from the correspondence, the French have not yielded to the British request for a positive statement.

but Bonnet has offered to visit London to consult with the Chancellor of the Exchequer in regard to problems arising out of the Tripartite Declaration.

It is still too early to see clearly the French outlook. For the past several months I have been informing you of the heavy burden which the social program of the Popular Front had imposed upon French industry. I have let you see that costs and prices had risen to such an extent that France was obtaining little profit from the devaluation of last autumn. Furthermore, the Treasury, with a budget increasingly out of balance and an extraordinary budget involving tremendous expenses for armaments and public works, was having difficulty in obtaining funds even at mounting rates. Capital which had gone abroad feared to return under the threats of punishment held out by former Minister of Finance Auriol and in the face of potential danger from the strong influence toward "nationalization" of the Communist party upon the Blum Government. French Government securities had declined to a level even below that which obtained on September 25, 1936. Not only had a reduction of the tremendous public debt burden through conversion of Government securities become

impossible, but any new borrowing on the French market was out of the question.

The Blum Government had obtained a private banking credit in London early in the year which had been of very little help in meeting the Treasury situation or in protecting the franc. Lately new credits had been refused in London, the Netherlands and Switzerland. When the Blum Government had finally to step out, the Stabilization Fund had exhausted its gold and exchange resources and had been drawing importantly for several days upon the gold stocks of the Bank of France. The Treasury was without funds to pay its end-of-June bills, and for several days prior to the close of the month had been living on funds supplied by the Caisse des Dépôts et Consignations.

The general opinion is that Bonnet has handled himself very well so far in his position as Minister of Finance. The Stabilization Fund has been skillfully managed the past few days. The capital which has returned in these few days has consisted principally of short covering and of funds required for immediate business and personal needs. There has not yet commenced any repatriation of important sums of flight capital. My banking and business friends do not expect any return flow of this capital in the immediate future. Everyone is waiting to

see to what extent profits from devaluation may be taxed and the schedule of taxes upon securities and other forms of wealth may be increased by the fiscal decrees which Bonnet is to announce on July 9. It is expected that the Parliament will adjourn tonight, probably not to be reconvened before autumn. The convention of the Socialist party will open at Marseille on July 10. Blum's last week-end speech indicates that the Socialists at this convention will not withdraw their support from the Chautemps Government even though they may not like the tax measures. There is still general dissatisfaction with the leadership of the Bank of France, and Governor Labeyrie is likely to be replaced in the near future. Baudoin is the best of the individuals so far suggested for this task.

With the Treasury now having a new credit of 15 billion francs from the Bank of France, with the Stabilization Fund equipped and free to manage the currency as it sees fit, with the tourist season now at its peak and bringing in considerable quantities of foreign exchange, and with Parliament in recess, it is entirely conceivable that, barring international incidents, and domestic labor troubles, France may have a period of financial calm until around October

of this year. At that time it will be necessary to repay the credit of 4-1/2 billion francs granted by the British banks and also to take care of maturity of some six and one-half billion francs of Treasury bonds. By that time also the cost of living will probably have risen further as a result of the present depreciation of the franc, the tourist season will have ended and the period of slackening of employment will have commenced. It is then that the new Government may be put to another test. If Bonnet's financial plans are sufficiently drastic to effect economies and raise funds ample to achieve some sort of a budgetary equilibrium, if the price situation can be kept under control, and if the attitude of Government and of labor is such that capital will begin importantly to return to France, it may be that a solution of France's difficulties is beginning.

On the other hand, it may prove that for political reasons, and with Communist influence behind the Government, the present Ministry will not be able to carry out a boldly constructive program ample to achieve confidence of capital necessary for recovery. In such event, this would prove to be a transitional Government, which might be followed by another

Blum Government or in the end lead to a National Government, perhaps headed by Daladier, which would have the unhappy task of putting through really effective measures. Such a Government would conceivably meet with Left opposition, and difficulties in the street, which have been avoided by the transmission of power from Blum to Chautemps, might arise. There are those who think, however, that no real recovery can take place until such a Government comes into office and cleans up the situation.

I think there can be no question but that the American attitude toward France has been the correct one in the circumstances. We should not blame Bonnet for all of the evils which he inherited. Both he and Rueff are strongly against exchange control. It is to our interest to see them given every facility to follow a liberal policy which will avoid exchange control. It is not at all a certainty that a franc ranging from 125 to 130 to the pound sterling will be sufficiently cheap to meet the needs of French economy by autumn. I believe the franc can best be kept in hand, however, by keeping France within the spirit of the Tripartite Agreement in so far as

competitive . . .

competitive depreciation is concerned and
by friendly consultation between the three
signatory powers.

Faithfully yours,



H. Merle Cochran
First Secretary of Embassy

In triplicate.

EMC/jf

Paris, July 7, 1937.

STRICTLY CONFIDENTIAL
AND PERSONAL

The Honorable Henry Morgenthau, Junior,
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Secretary:

In cablegram No. 309, dated 4 p.m., July 2, 1937, the Department of State gave me the message from you, requesting a detailed and systematic report by mail of the activities which I had carried on for the Treasury Department during the preceding ten days. When you talked with me by telephone shortly after noon on July 5, you confirmed that you desired a purely personal report for your own records, and that this should be submitted directly to you. When you had spoken with me a few days earlier, on the afternoon of Sunday, June 27, you had asked that I expand in a personal letter the

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remarks which I had made over the telephone to you that day in regard to my recent trip to London. I am, therefore, in the present communication going back a little beyond ten days in order to make this one letter cover both the London trip and the French financial crisis of the past few days.

When I was last at Basel, on June 13 and 14, Jacobsson, who has been a close friend of Sir Frederick Phillips for many years and had recently visited him in London, and with whom Governor Norman speaks more frankly than he does with anyone in the B.I.S., told me that the British were anxious to talk to some one representing you. While the Tripartite Agreement had been conceived with the idea of helping France, the greatest benefit therefrom has been, according to Jacobsson and some of my other friends, to bring the British and Americans closer together. The British, Jacobsson continued, had come to realize, especially through the negotiations of last autumn and the successive steps under the Agreement, your effective way of getting things done and your very close relations with the President. Now the British wished to exchange ideas with you further on longer term propositions than your respective "Funds" are so satisfactorily handling from day to day.

I told Jacobsson that the British Treasury was in contact with Butterworth (as he already knew from the British) and that I had a fairly wide freedom in moving about for you. Jacobsson said the first alternative channel was not satisfactory. This he partly attributed to the comparatively recent relationship which Butterworth had established with the British monetary authorities. After much hesitation he reluctantly and most confidentially added that the British were aware that Butterworth was sending frequent cablegrams from London, which, considering the unofficial and market sources which he consulted, they felt might not be giving a fair portrayal of the situation.

Jacobsson said the British hoped to be able to talk with a representative of the American Treasury who could give a definite answer to questions which might arise, and who could commit the Treasury. I told Jacobsson that there was no one, technical or otherwise, who could come abroad even from the Treasury itself in present circumstances, equipped and authorized to bind the Treasury on such subjects as gold policy. I doubted very much whether the Treasury would even consider sending anyone

of its own men until it might know what the British wished to discuss and what the chances were for successful negotiations. In the meantime I suggested that the proper way would be for the British to make their approach through Butterworth or through their own Embassy in Washington. It could later be seen whether there might be occasion for a Treasury expert to go from one capital to the other.

Governor Norman, to whom I was fully aware Jacobsson would relay the above observations, talked with me on two or three occasions at Basel. In my cablegram reporting the B.I.S. meeting I gave his general views and reported his remark as to our need for cooperative study of long term problems, but I did not record his more confidential suggestions. Before having much to say to me, he asked whether he was talking to me as usual, personally and strictly confidentially, or whether in addressing me he was addressing my Embassy. He said that if the latter was the case, he would have nothing to say. I reminded Norman that he had been talking with me for several years, with no bad results, and that I had frequently been able to

pass his views on to the quarters in my country which would be most directly interested therein.

Any little success that I may have had in obtaining confidential information or frank expressions of opinion from Treasury, Central Banking and B.I.S. officials has come from two facts. In the first place these people have trusted me personally. Secondly, they have been under the impression, which I have endeavored to create, that I had direct and confidential contact with you and Secretary Hull.

Since January, 1934, I have been sending daily cablegrams for you. While I have, of course, endeavored to keep this fact confidential, there has been no hiding the fact that my various trips to European capitals and to Washington have been under your instructions. Last autumn I was definitely stamped as your personal representative in the Tripartite negotiations. Last August I obtained in London from Phillips what I think was one of the best interviews I ever had, since it so accurately pictured the attitude the British would take in the event of

French devaluation, a subject upon which at least Moniek had provided faulty data. I had worked with Phillips at Geneva on the Preparatory Monetary Conferences of November, 1932, and February, 1933, and I had seen him when I had made trips to London at your order. He is ordinarily a most reserved and guarded official, but had come to speak quite freely with me, - not because I was First Secretary of the Paris Embassy but because I was thought to be a trusted officer acting directly and confidentially for you.

To return to my story. When Norman told me at Basel that he was genuinely perturbed over the gold question and thought that our respective Governments should get together in studying this and other long time financial policies, he said he was only speaking as the Governor of the Bank of England. He said he would personally like to have me come over to London for a conversation, but would consult with the Treasury people upon his return before saying anything more to me. He said that since Sir John Simon had assumed charge at the Treasury he had not had an exchange of views with him.

When Governor Norman telephoned me, from London to Paris, a couple of days after our Basel conversations, he invited me to come to London for luncheon at the Bank on Monday, June 21. He said that he would make some other appointments for me if I could come. I told him that I would have to obtain permission from Washington. I consequently telephoned you from my home and gave you the facts. I gained the impression that you approved my use of the telephone in the circumstances and that the matter would continue to be handled by telephone. When you called me back on Friday to give me an answer for Norman you made plain the conditions on which I should go to London, and the Department of State confirmed these in an instruction sent to the Embassy here the same evening. From our conversation I realized that you had your own problem in meeting this situation. I am afraid I made your difficulties even greater by mentioning Norman's reluctance to have the matter handled through Embassy routine. I am sure he meant to cast no aspersions on either our Embassy here or at London. He has a genuine lifelong fear of disclosure of confidential financial matters. Just as

many modern-minded Treasuries suspect Central Bankers, so do most Central Bankers lack faith in diplomats when it comes to handling financial or monetary problems.

I informed both Norman and Butterworth of my pending departure for London. I then proceeded, with unmistakably clear instructions, and with the determination to demonstrate such gentlemanly and diplomatic cooperation that the most sensitive souls in London or in my own Department could not be offended. At the same time, at Basel and previously, I had led my British friends to think that I was a free lance who could listen attentively and report discreetly without copperplating the records.

The Butterworths had me for dinner on Sunday evening when I arrived in London, and the Athertons were the only other guests. After dinner the three of us talked about my visit. Atherton said that his Ambassador realized that I had developed at Basel perhaps better contact with Norman than any American other than George Harrison had enjoyed. He therefore had no objection to my coming to London to visit Norman. If, however, it was a question of seeing Treasury officials,

the Ambassador would feel quite differently. Atherton reminded me that his Ambassador, under instructions from Washington, had exchanged notes with the present Prime Minister of England which had established regular contact between the British Treasury and the London Embassy. There should be no misunderstanding that this was the manner in which conversations with the British Treasury should be carried on. I showed them my telegram of instructions. They seemed surprised that this should envisage conversations on my part with British Treasury officials. At the same time Butterworth volunteered that when you telephoned him to tell him of my coming visit to London he had posed the question as to whether he should accompany me if I went to the British Treasury and that you had said, "Yes, by all means."

I explained that I would not know until I called at the Bank of England the next morning at eleven o'clock as to the individuals with whom Norman had arranged appointments, but that I was quite sure that Phillips would be one of them. Atherton insisted that if I went to the Treasury Butterworth should go along.

