

DIARY

Book 77

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July 1, 1937.

8:44 a.m.

1

Knoke: Yes-yes.

H.M.Jr: I've got to talk fast. I've got my answer from the British - hello?

K: Yes.

H.M.Jr: And they've accepted it word for word.

K: Accepted your version of the cable to the French?

H.M.Jr: We're giving it out at 9:15.

K: You're giving it out at 9:15?

H.M.Jr: Yeah.

K: Yes, sir.

H.M.Jr: And they're giving it out the same.

K: Yes, sir.

H.M.Jr: He took it word for word the way I wrote it.

K: Word for word.

H.M.Jr: Yeah.

K: Yes.

H.M.Jr: I think that's good, don't you?

K: So do I.

H.M.Jr: Yeah. I thought you'd want to know that.

K: Thank you very much, sir.

H.M.Jr: How are things going?

K: Well, the market is around 3.85 and it's rather hesitant. People are holding out -

H.M.Jr: What?

K: The franc rate is about 3.85.

H.M.Jr: Uh-huh.

K: It's rather hesitant. People are holding out waiting to see what's happening.

H.M.Jr: That's 3.85?

K: 3.85.

H.M.Jr: Was there much done?

K: No, no, at least not in this market.

H.M.Jr: Have we got any cable?

K: None from Paris yet.

H.M.Jr: Well, the minute it comes in let me know.

K: Yes. All right.

July 1, 1937. " " "  
8:48 a.m.

H. Merle Cochran: Hello, Mr. Morgenthau.

H.M.Jr: Hello, Cochran. before I do anything I want to get it directly from you whether everything has been cleared.

C: Not yet. Butterworth got me the word about half an hour ago -

H.M.Jr: Yes.

C: The message has not been delivered. I tried to get Rueff at the bank but they say he is at his house but I cannot get him before three o'clock.

H.M.Jr: Well, here's the situation. Sir John Simon was going to announce this at five o'clock in Parliament, that he's done it.

C:

H.M.Jr: Now just listen, will you please.

C: Yes, sir.

H.M.Jr: And then two hours later he was going to give the text of the message. Well, I told him that he couldn't do that because our market was open.

C: Yes.

H.M.Jr: And that if he told them that he sent a message that he should either say nothing or give the text of it.

C: Yes.

H.M.Jr: So then he came back and said, well, he would do it at 3:15.

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C: Yes.

H.M.Jr: Now they're going to go through with it and so am I.

C: Yeah.

H.M.Jr: And within twenty-five minutes I'm going to announce it.

C: I'll go right over to the Minister and find out from him. I'm at my office -

H.M.Jr: Well, go over to the French Minister. To hell with Rueff - go over there and go into the door of Bonnet and tell him you've got this.

C: On the telephone.

H.M.Jr: What?

C: I say I came down town on my way there -

H.M.Jr: Yeah.

C: ... word that you were calling me so I stopped to see what it was.

H.M.Jr: Well, I just wanted to check. They're going to go through with this now at 3:15.

C: Well, I shall have the word to Bonnet himself before that time.

H.M.Jr: All right and after you see him, call me back.

C: All right.

H.M.Jr: I'm sorry but the English rushed me so.

C: Well, I'm all ready. I've been telephoning several people and there's no one at the Ministry all during the noon.

H.M.Jr: Well, I'll have to - we'll just have to trust to luck and it's a good message and Bonnet ought to be happy.

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C: I'll go right over myself and see one of them before that hour.

H.M.Jr: Thank you very much.

C: I'll call you back when I've delivered it.

H.M.Jr: Thank you.

C: All right, sir.

H.M.Jr: Goodbye.

July 1, 1937.

8:50 a.m.

Present:

Mr. Oliphant  
Mr. Opper -  
Mr. Lochhead -  
Dr. White  
Dr. Viner -  
Dr. Riefler -  
Mr. Schwarz  
Dr. Feis -

HM, Jr.: I will read you this message from Sir John:

"I am most grateful for your message. I fully agree with you as to the importance of preserving the beneficial effect of the Tripartite declaration.