After . . .

After Atherton had left, I mentioned to Butterworth that on one occasion Norman had brought Phillips to the Bank when I was in London and that the three of us had talked there. I volunteered to take the initiative in getting Butterworth to the Bank in the event that Phillips was there. It was arranged that Butterworth should be available at the Embassy in the event that I should call him around eleven the following morning.

When I reported at the Bank of England at the scheduled hour Governor Norman told me that, since he and I had talked over everything at Basel the preceding week-end, he was just going to have me lunch with him and the usual group in the Bank and turn me over for the remainder of the day to Phillips, who would shortly arrive for an hour's talk before lunch, to be followed by another session after lunch. I told Norman that I was in London officially, cooperating fully with the Embassy, and would make any report from there. He recalled that my former visits had been entirely informal. I told him that in the meantime regular meetings had been arranged between the Treasury and our Embassy, so that if I talked with a

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Treasury official on this occasion Butterworth should be present. Norman said that he had never even met Butterworth, but that he had known Atherton for many years and realized that the latter did not understand financial and monetary matters. He said it was unnecessary for me to come to London to see him, the Governor, since we meet monthly at Basel. He said we should leave the matter to Phillips, who was then on his way to the Bank. He made the point that he himself planned to keep out and leave Phillips and me alone since he thought Phillips desired to speak quite confidentially. When Phillips arrived I explained the situation to him in Norman's presence. Phillips was visibly surprised. He said that he had opportunity to speak with Butterworth whenever he wished, but had especially desired that I come over to London for such an exchange of views as we had had last August. He hesitated and fumbled around for several minutes, asking me if the same rules of formality would obtain if he came to France to see me. Finally he suggested that he and I go into

the . . .

the room the Governor had allotted to us so that he could ask me some questions about France, to which subject he presumed that the Embassy in London could not contribute. I asked him if I should call Butterworth, to arrange for the latter to come down after lunch. Phillips put me off, evidently reluctant to decide.

After we had talked on France until lunch, I again suggested that I call Butterworth, but Phillips insisted that we should not trouble ourselves before enjoying lunch. When we came back into the room at 2:30, after lunching with the Governor and his colleagues, Phillips said I had better get Butterworth down. I telephoned the Embassy but could not get him until three, and it was almost three thirty when he arrived. Before four o'clock Phillips suggested that he should be getting back to the Treasury. Our three-sided conversation of less than half an hour had been extremely hesitant and restrained - certainly in no manner as frank and cordial as that which I had enjoyed with Phillips last August. We developed some points of a little interest, but Butterworth said later that nothing that I wrote into the cablegram was new.

Phillips and I took Butterworth along into the Governor's private office when we went to take our leave, and I presented Butterworth to the Governor. Butterworth and I then dropped Phillips at the Treasury and went on to the Embassy. I wrote out the draft of the cablegram reporting my London visit, using Butterworth's desk, and read the draft twice to him for corrections or suggestions. It was his idea that I mention Phillips' reference to some communication from you to the Chancellor of the Exchequer of which we were ignorant.

I did not see the Ambassador (whom I have never met) but did talk with Atherton again for a few minutes. I left on what I thought were very pleasant terms with both Atherton and Butterworth, although the latter reminded me a couple of times of his unhappiness over the fact that I had seen fit to incorporate in my cablegram reporting my London interviews of last August (of which the Department had sent him a copy) the story of my unwillingness to pledge not to discuss with the British Treasury matters which were the subject of an Embassy memo that could only be shown to me on such a stipulation. Butterworth insisted that his action at

that time had simply been inspired by loyalty to Atherton. I told him that I made these trips to get information for you, with the full approval of the State Department, and that I intended frankly to let both Departments know the manner in which I operated as well as the reception which I received, and it was then up to Washington to decide whether I was acting properly. I made it plain that on this present trip I had cooperated in a Departmental sense as fully as I knew how to cooperate, but that I did not think the results had been worth the trip to London.

My conclusions from the London trip are as follows. Phillips did not let me know as fully and as frankly what he had on his mind as he would have done if we had been talking as formerly, alone and off the official record. In being formal in the above described fashion I "muffed" a story that might have been really worth while, and I have risked my own contact with Phillips. If you are satisfied with your present arrangement of periodical meetings between Atherton, or his unnamed and consequently inexperienced successor, and Butterworth and the Treasury, you should not send me

to London. Phillips will say no more to me in Butterworth's presence than he would say to Butterworth alone. I see Norman sufficiently regularly at Basel. It will only complicate matters and cause misunderstandings all around if I return to London under instructions such as controlled my last trip.

I subscribe to all the rules and practices of the State Department when it comes to handling diplomatic and consular matters. The type of financial information and negotiation which you now require is something entirely different and warrants a departure from routine methods. I cannot emphasize too strongly the importance which the high officials over here dealing with such matters as exchange rates, stabilization funds and loans attach to the personal equation. Nor can I express too seriously my inherent objection and rebellion against the idea of making available to all of my colleagues in two Embassies, as well as to the code, file and mail clerks therein, important information which I get in strictest confidence for you from a foreign official who would lose his job if any leak ever developed. I think this type of material cannot be handled too

carefully. I think I should be permitted to continue to communicate with you and Secretary Hull by personal letter and with you by telephone, without restrictions. You can decide how to use the information once you have it.

The official report of my London visit was incorporated in the cablegram which I filed at the London Embassy on the evening of June 21. That same night I left London, and arrived in Paris at 9 o'clock on the morning of June 22. During my absence from Paris the Blum Government had resigned, in the early hours of the morning of June 21. Chautemps had been asked to constitute a new Government.

Shortly after I got back to Paris I called at the Bank of France, and in my cablegram No. 830, sent at noon on June 22, I reported the operations of the French Stabilization Fund and also the impression had at the Bank of France that the French public did not realize the truly chaotic condition of the country's finances. I let you know that Governor Labeyrie was indicating no intention of resigning and that Rueff, who had been practically dismissed by Minister of Finance Auriol a few days previously, was

still functioning as Director of the Movement of Funds Section in the Treasury, since the Minister who was getting rid of him had been obliged himself to step out of office. You are, of course, aware that Vincent Auriol became Minister of Justice in the Chautemps Government.

In my messages of the next few days I gave you some of the details of the letter through which Messrs. Rist and Baudoin had on June 14 submitted their resignations from the Technical Committee which had been set up to advise the French Stabilization Fund. I kept you currently informed of the deterioration in the French monetary situation that was taking place awaiting the arrival of Bonnet, the newly selected Minister of Finance who was proceeding from Washington to Paris to assume his duties. I informed you that the Treasury had exhausted its own resources and had been meeting its immediate requirements through the assistance of the Caisse des Dépôts et Consignations, which had covered the Treasury's overdrafts at the Bank of France. I revealed from day to day the terrific losses of foreign exchange which the French Stabilization Fund was undergoing during the period of uncertainty as to the

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policies which the new Government would enunciate.

In my cablegram No. 869, dated June 28, 12 noon, I reported that Bonnet was arriving at Paris that noon and that the French Stabilization Fund had that morning endeavored to carry off a bold gesture by offering sterling at 110.55, which was several centimes per pound lower than the rate which had prevailed in Paris on the last bourse day, the preceding Friday. In spite of this attempt at courage, the forward discount on the franc against sterling continued to widen. At 4 p.m. on June 28, I told you, in my 871, that Bonnet had lunched with Chautemps and was working with his Treasury experts on the plan which was to be submitted at five o'clock that afternoon to the Cabinet.

At about midnight of June 28-29, Rueff asked me to come to the Ministry of Finance. I at once left my home and proceeded to his office, not without a little difficulty, since the Ministry of Finance is undergoing repairs and the corridors and stairways in the rickety old wing of the Louvre, which, you may recall, the Ministry of Finance occupies, were unlighted. Rueff gave me

a message for immediate communication to you, as he put it, "in the spirit of consultation envisaged by the Tripartite Agreement." I came from the Ministry of Finance to the Embassy and put in a call for you at 1:10 a.m. I obtained communication with you at 1:50 a.m. While awaiting the call I had written down the message which Rueff had given me orally, and I transmitted this to you over the telephone. At your request, I called the code clerks to the office after our conversation was terminated, and I confirmed the conversation through code message No. 874, dated 3 a.m., June 29, which the clerks finished at about five o'clock in the morning. I was quite happy to be able to transmit to you this message, since it gave us very precise advance information as to what the French Government planned to do.

The essential points in their plan were to seek authority to carry out financial measures by decree, and then to proceed with efforts to bring the ordinary 1937 budget into balance and to reduce importantly the expenditures planned for 1937 in the extraordinary budget. To tide the Treasury over the emergency period, it was proposed that a credit be obtained from the Bank of France. The most

important part of the plan was that of suppressing the limits of 43 and 49 milligrams within which the Stabilization Fund was charged by the Monetary Law of October 1, 1936, with maintaining the franc. It was planned that the Stabilization Fund would be retained and that there would be no new profit taken from revaluation, since stabilization would not be attempted for the present and no final rate for the franc would yet be envisaged. I let you know that the Treasury assured you that no competitive advantages in international exchange relationships would be sought through monetary manipulation, but that a cheaper franc had been made necessary by the increased charges upon French economy which resulted from the heavy disbursements and social legislation under the Blum Government.

In my oral and cabled messages I told you that French exchange and security markets would be closed on the morning of June 29 and would remain closed until the required financial legislation was enacted. I communicated to you the request of the French Ministry of Finance that the American authorities limit, as they did last September, and in so far as possible, beginning that Tuesday morning,

exchange operations in the French franc on the American market. Such control was desired until the French legislation might be passed. The French Government hoped to get this legislation through Parliament on Wednesday. The British Treasury had been asked to give the same cooperation which was being sought of you.

In conclusion the French Ministry of Finance wanted to assure you of its earnest desire to adhere to the Tripartite Agreement and to avoid exchange control. It was the opinion of the Ministry of Finance that the above outlined steps were imperative if even greater dangers to the franc were to be prevented. Rueff asked me to let him know any reaction from the American Treasury to the French plans as confidentially divulged, and he promised to keep me informed as to French developments. When I communicated this message to you by telephone you told me that you would do everything you could to keep the American exchanges as quiet as possible. You necessarily wanted to consult your associates on the general questions involved by the French decisions. You indicated your appreciation of the French giving us the information in the premises.

In my cablegram No. 675, sent at 12 noon on June 29, I gave you the verbatim text, in English translation, of the provisions of two official decrees which appeared that morning implementing the plans anticipated in the message above summarized, namely, in regard to closing stock and produce exchanges and in providing for the temporary exchange moratorium which this involved.

At 11:30 on the morning of June 29 Rueff telephoned me from the Ministry of Finance to state that he had just talked with Monick, the French Financial Attache in London. According to Monick, the British Chancellor of the Exchequer thought that he might be questioned in Parliament that afternoon in regard to the French situation and the status of the Tripartite Agreement as a result of French developments. It was the intention of the Chancellor, so Monick informed Rueff, to reply that the French Government had consulted with the British Government, in accordance with Paragraph 3 of the Tripartite Agreement, and that this Agreement continued in effect. Monick added that the Chancellor had inquired as to whether the French would welcome a gratuitous statement

in the same sense, even though the direct question might not be posed in Parliament. Rueff had sent word that this would be very much appreciated. Moniek had told Rueff that he was of the impression that the American and British authorities were in communication with each other. Rueff asked me to let you have the above information and to indicate to you that the French would consider it very much to their advantage and would be much gratified if in the circumstances you might see fit to issue some sort of a statement along the above suggested lines.

I forwarded the foregoing message to you at 12 noon, June 29, under Serial Number 877, and put in a long-distance call for you. I obtained connection with you at 1:30 p.m. from my home and gave you the above information. You told me that you had covered all of the important banks the preceding night and that they had agreed to cooperate thoroughly in suppressing French franc operations. You told me that some of your Assistants were of the opinion that the new French program would prohibit the continuation by France of giving gold reciprocally to the United States. You wanted me to find out definitely whether if you bought francs

that day you could exchange them for gold at the Bank of France and, if so, at what price. I told you that it was my understanding that the technical arrangements which obtained between the Tripartite countries under the arrangement of last October would continue, the only change being that France was suppressing the gold limits within which the French franc might fluctuate. I promised to confirm this point and to call you back.

Immediately after talking with you I got in touch by telephone with Cariguel at the Bank of France and posed the questions which you had raised. Cariguel consulted with Undergovernor Fournier and then assured me that the changes which had been effected by decree that day, as well as those which, as far as he could then tell, were envisaged in the program of the Chautemps Government, would not affect in any manner the technical arrangements which had previously obtained between the French and American monetary authorities. On the contrary, he said that it would be more than ever to the interest of the French Stabilization Fund to have the privilege of acquiring gold against foreign exchange and that the French would consequently be entirely willing to continue to give gold reciprocally to the United States.

While I was talking with Cariguel he had to leave the telephone to take a call from New York. I talked with Cariguel again at 2:50, on the afternoon of June 29. In my cablegram 879, dated 4 p.m., June 29, I reported the foregoing information and also the following additional data. Cariguel told me that his telephone call had been with Knoke and that the latter had raised questions similar to those which you had asked through me. Cariguel said that he had explained the situation over the telephone to Knoke and that he was that afternoon sending him a cablegram confirming the conversation by telephone. In this message, which Cariguel read to me, he confirmed that the prices for gold quoted in his telegram 337 of the previous day to the Federal Reserve Bank of New York were still effective until further notice. He asked Knoke to sell francs for the account of the French Stabilization Fund on the basis of the preceding day's rate of 110.55 francs to the pound sterling. Cariguel explained to me that he preferred to indicate this rate in sterling because of the fluctuations then existing in the dollar-sterling rate.

Cariguel . . .

Cariguel said that he could assure us that the French Stabilization Fund would continue to buy and sell gold as previously. He told me further that when Knoke had asked him if the balance in French francs which the American Stabilization Fund held on that date could be converted into gold, he, Cariguel, had answered affirmatively without any hesitation. In view of the fact that Cariguel had told me that he had given Knoke full details in regard to French approval of certain types of urgent franc transactions which might arise on the American market, I did not repeat this technical information. I should add that in our conversation Cariguel confirmed that he was asking the Federal Reserve Bank at New York to provide francs to New York banks which absolutely needed them. The price, as above indicated, was that of the last business day before the Paris markets were closed, and I understood definitely that this rate was to continue until legislation might be enacted, that is, during the period of suspension of official markets.

During the day the Guaranty Trust and other Paris American banks informed me of the instructions which they had received orally from the Bank of France in regard to the transactions which they were privileged to carry on in foreign exchange and currencies

during the closing of the markets.

At 4:20 p.m., June 29, you telephoned me. I told you that I had not been able to get in touch with Rueff, but I gave you the information which I had just set down in my telegram 879 above-mentioned, as provided by Cariguel, after consultation with Fournier. I gave you the rates at which the franc was being transacted on various European markets and I let you know that London was cooperating very well with the French. When I told you of the message that Cariguel was sending Knoke, you inquired and found that it had just reached the Treasury from New York. You got Knoke on the telephone while you still held communication with me. Knoke seemed entirely satisfied with the assurances which Cariguel had given him. You told me that you would telephone Sir John Simon in regard to the functioning of the Tripartite Agreement. You asked me to find out what arrangements had been made by the French with the other four members of the "club": Great Britain, Belgium, Switzerland and the Netherlands. Referring to the message which Monick had given Rueff in regard to the British willingness to state that the Tripartite Agreement was still functioning, you intimated that Monick's

veracity was a virtue to be questioned.

At 4:45 p.m., as reported in my 882, June 29, 5 p.m., I talked by telephone with Cariguel. He told me that while England and Belgium were the only ones of the European club members with which the French Stabilization Fund ordinarily had gold dealings, he had that morning taken it upon himself to get into contact by telephone with the Central Banks of the Netherlands, Belgium and Switzerland, and that he had been having numerous conversations throughout the day with the Bank of England. He said that while these Central Banks had not posed the question so precisely as had we, it had been clearly understood with each of these Banks that the arrangements which control their relations with the Bank of France under the Tripartite Agreement and the technical arrangements of October would be continued.

I succeeded in getting in touch with Rueff at 5 o'clock at the Chamber of Deputies, where he had been following the proceedings that afternoon. Rueff confirmed entirely the information which Cariguel and Fournier had given me earlier in the day, to the effect that there would be no change in the technical relations between the French and American

Stabilization Funds and that reciprocal gold facilities would continue to be extended by France to the United States.

I passed on to Rueff your statement as to the full cooperation which the American banks were extending in the matter of restriction of franc transactions. I told him further that you were giving consideration to the question of an American statement on the Tripartite Agreement. In answer to my query as to whether any of the club countries other than the United States and Great Britain had been asked to give a statement, Rueff insisted that his people had not directly requested a statement from any of us. Moniek had told him that the British had voluntarily indicated their willingness to make a statement.

While an exchange of views had been initiated by the French with the British and American authorities, Rueff had considered the situation of the three major powers so different from that of the three countries which had been added to the club, that he had not had any exchange of views with the latter. He had, however, seen that official instructions were sent to the French diplomatic officers in the Netherlands, Belgium and Switzerland, informing them of the present

situation and instructing them to explain this to the respective monetary authorities and to ask the latter to continue to collaborate, as in the past, with the French monetary authorities. Rueff did not expect any public statements from the three minor powers in regard to the Tripartite Agreement and their attitude toward its continuation in so far as they were concerned.

At 5 p.m. on June 29 I provided you in cablegram No. 881 with a translation of the text as published in the press that evening of the single article of the Finance Bill which had been laid before the French Chamber of Deputies that afternoon, wherein the Chautemps Government was seeking special authority to take by decree until August 31, 1937, "all measures of a nature to assure the repression of attacks on the credit of the State, the fight against speculation, the economic restoration, the control of prices, the equilibrium of the budget of the Treasury, and the defense, without control of exchange, of the gold holdings of the Bank of France." I did not endeavor to report to you all the various votes in the Finance Committees and in the two bodies of Parliament, since from our conversations I knew that you were receiving the results by news ticker more quickly than

I could transmit them by cable.

At 7:45 on the evening of June 29, Rueff telephoned me at my home. He said that the British had gained the impression from communicating with you that a new parity of 4.46 cents to the franc had definitely been promised you by the French. Rueff said that you desired further to be assured that no change in this price of the franc would be made without giving you twenty-four hours' notice. Rueff seemed quite unhappy over the London interpretation of your conception of the situation. He explained to me that the French were doing their utmost to cooperate toward maintaining the Tripartite Agreement and that if it could not be maintained the political position of the Government would be so much weakened that it would be difficult to carry through the measures which were actually being considered, and greater harm to the franc would ensue. I assured Rueff that he had obtained an incorrect story from London; that I had turned in no message which could give basis for the misunderstanding; and, furthermore, that I was aware that Cariguel had sent a very explicit cablegram on the question of rates. I warned Rueff to depend upon direct messages from Washington to Paris for his understanding of

the American attitude.

At 9 p.m. on June 29, you telephoned me at my house. I let you know of Rueff's uneasiness as above indicated, and you realized that Monick had gone wrong again. You told me that Sir John Simon had sent you the draft of a statement, in which he proposed to scold the French. You told me that the British had received absolutely no assurances from the French as to the way technical relations between the French and the British Funds would function. You said the British Embassy had just received a message from Sir John Simon for you which would require considerable time to decode. You informed me that you had sold only six hundred thousand francs at New York during the day. It was agreed that I should not get in touch with Rueff, but that if the French pressed me for information I could simply state that the question of an American declaration was still under advisement.

At 12 noon on June 30 I sent my cablegram No. 885, reproducing the text of a letter dated June 29 which I had that day received from President Baehmann of the Swiss National Bank in regard to gold and exchange relations between Switzerland and the United States.

At 3:20 p.m. on June 30 you telephoned me. You stated that you were going away at 1 p.m.,

Washington time, and would not be back from the Roosevelt-Dupont wedding until 7 o'clock, Washington time, that evening. You instructed me to telephone Assistant Secretary Wayne Taylor if there was anything new. I told you that I had not cabled to you several statements which had appeared in the press as to declarations attributed to Bonnet and to the Reporter of the Chamber Finance Committee, since there was doubt as to their correctness and the official text was not yet available. You told me that you were not giving out any statement, especially in view of the press report that a really important devaluation was to be expected from France, until the situation was clearer and until you were in agreement with the British. I told you at this time of the letter from Professor Bachmann which I had cabled you earlier in the day. I also gave you current information with respect to the market and the parliamentary proceedings on the finance bill.

In my cablegram No. 886, dated 5 p.m., June 30, I confirmed the statements which I had made by telephone and stressed the seriousness of the French financial and monetary situation, as revealed by Bonnet to Parliament. I ventured the opinion that American and British Treasury authorities

were correctly hesitant in issuing any comprehensive declaration with respect to the present and prospective status of the Tripartite Agreement until the situation was more clarified and until the French Government had definitely revealed its plans. In my message I reported that the Senate had adopted the finance bill and that the markets were expected to reopen the following day.

At 9:50 p.m. on June 30, Assistant Secretary Taylor telephoned me. He explained that you were still absent. He told me that conversations were still going on with London and that our Treasury was desirous of cooperating with the French, but that no particular comment could be made until after the President and yourself had returned to Washington, which would probably not permit a public statement before the expected opening of the Paris markets. In our conversation I told Taylor that decrees had been taken to President Lebrun at 7 o'clock that evening which would be promulgated the following day to set into operation the financial plans of the Chautemps Government. I explained as far as was possible at that time the provisions of these decrees. I also let Taylor know that Cariguel had told me during the evening that the Council of the Bank of France

had voted its approval of the new convention between the Bank of France and the Ministry of Finance which opened up a new credit of fifteen billion francs to the State. Furthermore, the Stabilization Fund was to be continued in the sum of ten billion francs.

At 10:30 p.m. June 30, I again spoke with Cariguel. I had not been able to find Rueff after talking with Taylor. I told Cariguel of my conversation with Taylor and I explained to him that it would be easier for me to recommend to the American authorities the issuance of a declaration on the Tripartite Agreement if I could let them know exactly what program the French Government and the French Stabilization Fund planned to institute when the markets reopened. Cariguel told me that an official from London had been in Paris that day seeking such definite information, but that the French authorities had given him no figures and had merely indicated their general plan. Cariguel told me, however, in strictest confidence, and as a favor to us, that the Fund would on the following morning let the exchange rate run up to about 130 francs to the pound, and would then gradually bring this rate back toward 125. The range very soon after the opening would be between

125 and 130. He told me that the rate that day in "black" trading in London and on the Amsterdam and Zurich markets had been at around 121 to 123 French francs to the pound and that the markets generally expected a rate of 125. He told me that I was the only one to whom the above information in regard to Exchange Fund strategy plans had been revealed and that he knew that I would protect him entirely. In reply to my further questions Cariguel told me that there would be no new rules or restrictions imposed on exchange trading. The main points of difference from previous proceedings would simply result from the fact that no definite gold limits would be fixed for the franc.