"I am sending to Mr. Bonnet a message in the terms you suggested and I am telling him that I understand that you are sending a similar message and that I suggest that if Mr. Bonnet desires, and if you agree, the two messages should be released simultaneously at 5 P. M. London time, for publication. I should also like to have your consent to say in the House of Commons at any time after 3 P.M. that I have sent this message and that you have sent a similar message. At the same time I am sending to Mr. Bonnet a confidential personal message along the lines of the draft communicated to you yesterday with the substance of which I assume you are in general agreement. The possibilities of maintaining with the French authorities the full measure of cooperation envisaged in the Tripartite agreement and prestige of that declaration in the eyes of the world must, I feel, depend on the franc being kept relatively stable at a reasonable rate, and I feel that you would agree with me to tell Bonnet frankly of my convictions on this."

Now, this came in at seven o'clock. I then told Mr. Butterworth that this just would not work because, in the first place, for him to announce in Parliament that he had sent a message and not to give them the text, although he said he was going to tell them practically what was in it, would put me in a very embarrassing position because

I am ~~so~~ <sup>most</sup> grateful,  
for your message  
I fully agree  
with you as to  
the importance  
of preserving the  
beneficial effect  
of the Tri-partite  
declaration.

I am sending  
to Bonnet a  
message in  
the terms ~~as~~

you suggested<sup>8</sup>  
and I am  
telling him  
that I understand  
that you are  
sending a  
similar message,  
and that I  
suggest that,  
if Bennett  
desires <sup>and</sup> if you  
agree, the  
two messages

should be  
released  
simultaneously at  
5 P.M. Under  
time for publication  
I should also  
like to have  
your ~~see~~ consent  
to ~~speech~~ state  
in House of  
Commons

at any time  
after 3 P.M.  
that I have  
sent this message  
and that you  
have sent a  
similar message  
at the same time  
I am sending  
to Bonnet a

Confidential  
Personal message  
along the lines of  
the draft communicated  
to you yesterday  
with substance  
of which I assume  
you are in  
general agreement.  
The possibilities

of maintaining  
~~the~~ with the  
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Tientsin —  
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stable at a  
reasonable rate,  
and I feel  
that you would  
agree for me  
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frankly of my  
convictions on this

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his markets were closed and ours were open and we would get the repercussions. So Butterworth said he agreed fully with me and I said that either Sir John Simon should say nothing until five or should give the full message. Then Butterworth said, 'In order to save time, may I call Cochran and tell him to deliver this message to Bonnet?' and I said, Do that.

Then Butterworth called me back and said Sir John Simon would agree that he would at 3:15 London time give the whole message to Mr. Bonnet in Parliament. I said, Supposing we don't get it to Bonnet in time? Well, Sir John said, Bonnet will be tickled to death to get this message. So then I said, As to what Sir John Simon had to say personally to Mr. Bonnet was his business. So Butterworth again said, Well, Sir John feels that you can have no objection if he tells the French what he thinks. I said, I have no objection as to what he tells the French.

(At this point, the Secretary spoke to Butterworth over the phone and the following is a record of their conversation:

July 1, 1937.  
8:55 a.m.

H.M.Jr: Hello.

William  
Butterworth: Hello, Mr. Secretary.

H.M.Jr: Butterworth, I just talked to Cochran and he says he's been unable to reach anybody in the French Treasury. He said that you only reached him half an hour ago.

B: I don't think that's correct. I called him at about quarter to two.

H.M.Jr: You did.

B: I called him as soon as I finished talking with you - I got the call through within about seven minutes.

H.M.Jr: Well -

B: I told him -

H.M.Jr: Well, anyway, so I told him that he should go over and sit in Bonnet's office and give it to the press if necessary; that I couldn't help it; that everything was set and we were going to go through with the show.

B: Right.

H.M.Jr: See?

B: That's fine, sir.

H.M.Jr: I mean - after all, if Sir John is going to do it now, I can't stop and be fussing around so that - just a moment; just hold the wire.

B: Right.

(Pause)

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H.M.Jr: Hello.

B: Yes, sir.

H.M.Jr: Well, as I say, Cochran will have to do the best he can. I can't help it and if we simply - after all what we are doing is something nice for the French.

B: That's quite right, sir.

H.M.Jr: If we were turning them down, I'd wait but I - under the circumstances I gather that Sir John is under such pressure that he has to move, is that it?

B: That's the idea.

H.M.Jr: What?

B: That's correct, sir.

H.M.Jr: All right, and -

B: - British Treasury that they have told the French about the 3:15 announcement and the French have said that that is O.K. by them.

H.M.Jr: Oh, they have.

B: Yes, sir.

H.M.Jr: Oh, he did do that?