The above information which Cariguel was good enough to give me was, in my mind, exactly the data which could be most useful to you in deciding whether you could appropriately issue or participate in a statement to be issued the following day in regard to the Tripartite Agreement. Consequently I came down to my office and put in a call at 11 p.m., June 30, for Taylor. I did not succeed in getting through connection until 12:30 a.m. I gave Taylor the information which Cariguel had given to me. While I had been waiting at the Embassy for my call to Taylor to be put through,

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Rueff telephoned me, saying that he had understood that I had called his house earlier in the evening. He again asked me to urge that the American Treasury say something on the Tripartite Arrangement, and told me of British declarations which had been made in the House of Commons that afternoon. I told him that I would pass on his remarks whenever I talked with Taylor or yourself. I did not let him know that Cariguel had given me the rates, and he has never been informed of this fact. In my conversation with him he merely stated that the Bank of France would get in touch with the Federal Reserve Bank of New York the following morning and would indicate its desires for operations on the American market. In my conversation with Taylor I referred to this talk with Rueff. Taylor told me that you would be back later in the evening, that he would give my message to you and that I might hear from you before morning.

You telephoned me at my home at 6:10 a.m., July 1. You told me that you had arrived back in Washington at 9 o'clock the previous evening and had seen the day's cablegrams from Europe. You said that Butterworth was still talking with the British, from whom an answer was

expected later in the day. You asked whether Butterworth should be permitted to pass on to the British the information in regard to the plans for operations of the French Stabilization Fund when the markets opened that day. I explained the confidential manner in which the information had been given me, and made the point that the Ministry of Finance had not seen fit either to disclose the plans to the British official who had visited Paris, or to myself. You asked me, therefore, to call Butterworth at once at Langham 22-57, to let him know that these figures should not be divulged. You incidentally mentioned the difficulties which you had experienced as a result of the statements given to the press by the French Charge d'Affaires at Washington and the French Financial Attaché in New York.

As soon as our conversation was finished, I telephoned Butterworth at London and asked him not to let the British know that we had obtained the above-mentioned confidential data from the French, and not to use the figures.

When I talked with Cariguel at the Bank of France at 11:15 on the morning of July 1, I learned that sterling had opened at around 124 and that he was following the plan which he had revealed to me of pushing the rate toward 130. During the day I kept in touch with the

Guaranty Trust and the National City Bank as to market operations.

Under date of 11 a.m., July 1, I sent you cablegram No. 887, setting forth the official decrees in regard to the change in monetary policy which had appeared in the *JOURNAL OFFICIEL* of that morning.

At 1:35 p.m., when I was home for lunch, a call was announced from London. Butterworth communicated to me the following message which you desired me to transmit to Bonnet as soon as possible:

"Now that the French Ministry of Finance has been given the powers which it sought to meet the present situation, I look forward to a continuation of close cooperation between our Treasuries under the Tripartite Declaration.

"May I express to you the sincere hope that France will soon emerge from the temporary difficulties with which she is now confronted."

Butterworth explained to me that both the American and British Treasuries were to send this identical message to Bonnet, and that the text thereof was to be made public at 3:15 p.m. London time. That is, the American Treasury

would give the announcement to the press and Sir John Simon, appearing before Parliament, would announce this declaration as soon after 3:15 as opportunity might be afforded.

I immediately telephoned the Bank of France, where the members of the Council of the Bank usually lunch on Thursday. I was not able to find Rueff there or at the Ministry of Finance or at his home, and no one with whom I spoke at either place could tell me where he was. Likewise I failed to find Bonnet. While I was still busy with the telephone, my office told me that you had placed a call for me at 2:45 p.m. I then came to my office in time to take the call.

You said that you desired to check up on our plans. I told you that I had not yet been able to deliver the message. Two o'clock here is in the middle of the long lunch hour which the French observe, and it had been absolutely impossible to find either Bonnet or Rueff. You reminded me that the message would have to be delivered before 3:15. I told you that I was only five minutes from the Ministry of Finance and that I would proceed there at once, as soon as our conversation was terminated, and I assured you that Bonnet or a responsible assistant would have the message before 3:15. You asked me to call you back to confirm delivery of the message.

I went from the Embassy to the Ministry of Finance as soon as our conversation ended. Neither Rueff nor Gilet, the officers in the Movement of Funds Section who serve as the Ministry's contact with us, had returned from lunch. Minister Bonnet himself arrived, however, in time to receive me alone in his office at 3:05 p.m. I read to the Minister of Finance your message as Butterworth had transmitted it to me and as I had taken it down. I read it slowly in English and then translated it into French.

In my cablegram No. 896, sent at 8 p.m. on July 1, I reported the delivery of this message and I mentioned that when I read the part of the communication in regard to France's emerging from her temporary difficulties, Bonnet shook his head rather sadly. He told me his own idea of the situation and his plan to endeavor to distribute tax burdens on all sides. He repeatedly indicated his regret at leaving Washington and his desire to return to his ambassadorial post if he did not receive support for his program as Minister of Finance. The Minister asked me to tell you how much he was touched by your message and how much he appreciated the assistance and good wishes which had been extended to him. He regretted that he had not been able to see you before leaving Washington, and he told me that he would send a personal acknowledgment of

appreciation for the above message.

Upon returning to the Embassy I put in a call for you at 4:15. I confirmed the delivery of your message and gave you the above information. I told you that earlier in the day I had received from President Bachmann of the Swiss National Bank at Zurich the following message: "Could you give me information about consequences of French monetary measures on Tripartite Agreement stop Does it remain unchanged?" You told me that your Department was calling the Belgian, Swiss and Dutch diplomatic representatives in Washington to the Treasury in order that they might be informed of your communication to the French Minister of Finance. You instructed me to telephone Bachmann, Trip and Franck and let them have the latest information in the premises.

In my message No. 896 above referred to, I told you that I had read your message over the telephone to Governor Franck (Brussels) at 4:40 p.m., to President Bachmann (Zurich) at 4:55 p.m., and to Director Beaufort (Amsterdam) of the Netherlands Bank at 5 o'clock. All of these officials were very appreciative of our consideration in informing them in the premises and seemed pleased with the decision which had

been taken by you. Bachmann assured me that there would be no change in the status of the Swiss franc as a result of the French franc decline.

At 7:30 on the evening of July 1, Rueff telephoned me at my home and read to me the text of a message which he said Bonnet had communicated to the French Embassy in Washington for delivery to you. The following is the French text as read to me over the telephone:

"Je tiens à vous remercier très vivement des vœux que vous avez bien voulu m'adresser.

"Le gouvernement français attache un grand prix à l'étroite collaboration qui unit les deux Trésoreries. L'effort énergique de redressement financier que nous sommes décidés à réaliser nous permettra de poursuivre fructueusement la politique de la déclaration tripartite et de mettre un terme aux difficultés auxquelles nous avons dû faire face."

The following is a translation of the above message:

"I desire to thank you very heartily for the good wishes which you were good enough to address to me.

"The French Government attaches great importance to the close collaboration which unites the two Treasuries. The energetic effort of financial reconstruction which we have decided to carry out will permit us to follow profitably the policy of the tripartite declaration and to put an end to the difficulties with which we are now confronted."

I did not think it worth while to repeat this message to you directly since Rueff said that it had already gone forward through the French diplomatic channels.

In the press of the next morning, your message to Bonnet and his reply were given prominence, and the maintenance of the Tripartite Agreement was warmly welcomed. The bankers and financial people with whom I spoke on that day and have since kept in touch are unanimously of the opinion that our attitude was a proper one in the premises. My cablegram 906, sent at 6 p.m. on July 2, gave you the market news of the day.

At 1 p.m. on July 3, I reported in my cablegram No. 916 that Governor Anzolini of the Bank of Italy had informed Pennachio, his representative in France, that the Italian Government considered it superfluous to confirm

that Italy had no intention of altering the gold content of the Italian lira. Pennacchio was instructed to issue no communique but emphatically to deny any rumor in Paris that might allege that the lira would follow the French franc.

I visited the Bank of France on the morning of July 5 and in my cablegram No. 920, sent at noon on that day, let you know that the French Control had acquired a little over one billion francs of foreign exchange during the latter part of the preceding week, after French monetary policy had been changed, and that the market was opening with a strong demand for francs.

On July 5 you called me at my home at 3 p.m. You suggested that I see Bonnet the following day to learn how capital was returning to France. I told you that I had already obtained the latest figures from the Bank of France that morning and had incorporated the data in the cable to you. I also let you know that Bonnet was lunching that day alone with my Ambassador, and that the latter would send a cablegram later in the day reporting any significant information which he might obtain from the Minister of Finance. You were good enough to let me know your holiday plans and to make some suggestions for my

future travels.

President Beyen of the B.I.S. lunched with me on July 5, and in my message No. 925, sent on July 6, I reported his unhappiness over the rumor that Van Zeeland was endorsing a plan which would seek funds from the United States for deposit in the B.I.S. and for eventual lending to Germany and Italy. I also reported that Beyen was still of the opinion that no action, other than study, should be taken for a while in the matter of the gold problem. My message No. 929, sent at 6 p.m. on July 6, reported the market developments of the day.

At 9 p.m. last night, July 6, I sent you my message No. 930, reporting a visit which I had had with Rueff that evening at 7 o'clock. In my communication I summarized the text of the confidential and personal note which the Chancellor of the Exchequer had addressed to Bonnet under date of June 30, and also the text of the reply to Simon which Bonnet had despatched yesterday to Monick for delivery to the Chancellor of the Exchequer. The French Treasury officials are unhappy that the British have seen fit to press them for a statement as to the exact level to which the franc may be depreciated. As you will have noted from the correspondence, the French have not yielded to the British request for a positive statement,

but Bonnet has offered to visit London to consult with the Chancellor of the Exchequer in regard to problems arising out of the Tripartite Declaration.

It is still too early to see clearly the French outlook. For the past several months I have been informing you of the heavy burden which the social program of the Popular Front had imposed upon French industry. I have let you see that costs and prices had risen to such an extent that France was obtaining little profit from the devaluation of last autumn. Furthermore, the Treasury, with a budget increasingly out of balance and an extraordinary budget involving tremendous expenses for armaments and public works, was having difficulty in obtaining funds even at mounting rates. Capital which had gone abroad feared to return under the threats of punishment held out by former Minister of Finance Auriol and in the face of potential danger from the strong influence toward "nationalization" of the Communist party upon the Blum Government. French Government securities had declined to a level even below that which obtained on September 25, 1936. Not only had a reduction of the tremendous public debt burden through conversion of Government securities become

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impossible, but any new borrowing on the French market was out of the question. The Blum Government had obtained a private banking credit in London early in the year which had been of very little help in meeting the Treasury situation or in protecting the franc. Lately new credits had been refused in London, the Netherlands and Switzerland. When the Blum Government had finally to step out, the Stabilization Fund had exhausted its gold and exchange resources and had been drawing importantly for several days upon the gold stocks of the Bank of France. The Treasury was without funds to pay its end-of-June bills, and for several days prior to the close of the month had been living on funds supplied by the Caisse des Dépôts et Consignations.

The general opinion is that Bonnet has handled himself very well so far in his position as Minister of Finance. The Stabilization Fund has been skillfully managed the past few days. The capital which has returned in these few days has consisted principally of short covering and of funds required for immediate business and personal needs. There has not yet commenced any repatriation of important sums of flight capital. My banking and business friends do not expect any return flow of this capital in the immediate future. Everyone is waiting to

see to what extent profits from devaluation may be taxed and the schedule of taxes upon securities and other forms of wealth may be increased by the fiscal decrees which Bonnet is to announce on July 9. It is expected that the Parliament will adjourn tonight, probably not to be reconvened before autumn. The convention of the Socialist party will open at Marseille on July 10. Blum's last week-end speech indicates that the Socialists at this convention will not withdraw their support from the Chautemps Government even though they may not like the tax measures. There is still general dissatisfaction with the leadership of the Bank of France, and Governor Labeyrie is likely to be replaced in the near future. Baudoin is the best of the individuals so far suggested for this task.

With the Treasury now having a new credit of 15 billion francs from the Bank of France, with the Stabilization Fund equipped and free to manage the currency as it sees fit, with the tourist season now at its peak and bringing in considerable quantities of foreign exchange, and with Parliament in recess, it is entirely conceivable that, barring international incidents, and domestic labor troubles, France may have a period of financial calm until around October

of this year. At that time it will be necessary to repay the credit of 4-1/2 billion francs granted by the British banks and also to take care of maturity of some six and one-half billion francs of Treasury bonds. By that time also the cost of living will probably have risen further as a result of the present depreciation of the franc. the tourist season will have ended and the period of slackening of employment will have commenced. It is then that the new Government may be put to another test. If Bonnet's financial plans are sufficiently drastic to effect economies and raise funds ample to achieve some sort of a budgetary equilibrium, if the price situation can be kept under control, and if the attitude of Government and of labor is such that capital will begin importantly to return to France, it may be that a solution of France's difficulties is beginning.

On the other hand, it may prove that for political reasons, and with Communist influence behind the Government, the present Ministry will not be able to carry out a boldly constructive program ample to achieve confidence of capital necessary for recovery. In such event, this would prove to be a transitional Government, which might be followed by another

Blum Government or in the end lead to a National Government, perhaps headed by Daladier, which would have the unhappy task of putting through really effective measures. Such a Government would conceivably meet with Left opposition, and difficulties in the street, which have been avoided by the transmission of power from Blum to Chautemps, might arise. There are those who think, however, that no real recovery can take place until such a Government comes into office and cleans up the situation.

I think there can be no question but that the American attitude toward France has been the correct one in the circumstances. We should not blame Bonnet for all of the evils which he inherited. Both he and Rueff are strongly against exchange control. It is to our interest to see them given every facility to follow a liberal policy which will avoid exchange control. It is not at all a certainty that a franc ranging from 125 to 130 to the pound sterling will be sufficiently cheap to meet the needs of French economy by autumn. I believe the franc can best be kept in hand, however, by keeping France within the spirit of the Tripartite Agreement in so far as

competitive . . .

competitive depreciation is concerned and
by friendly consultation between the three
signatory powers.

Faithfully yours,

H. Merle Cochran
First Secretary of Embassy

In triplicate.

HMC/jf

Paris, July 7, 1937.

STRICTLY CONFIDENTIAL

AND PERSONAL

The Honorable Henry Morgenthau, Junior,
Secretary of the Treasury,
Washington, D. C.

Dear Mr. Secretary:

In cablegram No. 309, dated 4 p.m., July 2, 1937, the Department of State gave me the message from you, requesting a detailed and systematic report by mail of the activities which I had carried on for the Treasury Department during the preceding ten days. When you talked with me by telephone shortly after noon on July 5, you confirmed that you desired a purely personal report for your own records, and that this should be submitted directly to you. When you had spoken with me a few days earlier, on the afternoon of Sunday, June 27, you had asked that I expand in a personal letter the

remarks which I had made over the telephone to you that day in regard to my recent trip to London. I am, therefore, in the present communication going back a little beyond ten days in order to make this one letter cover both the London trip and the French financial crisis of the past few days.

When I was last at Basel, on June 13 and 14, Jacobson, who has been a close friend of Sir Frederick Phillips for many years and had recently visited him in London, and with whom Governor Norman speaks more frankly than he does with anyone in the B.I.S., told me that the British were anxious to talk to some one representing you. While the Tripartite Agreement had been conceived with the idea of helping France, the greatest benefit therefrom has been, according to Jacobson and some of my other friends, to bring the British and Americans closer together. The British, Jacobson continued, had come to realize, especially through the negotiations of last autumn and the successive steps under the Agreement, your effective way of getting things done and your very close relations with the President. Now the British wished to exchange ideas with you further on longer term propositions than your respective "Funds" are so satisfactorily handling from day to day.

I told Jacobsson that the British Treasury was in contact with Butterworth (as he already knew from the British) and that I had a fairly wide freedom in moving about for you. Jacobsson said the first alternative channel was not satisfactory. This he partly attributed to the comparatively recent relationship which Butterworth had established with the British monetary authorities. After much hesitation he reluctantly and most confidentially added that the British were aware that Butterworth was sending frequent cablegrams from London, which, considering the unofficial and market sources which he consulted, they felt might not be giving a fair portrayal of the situation.

Jacobsson said the British hoped to be able to talk with a representative of the American Treasury who could give a definite answer to questions which might arise, and who could commit the Treasury. I told Jacobsson that there was no one, technical or otherwise, who could come abroad even from the Treasury itself in present circumstances, equipped and authorized to bind the Treasury on such subjects as gold policy. I doubted very much whether the Treasury would even consider sending anyone

of its own men until it might know what the British wished to discuss and what the chances were for successful negotiations. In the meantime I suggested that the proper way would be for the British to make their approach through Butterworth or through their own Embassy in Washington. It could later be seen whether there might be occasion for a Treasury expert to go from one capital to the other.

Governor Norman, to whom I was fully aware Jacobsson would relay the above observations, talked with me on two or three occasions at Basel. In my cablegram reporting the B.I.S. meeting I gave his general views and reported his remark as to our need for cooperative study of long term problems, but I did not record his more confidential suggestions. Before having much to say to me, he asked whether he was talking to me as usual, personally and strictly confidentially, or whether in addressing me he was addressing my Embassy. He said that if the latter was the case, he would have nothing to say. I reminded Norman that he had been talking with me for several years, with no bad results, and that I had frequently been able to

pass his views on to the quarters in my country which would be most directly interested therein.

Any little success that I may have had in obtaining confidential information or frank expressions of opinion from Treasury, Central Banking and B.I.S. officials has come from two facts. In the first place these people have trusted me personally. Secondly, they have been under the impression, which I have endeavored to create, that I had direct and confidential contact with you and Secretary Hull.

Since January, 1934, I have been sending daily cablegrams for you. While I have, of course, endeavored to keep this fact confidential, there has been no hiding the fact that my various trips to European capitals and to Washington have been under your instructions. Last autumn I was definitely stamped as your personal representative in the Tripartite negotiations. Last August I obtained in London from Phillips what I think was one of the best interviews I ever had, since it so accurately pictured the attitude the British would take in the event of

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French devaluation, a subject upon which at least Monick had provided faulty data. I had worked with Phillips at Geneva on the Preparatory Monetary Conferences of November, 1932, and February, 1933, and I had seen him when I had made trips to London at your order. He is ordinarily a most reserved and guarded official, but had come to speak quite freely with me, - not because I was First Secretary of the Paris Embassy but because I was thought to be a trusted officer acting directly and confidentially for you.

To return to my story. When Norman told me at Basel that he was genuinely perturbed over the gold question and thought that our respective Governments should get together in studying this and other long time financial policies, he said he was only speaking as the Governor of the Bank of England. He said he would personally like to have me come over to London for a conversation, but would consult with the Treasury people upon his return before saying anything more to me. He said that since Sir John Simon had assumed charge at the Treasury he had not had an exchange of views with him.

When Governor Norman telephoned me, from London to Paris, a couple of days after our Basel conversations, he invited me to come to London for luncheon at the Bank on Monday, June 21. He said that he would make some other appointments for me if I could come. I told him that I would have to obtain permission from Washington. I consequently telephoned you from my home and gave you the facts. I gained the impression that you approved my use of the telephone in the circumstances and that the matter would continue to be handled by telephone. When you called me back on Friday to give me an answer for Norman you made plain the conditions on which I should go to London, and the Department of State confirmed these in an instruction sent to the Embassy here the same evening. From our conversation I realized that you had your own problem in meeting this situation. I am afraid I made your difficulties even greater by mentioning Norman's reluctance to have the matter handled through Embassy routine. I am sure he meant to cast no aspersions on either our Embassy here or at London. He has a genuine lifelong fear of disclosure of confidential financial matters. Just as

many modern-minded Treasuries suspect Central Bankers, so do most Central Bankers lack faith in diplomats when it comes to handling financial or monetary problems.

I informed both Norman and Butterworth of my pending departure for London. I then proceeded, with unmistakably clear instructions, and with the determination to demonstrate such gentlemanly and diplomatic cooperation that the most sensitive souls in London or in my own Department could not be offended. At the same time, at Basel and previously, I had led my British friends to think that I was a free lance who could listen attentively and report discreetly without copperplating the records.

The Butterworths had me for dinner on Sunday evening when I arrived in London, and the Athertons were the only other guests. After dinner the three of us talked about my visit. Atherton said that his Ambassador realized that I had developed at Basel perhaps better contact with Norman than any American other than George Harrison had enjoyed. He therefore had no objection to my coming to London to visit Norman. If, however, it was a question of seeing Treasury officials,

the Ambassador would feel quite differently. Atherton reminded me that his Ambassador, under instructions from Washington, had exchanged notes with the present Prime Minister of England which had established regular contact between the British Treasury and the London Embassy. There should be no misunderstanding that this was the manner in which conversations with the British Treasury should be carried on. I showed them my telegram of instructions. They seemed surprised that this should envisage conversations on my part with British Treasury officials. At the same time Butterworth volunteered that when you telephoned him to tell him of my coming visit to London he had posed the question as to whether he should accompany me if I went to the British Treasury and that you had said, "Yes, by all means."

I explained that I would not know until I called at the Bank of England the next morning at eleven o'clock as to the individuals with whom Norman had arranged appointments, but that I was quite sure that Phillips would be one of them. Atherton insisted that if I went to the Treasury Butterworth should go along.

After . . .

After Atherton had left, I mentioned to Butterworth that on one occasion Norman had brought Phillips to the Bank when I was in London and that the three of us had talked there. I volunteered to take the initiative in getting Butterworth to the Bank in the event that Phillips was there. It was arranged that Butterworth should be available at the Embassy in the event that I should call him around eleven the following morning.

When I reported at the Bank of England at the scheduled hour Governor Norman told me that, since he and I had talked over everything at Basel the preceding week-end, he was just going to have me lunch with him and the usual group in the Bank and turn me over for the remainder of the day to Phillips, who would shortly arrive for an hour's talk before lunch, to be followed by another session after lunch. I told Norman that I was in London officially, cooperating fully with the Embassy, and would make any report from there. He recalled that my former visits had been entirely informal. I told him that in the meantime regular meetings had been arranged between the Treasury and our Embassy, so that if I talked with a

Treasury official on this occasion Butterworth should be present. Norman said that he had never even met Butterworth, but that he had known Atherton for many years and realized that the latter did not understand financial and monetary matters. He said it was unnecessary for me to come to London to see him, the Governor, since we meet monthly at Basel. He said we should leave the matter to Phillips, who was then on his way to the Bank. He made the point that he himself planned to keep out and leave Phillips and me alone since he thought Phillips desired to speak quite confidentially. When Phillips arrived I explained the situation to him in Norman's presence. Phillips was visibly surprised. He said that he had opportunity to speak with Butterworth whenever he wished, but had especially desired that I come over to London for such an exchange of views as we had had last August. He hesitated and fumbled around for several minutes, asking me if the same rules of formality would obtain if he came to France to see me. Finally he suggested that he and I go into

the . . .

the room the Governor had allotted to us so that he could ask me some questions about France, to which subject he presumed that the Embassy in London could not contribute. I asked him if I should call Butterworth, to arrange for the latter to come down after lunch. Phillips put me off, evidently reluctant to decide.

After we had talked on France until lunch, I again suggested that I call Butterworth, but Phillips insisted that we should not trouble ourselves before enjoying lunch. When we came back into the room at 2:30, after lunching with the Governor and his colleagues, Phillips said I had better get Butterworth down. I telephoned the embassy but could not get him until three, and it was almost three thirty when he arrived. Before four o'clock Phillips suggested that he should be getting back to the Treasury. Our three-sided conversation of less than half an hour had been extremely hesitant and restrained - certainly in no manner as frank and cordial as that which I had enjoyed with Phillips last August. We developed some points of a little interest, but Butterworth said later that nothing that I wrote into the cablegram was new.