B: He did do that.

H.M.Jr: Oh, he told the French Embassy?

B: Yes; after I made the arrangement with them about 3:15, he got in touch with the French.

H.M.Jr: Oh, fine.

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B: And informed them of it.

H.M.Jr: Fine, fine, fine.

B: And he said he thought - he suggested while I was waiting for your call - I called up Waley to thank the British.

H.M.Jr: Well, now just give me that again. I understand that the British have notified the French Embassy telling them that this was going to happen?

B: That's right.

H.M.Jr: Right-o.

B: And that they said it was all right by them.

H.M.Jr: Well then if we don't get it to Paris, we can't help it.

B: No.

H.M.Jr: Well, I am giving Henry, the counsellor here, a copy in ten minutes of this also.

B: Right.

H.M.Jr: But I had to shave before I saw the press. I couldn't do it all.

B: Yes, sir.

H.M.Jr: All right. Again I want to compliment you on your excellent work.

B: Thank you so much. Now, sir, while I have you here. May I go ahead with that

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telephone. It's going to cost about two hundred dollars to complete the installment.

H.M.Jr: Yes, go ahead.

B: All right, sir, I'll do that.

H.M.Jr: Right-o.

B: Thank you very much. Goodbye, sir.

H.M.Jr: Goodbye.

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HM, Jr: Now what I want to do is this. I am going to see the press at 9 o'clock.

(To Dr. Fels): Is this all right? (Hands Dr. Fels the following message which went to Bonnet: "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 Tri-partite Declaration. May I express to you the sincere hope that France will soon emerge from the temporary difficulties with which she is now confronted.")

Dr. Fels: All right, if the French would do what they are supposed to do. Now I say, let's send Bonnet a strong message and tell him he has got to do the things that will make it possible to make this work.

HM, Jr: Now, just a second. I have only three minutes. Just help me. I am terribly nervous. Be generous with me. What I thought I would say to the press, who are outside now, as an introduction to this, I thought I would say -- I have underlined it: (quoting from HM, Jr's message to Sir John Simon of midnight, June 30):

"In the present juncture of world affairs, I trust you will agree with me that it is of prime importance to preserve the beneficial effects which resulted from the Tri-partite Declaration and its ensuing arrangements. It was thus demonstrated that great democratic nations could, with mutual confidence, create and carry out cooperative measures."

And it is with this spirit that I have sent the following message to Mr. Bonnet: And then I would give them this message:

"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 which which she is confronted."

Thank you for the expression of your views transmitted to me on June 29 and 30. I regret that a brief absence precluded an immediate comment on your proposed reply to Monsieur Bonnet.

Taking into consideration the limited time within which Monsieur Bonnet was able to operate and the extreme difficulties of the situation which faced him on his arrival, I feel that his failure to consult completely with our two Treasuries is understandable.

I share your apprehension over the repercussions which might arise from an undervalued or unduly fluctuating franc, but I believe that we can best minimize these dangers by avoiding, in so far as possible, any move on our part which might add to any lack of confidence in the future of the franc.

In the present juncture of world affairs, I trust you will agree with me that it is of prime importance to preserve the beneficial effects which resulted from the Tri-partite Declaration and its ensuing arrangements. It was thus demonstrated that great democratic nations could, with mutual confidence, create and carry out cooperative measures.

In view of all these considerations, it is my conviction that every reasonable effort should be made to make it possible for France to continue as a participant in the Tri-partite Declaration.

It is therefore my sincere hope and desire that you and I may present to Monsieur Bonnet similar messages somewhat along the following lines:

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QUOTE: 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 Tri-partite Declaration.

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

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Dr. Feis: Just a second. If you read it the way you have, the newspaper men will go out with the theory of a new world crisis and that we are doing it to save Spain. I would do it in a matter of fact way, not stressing the expression 'juncture of world affairs' but emphasizing continuing cooperation in the monetary sphere.

Mr. Oliphant: (To HM, Jr) I think your instincts are right.

Dr. Viner: I would do only the one thing. I would do it the way you have, but leave out 'present juncture of world affairs'.

HM, Jr: But what the hell else is it? If that is not a crisis in world affairs! We sent this thing. We took out all the weasel words. He took it. Now what is this thing? If this is not a juncture of world affairs, what is this thing? This is no picnic. The whole world is on the brink and we are trying to save the only one agreement that is in existence between the countries.