Phillips and I took Butterworth along into the Governor's private office when we went to take our leave, and I presented Butterworth to the Governor. Butterworth and I then dropped Phillips at the Treasury and went on to the Embassy. I wrote out the draft of the cablegram reporting my London visit, using Butterworth's desk, and read the draft twice to him for corrections or suggestions. It was his idea that I mention Phillips' reference to some communication from you to the Chancellor of the Exchequer of which we were ignorant.

I did not see the Ambassador (whom I have never met) but did talk with Atherton again for a few minutes. I left on what I thought were very pleasant terms with both Atherton and Butterworth, although the latter reminded me a couple of times of his unhappiness over the fact that I had seen fit to incorporate in my cablegram reporting my London interviews of last August (of which the Department had sent him a copy) the story of my unwillingness to pledge not to discuss with the British Treasury matters which were the subject of an Embassy memo that could only be shown to me on such a stipulation. Butterworth insisted that his action at

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that time had simply been inspired by loyalty to Atherton. I told him that I made these trips to get information for you, with the full approval of the State Department, and that I intended frankly to let both Departments know the manner in which I operated as well as the reception which I received, and it was then up to Washington to decide whether I was acting properly. I made it plain that on this present trip I had cooperated in a Departmental sense as fully as I knew how to cooperate, but that I did not think the results had been worth the trip to London.

My conclusions from the London trip are as follows. Phillips did not let me know as fully and as frankly what he had on his mind as he would have done if we had been talking as formerly, alone and off the official record. In being formal in the above described fashion I "muffed" a story that might have been really worth while, and I have risked my own contact with Phillips. If you are satisfied with your present arrangement of periodical meetings between Atherton, or his unnamed and consequently inexperienced successor, and Butterworth and the Treasury, you should not send me

to London. Phillips will say no more to me in Butterworth's presence than he would say to Butterworth alone. I see Norman sufficiently regularly at Basel. It will only complicate matters and cause misunderstandings all around if I return to London under instructions such as controlled my last trip.

I subscribe to all the rules and practices of the State Department when it comes to handling diplomatic and consular matters. The type of financial information and negotiation which you now require is something entirely different and warrants a departure from routine methods. I cannot emphasize too strongly the importance which the high officials over here dealing with such matters as exchange rates, stabilization funds and loans attach to the personal equation. Nor can I express too seriously my inherent objection and rebellion against the idea of making available to all of my colleagues in two Embassies, as well as to the code, file and mail clerks therein, important information which I get in strictest confidence for you from a foreign official who would lose his job if any leak ever developed. I think this type of material cannot be handled too

carefully . . .

carefully. I think I should be permitted to continue to communicate with you and Secretary Hull by personal letter and with you by telephone, without restrictions. You can decide how to use the information once you have it.

The official report of my London visit was incorporated in the cablegram which I filed at the London Embassy on the evening of June 21. That same night I left London, and arrived in Paris at 9 o'clock on the morning of June 22. During my absence from Paris the Blum Government had resigned, in the early hours of the morning of June 21. Chautemps had been asked to constitute a new Government.

Shortly after I got back to Paris I called at the Bank of France, and in my cablegram No. 830, sent at noon on June 22, I reported the operations of the French Stabilization Fund and also the impression had at the Bank of France that the French public did not realize the truly chaotic condition of the country's finances. I let you know that Governor Labeyrie was indicating no intention of resigning and that Rueff, who had been practically dismissed by Minister of Finance Auried a few days previously, was

still functioning as Director of the Movement of Funds Section in the Treasury, since the Minister who was getting rid of him had been obliged himself to step out of office. You are, of course, aware that Vincent Auriol became Minister of Justice in the Chautemps Government.

In my messages of the next few days I gave you some of the details of the letter through which Messrs. Riat and Baudoin had on June 14 submitted their resignations from the Technical Committee which had been set up to advise the French Stabilization Fund. I kept you currently informed of the deterioration in the French monetary situation that was taking place awaiting the arrival of Bonnet, the newly selected Minister of Finance who was proceeding from Washington to Paris to assume his duties. I informed you that the Treasury had exhausted its own resources and had been meeting its immediate requirements through the assistance of the Caisse des Dépôts et Consignations, which had covered the Treasury's overdrafts at the Bank of France. I revealed from day to day the terrific losses of foreign exchange which the French Stabilization Fund was undergoing during the period of uncertainty as to the

policies which the new Government would enunciate.

In my cablegram No. 869, dated June 28, 12 noon, I reported that Bonnet was arriving at Paris that noon and that the French Stabilization Fund had that morning endeavored to carry off a bold gesture by offering sterling at 110.50, which was several centimes per pound lower than the rate which had prevailed in Paris on the last bourse day, the preceding Friday. In spite of this attempt at courage, the forward discount on the franc against sterling continued to widen. At 4 p.m. on June 28, I told you, in my 871, that Bonnet had lunched with Chautemps and was working with his Treasury experts on the plan which was to be submitted at five o'clock that afternoon to the Cabinet.

At about midnight of June 28-29, Rueff asked me to come to the Ministry of Finance. I at once left my home and proceeded to his office, not without a little difficulty, since the Ministry of Finance is undergoing repairs and the corridors and stairways in the rickety old wing of the Louvre, which, you may recall, the Ministry of Finance occupies, were unlighted. Rueff gave me

a message for immediate communication to you, as he put it, "in the spirit of consultation envisaged by the Tripartite Agreement." I came from the Ministry of Finance to the Embassy and put in a call for you at 1:10 a.m. I obtained communication with you at 1:50 a.m. While awaiting the call I had written down the message which Rueff had given me orally, and I transmitted this to you over the telephone. At your request, I called the code clerks to the office after our conversation was terminated, and I confirmed the conversation through code message No. 874, dated 3 a.m., June 29, which the clerks finished at about five o'clock in the morning. I was quite happy to be able to transmit to you this message, since it gave us very precise advance information as to what the French Government planned to do.

The essential points in their plan were to seek authority to carry out financial measures by decree, and then to proceed with efforts to bring the ordinary 1937 budget into balance and to reduce importantly the expenditures planned for 1937 in the extraordinary budget. To tide the Treasury over the emergency period, it was proposed that a credit be obtained from the Bank of France. The most

important part of the plan was that of suppressing the limits of 43 and 49 milligrams within which the Stabilization Fund was charged by the Monetary Law of October 1, 1936, with maintaining the franc. It was planned that the Stabilization Fund would be retained and that there would be no new profit taken from revaluation, since stabilization would not be attempted for the present and no final rate for the franc would yet be envisaged. I let you know that the Treasury assured you that no competitive advantages in international exchange relationships would be sought through monetary manipulation, but that a cheaper franc had been made necessary by the increased charges upon French economy which resulted from the heavy disbursements and social legislation under the Blum Government.

In my oral and cabled messages I told you that French exchange and security markets would be closed on the morning of June 29 and would remain closed until the required financial legislation was enacted. I communicated to you the request of the French Ministry of Finance that the American authorities limit, as they did last September, and in so far as possible, beginning that Tuesday morning,

exchange operations in the French franc on the American market. Such control was desired until the French legislation might be passed. The French Government hoped to get this legislation through Parliament on Wednesday. The British Treasury had been asked to give the same cooperation which was being sought of you.

In conclusion the French Ministry of Finance wanted to assure you of its earnest desire to adhere to the Tripartite Agreement and to avoid exchange control. It was the opinion of the Ministry of Finance that the above outlined steps were imperative if even greater dangers to the franc were to be prevented. Rueff asked me to let him know any reaction from the American Treasury to the French plans as confidentially divulged, and he promised to keep me informed as to French developments. When I communicated this message to you by telephone you told me that you would do everything you could to keep the American exchanges as quiet as possible. You necessarily wanted to consult your associates on the general questions involved by the French decisions. You indicated your appreciation of the French giving us the information in the premises.

In my cablegram No. 875, sent at 12 noon on June 29, I gave you the verbatim text, in English translation, of the provisions of two official decrees which appeared that morning implementing the plans anticipated in the message above summarized, namely, in regard to closing stock and produce exchanges and in providing for the temporary exchange moratorium which this involved.

At 11 30 on the morning of June 29 Rueff telephoned me from the Ministry of Finance to state that he had just talked with Monick, the French Financial Attache in London. According to Monick, the British Chancellor of the Exchequer thought that he might be questioned in Parliament that afternoon in regard to the French situation and the status of the Tripartite Agreement as a result of French developments. It was the intention of the Chancellor, so Monick informed Rueff, to reply that the French Government had consulted with the British Government, in accordance with Paragraph 3 of the Tripartite Agreement, and that this Agreement continued in effect. Monick added that the Chancellor had inquired as to whether the French would welcome a gratuitous statement

in the same sense, even though the direct question might not be posed in Parliament. Rueff had sent word that this would be very much appreciated. Monick had told Rueff that he was of the impression that the American and British authorities were in communication with each other. Rueff asked me to let you have the above information and to indicate to you that the French would consider it very much to their advantage and would be much gratified if in the circumstances you might see fit to issue some sort of a statement along the above suggested lines.

I forwarded the foregoing message to you at 12 noon, June 29, under Serial Number 877, and put in a long-distance call for you. I obtained connection with you at 1:30 p.m. from my home and gave you the above information. You told me that you had covered all of the important banks the preceding night and that they had agreed to cooperate thoroughly in suppressing French franc operations. You told me that some of your Assistants were of the opinion that the new French program would prohibit the continuation by France of giving gold reciprocally to the United States. You wanted me to find out definitely whether if you bought francs

that day you could exchange them for gold at the Bank of France and, if so, at what price. I told you that it was my understanding that the technical arrangements which obtained between the Tripartite countries under the arrangement of last October would continue, the only change being that France was suppressing the gold limits within which the French franc might fluctuate. I promised to confirm this point and to call you back.

Immediately after talking with you I got in touch by telephone with Cariguel at the Bank of France and posed the questions which you had raised. Cariguel consulted with Undergovernor Fournier and then assured me that the changes which had been effected by decree that day, as well as those which, as far as he could then tell, were envisaged in the program of the Chautemps Government, would not affect in any manner the technical arrangements which had previously obtained between the French and American monetary authorities. On the contrary, he said that it would be more than ever to the interest of the French Stabilization Fund to have the privilege of acquiring gold against foreign exchange and that the French would consequently be entirely willing to continue to give gold reciprocally to the United States.

While I was talking with Cariguel he had to leave the telephone to take a call from New York. I talked with Cariguel again at 2:30, on the afternoon of June 29. In my cablegram 879, dated 4 p.m., June 29, I reported the foregoing information and also the following additional data. Cariguel told me that his telephone call had been with Knoke and that the latter had raised questions similar to those which you had asked through me. Cariguel said that he had explained the situation over the telephone to Knoke and that he was that afternoon sending him a cablegram confirming the conversation by telephone. In this message, which Cariguel read to me, he confirmed that the prices for gold quoted in his telegram 337 of the previous day to the Federal Reserve Bank of New York were still effective until further notice. He asked Knoke to sell francs for the account of the French Stabilization Fund on the basis of the preceding day's rate of 110.55 francs to the pound sterling. Cariguel explained to me that he preferred to indicate this rate in sterling because of the fluctuations then existing in the dollar-sterling rate.

Cariguel . . .