Dr. Feis: You have this important operative mechanism in the monetary sphere designed to assist in maintaining stability to give reassurance to those who have capital and that sort of thing. It is distinctly important. I would carry it through primarily on its own import and not get the press speculating as to whether you mean the Spanish situation, the Russian-Japanese situation, and then turn this primarily into political action.

HM, Jr: Let's have a raise of hands. Who agrees with Feis? (Opper, Riefler, Viner, Lochhead.)

Dr. White: It's a great opportunity ....

Mr. Opper: But it comes from the wrong place.

HM, Jr: The thing you lose entire sight of is what is the explanation I am going to give that I let the French devalue further and take it. What am I doing it for?

Dr. Viner: I am all for the sense of it, but it does make it a little more of a political statement than you have the right to make.

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HM, Jr: I can be asked by Senator Pittman or Mr. McNary 'Why does Morgenthau let them devalue?'

Dr. Feis: You could not stop them.

HM, Jr: All right! Then why don't I kick them out?

Dr. Feis: All right! It's not to our advantage, either monetary or political.

HM, Jr: I am just going to announce this thing and say nothing.

Dr. Feis: I would not want to be misunderstood, but I do think it can be over-dramatized as a political development and I really think if you do that and over-dramatize it on the political end, you are going to offset its value. They will think that this is a desperate last-minute clutch. It's somewhat a matter of emphasis rather than words.

Dr. White: I think it is a statement that is extremely important.

HM, Jr: If I leave out 'juncture of world affairs' and begin 'It's of prime importance', etc., and leave out juncture, is that all right?

Dr. Feis: That would make a vital difference.

HM, Jr: Just start off 'because I deem it is of prime importance'.

Dr. Feis: Would you consider preceding that with a statement just treating it as a monetary action. This almost reaches pure political action.

Dr. White: It has a very large basis on political action.

HM, Jr: Listen! Herbert Feis is here representing the State Department. This is a matter of foreign affairs. If he objects, I would not do it.

Dr. Feis: I have confidence, I think, in my judgment to suggest leaving out 'juncture of world affairs'; secondly, it be coupled and preferably preceded by a short statement just treating it as monetary action

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HM, Jr.: (To Dr. Feis) In two minutes can you write something? After all, the reason I have you here is not because you are a good looking fellow. (See \* below)

(Dr. Feis then dictated the following and it was read aloud to the Secretary:

In response to the action of the French Government we have been in discussion with the French and British Treasuries regarding the situation that has arisen. I am happy to be able to declare that the cooperation in the monetary sphere embodied in the Tripartite Declaration will remain in full working force and will continue to have the full support of the Treasuries of the participating countries.

HM, Jr.: If you don't mind, let me take it and take a chance, but I will not make any declaration. Do it just as a matter of fact, and tone it down.

Dr. Feis: If that's your decision, yes, sir; but I wasn't suggesting going that far.

HM, Jr.: That's all right. We will let the thing carry itself. I let you sit here because I want you to have a veto power.

Dr. Feis: I hope I am not making a mistake.

HM, Jr.: That's all right. At least we have kept Sir John from going off half-cocked.

Dr. Feis: You have done a magnificent job. It's too bad you saved Sir John.

HM, Jr.: You men all stay. We will just have to take a chance and I will do the best I can.

\* (Note: While Dr. Feis was dictating his draft, the Secretary went into his reception room where Mr. Jules Henry was waiting, and gave him a copy of his message to Bonnet.)

The newspaper men then came in and following is a transcript of the questions and answers at the press conference:

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After the newspapermen had left the Secretary's office, HM, Jr. inquired of Dr. Feis: Herbert, are you satisfied? Dr. Feis replied, Thank you very much. Yes, sir, I am. I hope I was not too abrupt. HM, Jr's answer was, "Just remember this, please. I asked you to come over not for window dressing and when you wanted something I was more than pleased to give you the veto power. I am perfectly satisfied. I am perfectly satisfied, but just tell that to Mr. Hull when you go back." Dr. Feis said, "Oh, of course." HM, Jr. continuing said, "But I am perfectly satisfied. The important thing is what we accomplished." Dr. Feis agreed, saying, "Exactly." The Secretary added, "And if we underplayed it rather than overplayed it, well that is not important. The important thing is that we could get this thing across; that Sir John Simon would take it."

Dr. Feis then said, "I think I had better go over and advise Secretary Hull. I again thank you very much and I think it was a fine job." HM, Jr's replied, "I am perfectly satisfied. As I have told you all, you are no good as advisers unless you can stand up and take it. I appreciate your courage (to Feis) in doing what you did."

Dr. Feis and the rest of the group left the Secretary's office, with the exception of Mr. Taylor.

The Secretary asked Taylor to send for Trentham to come down from the British Embassy to receive a copy of the message to Bonnet. HM, Jr also asked the operator to call up the Dutch Legation, Belgian Embassy and Swiss Legation and ask them each to send a representative down to see Mr. Taylor; Mr. Taylor has an important message for them.

The Secretary then placed calls for Senator Joe Robinson, Speaker Bankhead, Senators McNary and Pittman, Eccles if he was in his office, but not to call him at home. Transcripts of these conversations follow:

July 1, 1937  
9:43 a.m.

H.M.Jr: Hello.

Treasury  
Operator: Senator Robinson.

H.M.Jr: Hello.

Senator  
Robinson: Hello, Mr. Secretary.

H.M.Jr: How are you?

R: Fine, and I -

H.M.Jr: Joe, I wanted to tell you that I've been working right straight through the night with the English and with the French and we finally came to the agreement that we would continue the tripartite agreement for the time being because the French have assured us that what they've done with their currency is simply to take care of their internal situation and they are not seeking a competitive advantage in the world field. You see?

a: Yes.

H.M.Jr: So at 9:15 - I only got the thing - we worked right through the night - why the English and the French and ourselves agreed to give out a simultaneous statement and I wanted to let you know about it in case you were asked.

R: Yes. Thank you.

H.M.Jr: And - we simply felt that it was so important that we should be - do everything possible to continue it. If the French can't take care of themselves, why then we can always cancel on 24-hours' notice. You see, it's just a day-to-day agreement.

- 2 -

R: Well, what agreement is that now?

H.M.Jr: The tripartite agreement.

R: The tripart what?

H.M.Jr: The tripartite agreement - the agreement between England and France and ourselves that has to do with the handling of currency.

R: Yes, sir.

H.M.Jr: See?

R: All right.

H.M.Jr: Thank you.

R: Thank you very much, Henry. Goodbye.

July 1, 1937  
9:46 a.m.

H.M.Jr: Hello.

Speaker  
Bankhead: Hello, Mr. Secretary.

H.M.Jr: How are you?

B: Fine, thanks.

H.M.Jr: Mr. Speaker, I've been working right straight through the night with the English and the French -

B: Speak a little louder please.

H.M.Jr: I've been working right straight through the night with the English and with the French on this French situation.

B: Yes.

H.M.Jr: And -

B: Well, I apprehended you had.

H.M.Jr: Well, I wanted to let you know that just about half an hour ago I came to an understanding with the English and with the French that we would continue the tripartite agreement until further notice.

B: Yes.

H.M.Jr: We find - we think it most important at this time that we do continue it and the French have given us sufficient assurances that we feel that we can continue it on a day-to-day basis. And I wanted to let you know that.

- 2 -

- B: Well, I'm very happy because I've been very disturbed about it.
- H.M.Jr: Well -
- B: Do you think that in view of their critical situation they'll be able to carry through the agreement from day-to-day?
- H.M.Jr: Well, they've been able to do so up till today -
- B: Yes.
- H.M.Jr: And our understanding with them is simply on a day-to-day basis.
- B: I see.
- H.M.Jr: Now, of course we don't deal in their currency and we only do it under - at their direction and for their accounts.
- B: Yes.
- H.M.Jr: So the American Government isn't taking any risk.
- B: I see.
- H.M.Jr: We don't risk one dollar.
- B: Yes.
- H.M.Jr: But I've done everything I could and they have given us assurances and so we announced at 9:15 in London and Paris and Washington that the agreement would still continue.
- B: Well, that's fine. I hope you'll - they'll be able to tide it over because I have apprehended that unless the terms worked permanently it would be very bad.
- H.M.Jr: It would and it would hurt our -

- 3 -

- B: It would hurt our own securities and credit - foreign situation and domestic too.
- H.M.Jr: Well, it looks as though we have tided it over.
- B: Well, I congratulate you and I hope you'll be able to stabilize it some way.
- H.M.Jr: Thank you, Mr. Speaker.
- B: You made the announcement to the press?
- H.M.Jr: We've made it simultaneously in Washington, London and Paris at 9:15.
- B: All right. Well, I thank you very much, Mr. Secretary, because I was thinking about that thing myself through the night some. Thanks, thanks very much and I guess you'll want to go and get a little sleep now.
- H.M.Jr: Well, I just had a little.
- B: Ha-ha. All right.
- H.M.Jr: Thanks, sir.