Cariguel said that he could assure us that the French Stabilization Fund would continue to buy and sell gold as previously. He told me further that when Knoke had asked him if the balance in French francs which the American Stabilization Fund held on that date could be converted into gold, he, Cariguel, had answered affirmatively without any hesitation. In view of the fact that Cariguel had told me that he had given Knoke full details in regard to French approval of certain types of urgent franc transactions which might arise on the American market, I did not repeat this technical information. I should add that in our conversation Cariguel confirmed that he was asking the Federal Reserve Bank at New York to provide francs to New York banks which absolutely needed them. The price, as above indicated, was that of the last business day before the Paris markets were closed, and I understood definitely that this rate was to continue until legislation might be enacted, that is, during the period of suspension of official markets.

During the day the Guaranty Trust and other Paris American banks informed me of the instructions which they had received orally from the Bank of France in regard to the transactions which they were privileged to carry on in foreign exchange and currencies

during the closing of the markets.

At 4:20 p.m., June 29, you telephoned me. I told you that I had not been able to get in touch with Rueff, but I gave you the information which I had just set down in my telegram 879 above-mentioned, as provided by Cariguel, after consultation with Fournier. I gave you the rates at which the franc was being transacted on various European markets and I let you know that London was cooperating very well with the French. When I told you of the message that Cariguel was sending Knoke, you inquired and found that it had just reached the Treasury from New York. You got Knoke on the telephone while you still held communication with me. Knoke seemed entirely satisfied with the assurances which Cariguel had given him. You told me that you would telephone Sir John Simon in regard to the functioning of the Tripartite Agreement. You asked me to find out what arrangements had been made by the French with the other four members of the "club": Great Britain, Belgium, Switzerland and the Netherlands. Referring to the message which Moniek had given Rueff in regard to the British willingness to state that the Tripartite Agreement was still functioning, you intimated that Moniek's

veracity was a virtue to be questioned.

At 4:45 p.m., as reported in my BSS, June 29, 6 p.m., I talked by telephone with Gariguel. He told me that while England and Belgium were the only ones of the European club members with which the French Stabilization Fund ordinarily had gold dealings, he had that morning taken it upon himself to get into contact by telephone with the Central Banks of the Netherlands, Belgium and Switzerland, and that he had been having numerous conversations throughout the day with the Bank of England. He said that while these Central Banks had not posed the question so precisely as had we, it had been clearly understood with each of these Banks that the arrangements which control their relations with the Bank of France under the Tripartite Agreement and the technical arrangements of October would be continued.

I succeeded in getting in touch with Rueff at 5 o'clock at the Chamber of Deputies, where he had been following the proceedings that afternoon. Rueff confirmed entirely the information which Gariguel and Fournier had given me earlier in the day, to the effect that there would be no change in the technical relations between the French and American

Stabilization Funds and that reciprocal gold facilities would continue to be extended by France to the United States.

I passed on to Rueff your statement as to the full cooperation which the American banks were extending in the matter of restriction of franc transactions. I told him further that you were giving consideration to the question of an American statement on the Tripartite Agreement. In answer to my query as to whether any of the club countries other than the United States and Great Britain had been asked to give a statement, Rueff insisted that his people had not directly requested a statement from any of us. Monick had told him that the British had voluntarily indicated their willingness to make a statement.

While an exchange of views had been initiated by the French with the British and American authorities, Rueff had considered the situation of the three major powers so different from that of the three countries which had been added to the club, that he had not had any exchange of views with the latter. He had, however, seen that official instructions were sent to the French diplomatic officers in the Netherlands, Belgium and Switzerland, informing them of the present

situation and instructing them to explain this to the respective monetary authorities and to ask the latter to continue to collaborate, as in the past, with the French monetary authorities. Rueff did not expect any public statements from the three minor powers in regard to the Tripartite Agreement and their attitude toward its continuation in so far as they were concerned.

At 6 p.m. on June 29 I provided you in cablegram No. 981 with a translation of the text as published in the press that evening of the single article of the Finance Bill which had been laid before the French Chamber of Deputies that afternoon, wherein the Chautemps Government was seeking special authority to take by decree until August 31, 1937, "all measures of a nature to assure the repression of attacks on the credit of the State, the fight against speculation, the economic restoration, the control of prices, the equilibrium of the budget of the Treasury, and the defense, without control of exchange, of the gold holdings of the Bank of France." I did not endeavor to report to you all the various votes in the Finance Committees and in the two bodies of Parliament, since from our conversations I knew that you were receiving the results by news ticker more quickly than

I could transmit them by cable.

At 7.45 on the evening of June 29, Rueff telephoned me at my home. He said that the British had gained the impression from communicating with you that a new parity of 4.46 cents to the franc had definitely been promised you by the French. Rueff said that you desired further to be assured that no change in this price of the franc would be made without giving you twenty-four hours' notice. Rueff seemed quite unhappy over the London interpretation of your conception of the situation. He explained to me that the French were doing their utmost to cooperate toward maintaining the Tripartite agreement and that if it could not be maintained the political position of the Government would be so much weakened that it would be difficult to carry through the measures which were actually being considered, and greater harm to the franc would ensue. I assured Rueff that he had obtained an incorrect story from London; that I had turned in no message which could give basis for the misunderstanding; and, furthermore, that I was aware that Cariguel had sent a very explicit cablegram on the question of rates. I warned Rueff to depend upon direct messages from Washington to Paris for his understanding of

the American attitude.

At 9 p.m. on June 29, you telephoned me at my house. I let you know of Rueff's uneasiness as above indicated, and you realized that Moniek had gone wrong again. You told me that Sir John Simon had sent you the draft of a statement, in which he proposed to scold the French. You told me that the British had received absolutely no assurances from the French as to the way technical relations between the French and the British Funds would function. You said the British Embassy had just received a message from Sir John Simon for you which would require considerable time to decode. You informed me that you had sold only six hundred thousand francs at New York during the day. It was agreed that I should not get in touch with Rueff, but that if the French pressed me for information I could simply state that the question of an American declaration was still under advisement.

At 12 noon on June 30 I sent my cablegram No. 885, reproducing the text of a letter dated June 29 which I had that day received from President Bachmann of the Swiss National Bank in regard to gold and exchange relations between Switzerland and the United States.

At 8:20 p.m. on June 30 you telephoned me. You stated that you were going away at 1 p.m.,

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Washington time, and would not be back from the Roosevelt-Dupont wedding until 7 o'clock, Washington time, that evening. You instructed me to telephone Assistant Secretary Wayne Taylor if there was anything new. I told you that I had not cabled to you several statements which had appeared in the press as to declarations attributed to Bonnet and to the Reporter of the Chamber Finance Committee, since there was doubt as to their correctness and the official text was not yet available. You told me that you were not giving out any statement, especially in view of the press report that a really important devaluation was to be expected from France, until the situation was clearer and until you were in agreement with the British. I told you at this time of the letter from Professor Bachmann which I had cabled you earlier in the day. I also gave you current information with respect to the market and the parliamentary proceedings on the finance bill.

In my cablegram No. 886, dated 5 p.m., June 30, I confirmed the statements which I had made by telephone and stressed the seriousness of the French financial and monetary situation, as revealed by Bonnet to Parliament. I ventured the opinion that American and British Treasury authorities

were correctly hesitant in issuing any comprehensive declaration with respect to the present and prospective status of the Tripartite Agreement until the situation was more clarified and until the French Government had definitely revealed its plans. In my message I reported that the Senate had adopted the finance bill and that the markets were expected to reopen the following day.

At 9:30 p. m. on June 30, Assistant Secretary Taylor telephoned me. He explained that you were still absent. He told me that conversations were still going on with London and that our Treasury was desirous of cooperating with the French, but that no particular comment could be made until after the President and yourself had returned to Washington, which would probably not permit a public statement before the expected opening of the Paris markets. In our conversation I told Taylor that decrees had been taken to President Lebrun at 7 o'clock that evening which would be promulgated the following day to set into operation the financial plans of the Chautemps Government. I explained as far as was possible at that time the provisions of these decrees. I also let Taylor know that Cariguel had told me during the evening that the Council of the Bank of France

had voted its approval of the new convention between the Bank of France and the Ministry of Finance which opened up a new credit of fifteen billion francs to the State. Furthermore, the Stabilization Fund was to be continued in the sum of ten billion francs.

At 10:30 p.m. June 30, I again spoke with Cariguel. I had not been able to find Rueff after talking with Taylor. I told Cariguel of my conversation with Taylor and I explained to him that it would be easier for me to recommend to the American authorities the issuance of a declaration on the Tripartite Agreement if I could let them know exactly what program the French Government and the French Stabilization Fund planned to institute when the markets reopened. Cariguel told me that an official from London had been in Paris that day seeking such definite information, but that the French authorities had given him no figures and had merely indicated their general plan. Cariguel told me, however, in strictest confidence, and as a favor to us, that the Fund would on the following morning let the exchange rate run up to about 130 francs to the pound, and would then gradually bring this rate back toward 125. The range very soon after the opening would be between

125 and 130. He told me that the rate that day in "black" trading in London and on the Amsterdam and Zurich markets had been at around 121 to 123 French francs to the pound and that the markets generally expected a rate of 125. He told me that I was the only one to whom the above information in regard to Exchange Fund strategy plans had been revealed and that he knew that I would protect him entirely. In reply to my further questions Cariguel told me that there would be no new rules or restrictions imposed on exchange trading. The main points of difference from previous proceedings would simply result from the fact that no definite gold limits would be fixed for the franc.

The above information which Cariguel was good enough to give me was, in my mind, exactly the data which could be most useful to you in deciding whether you could appropriately issue or participate in a statement to be issued the following day in regard to the Tripartite Agreement. Consequently I came down to my office and put in a call at 11 p.m., June 30, for Taylor. I did not succeed in getting through connection until 12:30 a.m. I gave Taylor the information which Cariguel had given to me. While I had been waiting at the Embassy for my call to Taylor to be put through,

Rueff telephoned me, saying that he had understood that I had called his house earlier in the evening. He again asked me to urge that the American Treasury say something on the Tripartite Arrangement, and told me of British declarations which had been made in the House of Commons that afternoon. I told him that I would pass on his remarks whenever I talked with Taylor or yourself. I did not let him know that Cariguel had given me the rates, and he has never been informed of this fact. In my conversation with him he merely stated that the Bank of France would get in touch with the Federal Reserve Bank of New York the following morning and would indicate its desires for operations on the American market. In my conversation with Taylor I referred to this talk with Rueff. Taylor told me that you would be back later in the evening, that he would give my message to you and that I might hear from you before morning.

You telephoned me at my home at 8 10 a.m., July 1. You told me that you had arrived back in Washington at 9 o'clock the previous evening and had seen the day's cablegrams from Europe. You said that Butterworth was still talking with the British, from whom an answer was

expected later in the day. You asked whether Butterworth should be permitted to pass on to the British the information in regard to the plans for operations of the French Stabilization Fund when the markets opened that day. I explained the confidential manner in which the information had been given me, and made the point that the Ministry of Finance had not seen fit either to disclose the plans to the British official who had visited Paris, or to myself. You asked me, therefore, to call Butterworth at once at Langham 22-57, to let him know that these figures should not be divulged. You incidentally mentioned the difficulties which you had experienced as a result of the statements given to the press by the French Charge d'Affaires at Washington and the French Financier Attaché in New York.

As soon as our conversation was finished, I telephoned Butterworth at London and asked him not to let the British know that we had obtained the above-mentioned confidential data from the French, and not to use the figures.

When I talked with Garigue at the Bank of France at 11:15 on the morning of July 1, I learned that sterling had opened at around 124 and that he was following the plan which he had revealed to me of pushing the rate toward 130. During the day I kept in touch with the

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Guaranty Trust and the National City Bank as to market operations.

Under date of 11 a.m., July 1, I sent you cablegram No. 887, setting forth the official decrees in regard to the change in monetary policy which had appeared in the JOURNAL OFFICIEL of that morning.