July 1, 1937  
9:56 a.m.

H.M.Jr.: Hello.

Treasury Operator: Senator McNary.

H.M.Jr.: Put him on. Hello.

M: Hello, Mr. Secretary.

H.M.Jr.: How are you?

M: All right. How are you?

H.M.Jr.: Pretty well. Senator, we worked right straight through the night last night with the French and with the British.

M: Yes.

H.M.Jr.: And about 7 o'clock this morning I came to an understanding with both of them....

M: Yeah.

H.M.Jr.: ....that we would continue the tripartite agreement until further notice.

M: Uh-huh.

H.M.Jr.: Now the French are giving us the same technical arrangements so that we can continue to keep the - our exchanges on an equal stabilized basis.

M: Yes.

H.M.Jr.: And I thought that we should do everything possible to keep the agreement alive and the French have done everything that they can to offer their cooperation.

M: Yes.

- 2 -

- H.M.Jr.: And so we are going to continue just as long as the French can hold up their end.
- M: Well, that's fine.
- H.M.Jr.: And we haven't risked one dollar of our own money and when we've been protecting the franc, we've been doing it with their money. And we announced it here and in London and in Paris at 9:15 Washington time, and I just wanted to let you know.
- M: Well, that's awfully nice of you. I appreciate your thoughtfulness.
- H.M.Jr.: And it means a lot - if we didn't have something like this, we just would have, I'm afraid, financial chaos in the foreign exchange.
- M: Well, that's very nice. That's a fine job and I appreciate your giving it to me.
- H.M.Jr.: Thank you, Senator.
- M: Thank you, Mr. Secretary.
- H.M.Jr.: Goodbye.

oo00oo

JR

GRAY

Paris

Dated July 1, 1937

Rec'd 9:30 a.m.

Secretary of State,  
Washington.

RUSH.

897. July 1, 11 a.m.

FROM COCHRAN.

Special finance bill which was laid before the Chamber of Deputies by the Chautemps Government on June 29 was promulgated as law in the Official of July 1. The decrees taken in virtue of this law, the text of which was transmitted in my telegram No. 881 of June 29, 6 p.m., must be submitted for ratification by the Chamber of Deputies within three months from its promulgation or in any case at the first sitting of the extraordinary session of 1937.

Official today also publishes (one) decree modifying the monetary law of October 1, 1936 and approving a new convention with the Bank of France, (two) decree providing for the reopening of stock exchanges on July 1 (but silent regarding reopening of produce exchanges); (three) decree abrogating provisions of decree of June 28, 1937 providing for the suspension of liability for payment of certain  
certain

-2-

JR #887, July 1, 11 a.m., from Paris.

certain bills of exchange and other commercial commitments expressed in gold and foreign currencies (see my 875 June 29, noon).

The following is a translation of the decree modifying the monetary law of October 1, 1936 and approving convention with the Bank of France: (END SECTION ONE)

BULLET

CSE

JR

GRAY

Paris

Dated July 1, 1937

Rec'd 9:40 a.m.

Secretary of State,  
Washington.

RUSH.

887, July 1, 11 a.m. (SECTION TWO).

"Article 1. The provisions of Article 2 and of paragraph 1 of Article 3 of the Monetary Law of October 1, 1936, are replaced by the following provisions.

"Article 2. The new gold content of the franc French monetary unit shall be fixed later by decree issued by the Council of Ministers.

The conditions of convertibility into gold of notes of the Bank of France shall also be fixed by decree issued by the Council of Ministers.

Paragraph 1 of Article 3. Until the issue of the first decree contemplated in the preceding article an exchange stabilization fund shall have the function of regulating the relationship between the franc and foreign currencies.

"Article 2. The agreement concluded on June 30, 1937, between the Minister of Finance and the Governor of the Bank of France the text of which is attached to the  
present

-2-

JR #887, July 1, 11 a.m. (SECTION TWO) from Paris.

present decree is hereby approved.

"Article 3. The provisions of the decree of June 28, 1937, postponing the payment of bills of exchange and other commercial commitments expressed in gold or in foreign currencies are hereby ratified.

BULLITT

KLP:WVC

JR

GRAY

Paris

Dated July 1, 1937

Rec'd 9:10 a.m.

Secretary of State,  
Washington.

RUSH.

887, July 1, 11 a.m. (SECTION THREE).

"Article four. The present decree will be submitted for the ratification of the Chambers in conformity with the provisions of the law of June 30, 1937".

The following is a transaction of the convention dated June 30, 1937 concluded between the Minister of Finance and the Governor of the Bank of France.

"Article one. By derogation of article 8 of the convention of June 23, 1928 the Bank of France undertakes to grant to the state upon the demand of the Minister of Finance and in addition to the advances provided for by article 3 of the convention of June 18, 1936 additional provisional advances for a maximum amount of 15 billion francs.

"Article two. These advances will be subject to the conditions laid down in the convention of June 18, 1936 as concerns advances referred to in article 3 of the said convention". General Council of Bank of France ratified the convention last night.

(END MESSAGE).

BULLITT

Regraded Unclassified

July 1, 1937.  
10:16 a.m.

H.M.Jr: Hello.

H. Merle  
Cochran: Hello.

H.M.Jr: Yes?

C: Mr. Morgenthau?

H.M.Jr: Talking.

C: well, Mr. Morgenthau, I just was over to the  
Minister of Finance and saw Bonnet himself  
at five minutes past three.

H.M.Jr: Good.

C: And I told him - I gave him the message -

H.M.Jr: Yeah.

C: You see?

H.M.Jr: Yeah.

C: And he took it down in French. I translated  
it - I read it first in English and then  
translated it into French.

H.M.Jr: What time were you there?

C: Five minutes past three.

H.M.Jr: Good.

C: It's only three minutes from here you see.

H.M.Jr: I see.

C: So I saw him himself alone.

H.M.Jr: Yes.

- 2 -

C: And he asked me to tell you that he was very much touched by your message -

H.M.Jr: Yes.

C: That he appreciated this assistance and your good wishes as well.

H.M.Jr: Yes.

C: And he said that he would send you a personal acknowledgment of appreciation.

H.M.Jr: Now do you think that it would be a nice thing if I telephoned him or not?

C: I don't think so. I think he's going to wire this to you.

H.M.Jr: Fine.

C: Because his secretary asked me if a wire at Washington now would reach you, you see.

H.M.Jr: I see.

C: And when I'd read the part though about France emerging from temporary difficulties, he shook his head rather sadly.

H.M.Jr: Yesh.

C: And then reminded me that he had said last September at the time of our agreement that the social program would prove too heavy a load to the Treasury and the franc.

H.M.Jr: Well, if you ever saw the statement that Sir John Simon wanted to send -

C: Yes.

H.M.Jr: And then saw this -

C: (Laughs)

- 3 -

H.M.Jr: And Sir John Simon took my statement word for word - didn't change a word.

C: Is that so?

H.M.Jr: But he is going to go ahead and send privately and confidentially the one that he wrote to Mr. Bonnet.

C: That's what Butterworth told me. I should say -

H.M.Jr: And after Mr. Bonnet gets that, they'll have to put -

C: Hello?

H.M.Jr: They'll have to put weights on him to hold him down.

C: I see.

H.M.Jr: Hello?

C: Hello.

H.M.Jr: I mean after he gets that now - I mean there's no reason why I should scold Bonnet and my whole attitude is one of sympathy and to do everything possible to make it easy for him. Hello?

C: - He didn't do the job.

H.M.Jr: What?

C: I say they're up against a hard proposition.

H.M.Jr: Surely.

C: He told me how much he regretted leaving Washington.

H.M.Jr: Yeah.

- 4 -

- C: And that he had asked that they leave his post open there.
- H.M.Jr: I understand.
- C: And he said if he doesn't get support he wants to go back.
- H.M.Jr: Uh-huh. Well - but he liked my message?
- C: Yes. He said that he was very much touched, that he appreciated your help ...
- H.M.Jr: Fine.
- C: ... and good wishes; that he would get in touch with you directly and he'd express -
- H.M.Jr: Fine.
- C: ... - a personal acknowledgment.
- H.M.Jr: Well, I'm going up to the farm tonight and get a little rest.
- C: And he also said that he was very sorry not to have seen you -
- H.M.Jr: Yes.
- C: - at his departure and hoped that you're getting on all right now.
- H.M.Jr: Fine. All right.
- C: And he really appreciated it.
- H.M.Jr: Fine.
- C: And then since then I've given the copies - I gave Rueff the copy in English.
- H.M.Jr: Yes.
- C: And there's one other thing I should mention.