At 1:55 p.m., when I was home for lunch, a call was announced from London. Butterworth communicated to me the following message which you desired me to transmit to Bonnet as soon as possible:

"Now that the French Ministry of Finance has been given the powers which it sought to meet the present situation, I look forward to a continuation of close cooperation between our Treasuries under the Tripartite Declaration.

"May I express to you the sincere hope that France will soon emerge from the temporary difficulties with which she is now confronted."

Butterworth explained to me that both the American and British Treasuries were to send this identical message to Bonnet, and that the text thereof was to be made public at 3:15 p.m. London time. That is, the American Treasury

would give the announcement to the press and Sir John Simon, appearing before Parliament, would announce this declaration as soon after 3:15 as opportunity might be afforded.

I immediately telephoned the Bank of France, where the members of the Council of the Bank usually lunch on Thursday. I was not able to find Rueff there or at the Ministry of Finance or at his home, and no one with whom I spoke at either place could tell me where he was. Likewise I failed to find Bonnet. While I was still busy with the telephone, my office told me that you had placed a call for me at 2:45 p.m. I then came to my office in time to take the call.

You said that you desired to check up on our plans. I told you that I had not yet been able to deliver the message. Two o'clock here is in the middle of the long lunch hour which the French observe, and it had been absolutely impossible to find either Bonnet or Rueff. You reminded me that the message would have to be delivered before 3:15. I told you that I was only five minutes from the Ministry of Finance and that I would proceed there at once, as soon as our conversation was terminated, and I assured you that Bonnet or a responsible assistant would have the message before 3:15. You asked me to call you back to confirm delivery of the message.

I went from the Embassy to the Ministry of Finance as soon as our conversation ended. Neither Rueff nor Gilet, the officers in the Movement of Funds Section who serve as the Ministry's contact with us, had returned from lunch. Minister Bonnet himself arrived, however, in time to receive me alone in his office at 8:05 p.m. I read to the Minister of Finance your message as Butterworth had transmitted it to me and as I had taken it down. I read it slowly in English and then translated it into French.

In my cablegram No. 696, sent at 6 p.m. on July 1, I reported the delivery of this message and I mentioned that when I read the part of the communication in regard to France's emerging from her temporary difficulties, Bonnet shook his head rather sadly. He told me his own idea of the situation and his plan to endeavor to distribute tax burdens on all sides. He repeatedly indicated his regret at leaving Washington and his desire to return to his ambassadorial post if he did not receive support for his program as Minister of Finance. The Minister asked me to tell you how much he was touched by your message and how much he appreciated the assistance and good wishes which had been extended to him. He regretted that he had not been able to see you before leaving Washington, and he told me that he would send a personal acknowledgment of

appreciation for the above message.

Upon returning to the Embassy I put in a call for you at 4:15. I confirmed the delivery of your message and gave you the above information. I told you that earlier in the day I had received from President Bachmann of the Swiss National Bank at Zurich the following message: "Could you give me information about consequences of French monetary measures on Tripartite Agreement stop Does it remain unchanged?" You told me that your Department was calling the Belgian, Swiss and Dutch diplomatic representatives in Washington to the Treasury in order that they might be informed of your communication to the French Minister of Finance. You instructed me to telephone Bachmann, Trip and Franck and let them have the latest information in the premises.

In my message No. 896 above referred to, I told you that I had read your message over the telephone to Governor Franck (Brussels) at 4:40 p.m., to President Bachmann (Zurich) at 4:55 p.m., and to Director Beaufort (Amsterdam) of the Netherlands Bank at 5 o'clock. All of these officials were very appreciative of our consideration in informing them in the premises and seemed pleased with the decision which had

been taken by you. Bachmann assured me that there would be no change in the status of the Swiss franc as a result of the French franc decline.

At 7:30 on the evening of July 1, Rueff telephoned me at my home and read to me the text of a message which he said Bonnet had communicated to the French Embassy in Washington for delivery to you. The following is the French text as read to me over the telephone:

"Je tiens à vous remercier très vivement des vœux que vous avez bien voulu m'adresser.

"Le gouvernement français attache un grand prix à l'étroite collaboration qui unit les deux Trésoreries. L'effort énergique de redressement financier que nous sommes décidés à réaliser nous permettra de poursuivre fructueusement la politique de la déclaration tripartite et de mettre un terme aux difficultés auxquelles nous avons dû faire face."

The following is a translation of the above message:

"I desire to thank you very heartily for the good wishes which you were good enough to address to me.

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"The French Government attaches great importance to the close collaboration which unites the two Treasuries. The energetic effort of financial reconstruction which we have decided to carry out will permit us to follow profitably the policy of the tripartite declaration and to put an end to the difficulties with which we are now confronted."

I did not think it worth while to repeat this message to you directly since Rueff said that it had already gone forward through the French diplomatic channels.

In the press of the next morning, your message to Bonnet and his reply were given prominence, and the maintenance of the Tripartite Agreement was warmly welcomed. The bankers and financial people with whom I spoke on that day and have since kept in touch are unanimously of the opinion that our attitude was a proper one in the premises. My cablegram 906, sent at 6 p.m. on July 2, gave you the market news of the day.

At 1 p.m. on July 3, I reported in my cablegram No. 916 that Governor Assolini of the Bank of Italy had informed Pennachio, his representative in France, that the Italian Government considered it superfluous to confirm

that Italy had no intention of altering the gold content of the Italian lira. Fomnachie was instructed to issue no communiqué but emphatically to deny any rumor in Paris that might allege that the lira would follow the French franc.

I visited the Bank of France on the morning of July 5 and in my cablegram No. 980, sent at noon on that day, let you know that the French Control had acquired a little over one billion francs of foreign exchange during the latter part of the preceding week, after French monetary policy had been changed, and that the market was opening with a strong demand for francs.

On July 5 you called me at my home at 5 p.m. You suggested that I see Bonnet the following day to learn how capital was returning to France. I told you that I had already obtained the latest figures from the Bank of France that morning and had incorporated the data in the cable to you. I also let you know that Bonnet was lunching that day alone with my Ambassador, and that the latter would send a cablegram later in the day reporting any significant information which he might obtain from the Minister of Finance. You were good enough to let me know your holiday plans and to make some suggestions for my

future travels.

President Beyer of the B.I.S. lunched with me on July 5, and in my message No. 928, sent on July 5, I reported his unhappiness over the rumor that Van Zeeland was endorsing a plan which would seek funds from the United States for deposit in the B.I.S. and for eventual lending to Germany and Italy. I also reported that Beyer was still of the opinion that no action, other than study, should be taken for a while in the matter of the gold problem. My message No. 929, sent at 6 p.m. on July 5, reported the market developments of the day.

At 9 p.m. last night, July 6, I sent you my message No. 930, reporting a visit which I had had with Rueff that evening at 7 o'clock. In my communication I summarized the text of the confidential and personal note which the Chancellor of the Exchequer had addressed to Bonnet under date of June 30, and also the text of the reply to Simon which Bonnet had despatched yesterday to Monick for delivery to the Chancellor of the Exchequer. The French Treasury officials are unhappy that the British have seen fit to press them for a statement as to the exact level to which the franc may be depreciated. As you will have noted from the correspondence, the French have not yielded to the British request for a positive statement,

but Bennet has offered to visit London to consult with the Chancellor of the Exchequer in regard to problems arising out of the Tripartite Declaration.

It is still too early to see clearly the French outlook. For the past several months I have been informing you of the heavy burden which the social program of the Popular Front had imposed upon French industry. I have let you see that costs and prices had risen to such an extent that France was obtaining little profit from the devaluation of last autumn. Furthermore, the Treasury, with a budget increasingly out of balance and an extraordinary budget involving tremendous expenses for armaments and public works, was having difficulty in obtaining funds even at mounting rates. Capital which had gone abroad feared to return under the threats of punishment held out by former Minister of Finance Auriol and in the face of potential danger from the strong influence toward "nationalization" of the Communist party upon the Blum Government. French Government securities had declined to a level even below that which obtained on September 25, 1936. Not only had a reduction of the tremendous public debt burden through conversion of Government securities become

impossible . . .

impossible, but any new borrowing on the French market was out of the question. The Blum Government had obtained a private banking credit in London early in the year which had been of very little help in meeting the Treasury situation or in protecting the franc. Lately new credits had been refused in London, the Netherlands and Switzerland. When the Blum Government had finally to step out, the Stabilization Fund had exhausted its gold and exchange resources and had been drawing importantly for several days upon the gold stocks of the Bank of France. The Treasury was without funds to pay its end-of-June bills, and for several days prior to the close of the month had been living on funds supplied by the Caisse des Dépôts et Consignations.

The general opinion is that Bonnet has handled himself very well so far in his position as Minister of Finance. The Stabilization Fund has been skillfully managed the past few days. The capital which has returned in these few days has consisted principally of short covering and of funds required for immediate business and personal needs. There has not yet commenced any repatriation of important sums of flight capital. My banking and business friends do not expect any return flow of this capital in the immediate future. Everyone is waiting to

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see to what extent profits from devaluation may be taxed and the schedule of taxes upon securities and other forms of wealth may be increased by the fiscal decrees which Bonnet is to announce on July 9. It is expected that the Parliament will adjourn tonight, probably not to be reconvened before autumn. The convention of the Socialist party will open at Marseille on July 10. Blum's last week-end speech indicates that the Socialists at this convention will not withdraw their support from the Chautemps Government even though they may not like the tax measures. There is still general dissatisfaction with the leadership of the Bank of France, and Governor Labeyrie is likely to be replaced in the near future. Baudoin is the best of the individuals so far suggested for this task.

With the Treasury now having a new credit of 15 billion francs from the Bank of France, with the Stabilization Fund equipped and free to manage the currency as it sees fit, with the tourist season now at its peak and bringing in considerable quantities of foreign exchange, and with Parliament in recess, it is entirely conceivable that, barring international incidents, and domestic labor troubles, France may have a period of financial calm until around October

of this year. At that time it will be necessary to repay the credit of 4-1/2 billion francs granted by the British banks and also to take care of maturity of some six and one-half billion francs of Treasury bonds. By that time also the cost of living will probably have risen further as a result of the present depreciation of the franc, the tourist season will have ended and the period of slackening of employment will have commenced. It is then that the new Government may be put to another test. If Bonnet's financial plans are sufficiently drastic to effect economies and raise funds ample to achieve some sort of a budgetary equilibrium, if the price situation can be kept under control, and if the attitude of Government and of labor is such that capital will begin importantly to return to France, it may be that a solution of France's difficulties is beginning.

On the other hand, it may prove that for political reasons, and with Communist influence behind the Government, the present Ministry will not be able to carry out a boldly constructive program ample to achieve confidence of capital necessary for recovery. In such event, this would prove to be a transitional Government, which might be followed by another

Blum Government or in the end lead to a National Government, perhaps headed by Daladier, which would have the unhappy task of putting through really effective measures. Such a Government would conceivably meet with Left opposition, and difficulties in the street, which have been avoided by the transmission of power from Blum to Chautemps, might arise. There are those who think, however, that no real recovery can take place until such a Government comes into office and cleans up the situation.

I think there can be no question but that the American attitude toward France has been the correct one in the circumstances. We should not blame Bonnet for all of the evils which he inherited. Both he and Rueff are strongly against exchange control. It is to our interest to see them given every facility to follow a liberal policy which will avoid exchange control. It is not at all a certainty that a franc ranging from 125 to 130 to the pound sterling will be sufficiently cheap to meet the needs of French economy by autumn. I believe the franc can best be kept in hand, however, by keeping France within the spirit of the Tripartite Agreement in so far as

competitive . . .

competitive depreciation is concerned and
by friendly consultation between the three
signatory powers.

Faithfully yours,

H. Merle Cochran
First Secretary of Embassy

In triplicate.

HMC/jf