- 5 -

H.M.Jr: Yes.

C: I just received a telegram from your friend, Bachmann up at Zurich who says "Could you give me information about consequences of French monetary measures on tripartite agreement? Does it remain unchanged?"

H.M.Jr: Yeah.

C: Marked "Bachmann."

H.M.Jr: Well, what we did an hour ago - we sent for the Swiss, Dutch and Belgians and told them what we'd done here.

C: Swiss, Dutch and Belgians, is that - do you mean -

H.M.Jr: The Dutch, the Swiss and the Belgians. Hello?

C: Yes.

H.M.Jr: We sent for - we told their embassies to send somebody down to see Mr. Taylor.

C: The Swiss, the Dutch and the Belgians.

H.M.Jr: Yes.

C: The three other countries.

H.M.Jr: Yes, and we've notified them here what we've done.

C: I see.

H.M.Jr: See?

C: Yes.

H.M.Jr: So I have no objection to your telephoning Mr. Bachmann and telling him informally what happened.

- 6 -

C: All right.

H.M.Jr: That renders - that - you can do him a favor that way.

C: Yes. I can get him right away and give him that message and tell him to watch out for the message which you mention.

H.M.Jr: Yes and I think it would be nice - hello - hello?

C: Yes?

H.M.Jr: I think I would telephone Tripp and I'd telephone Franck.

C: Yes, sir - the Belgians.

H.M.Jr: Yeah.

C: All right, I'll get busy. I can still get them I think.

H.M.Jr: Well, and if you don't get them, leave word that you tried to get them.

C: All right, fine.

H.M.Jr: See?

C: Now I'll telephone the three central banks, then now?

H.M.Jr: Yeah. I feel very happy about this.

C: I think it's the wise thing. I honestly do. I would regret any hasty -

H.M.Jr: Yes.

C: - statement of course before we knew what they were going to do.

H.M.Jr: Now how long it will last, of course, is entirely up to the French.

- 7 -

C: And as to what we shall do about them -

H.M.Jr: No, no.

C: And to scold them or to break the thing up now just gives them reason to form another policy and say, "Well, we're out of it; we'll do what we please."

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

C: I'll get this message on and

H.M.Jr: Well, we've got the rate. I've got the rate.

C: You've got the rate so you know what to do.

H.M.Jr: Yes.

C: Fine.

H.M.Jr: Thank you.

July 1, 1937  
11:19 a.m.

H.M.Jr: Hello.

George  
Harrison: Hello, Henry.

H.M.Jr: Hello, George.

H: Good morning.

H.M.Jr: Good morning.

H: I think - I wanted to compliment you -  
the way that you've handled this thing  
has been splendid.

H.M.Jr: Thank you.

H: Cariguel has just called up about the message.  
He said that the message and the note you  
attached were very good.

H.M.Jr: Yes.

H: And that the feeling over there was one of  
great appreciation for helping them over  
this.

H.M.Jr: Yes.

H: But in the back of his mind - the discussion -  
he gathered that they judged you as particularly  
helpful - they put the emphasis on you.

H.M.Jr: Well, of course, I had - I mean some time when  
you get down, I'll show you the note Sir John  
Simon wanted to send and did send to Bonnet on  
a personal, confidential basis. He just scolded  
them and everything else.

H: Yes; well, they knew that and that's the  
reason they feel that way about you.

- 2 -

H.M.Jr: That - last night at one o'clock we worked out this note, sent it over to Simon, and Simon took my note word for word and didn't change a word.

H: Yes.

H.M.Jr: And - but he wasn't going to give out publicly his, and it's a terrible note and I understand from people who have deal with him before that they say he gets very irritable and goes off and - often half-cocked.

H: Yeah.

H.M.Jr: And certainly this is no time to be scolding the French -

H: Yeah.

H.M.Jr: And sometime I'll show you the note that he sent - it was terrible.

H: Yeah.

H.M.Jr: So -

H: He actually sent the note anyway, did he?

H.M.Jr: He said to me, he said, "Now, I'm only to make public the same as you are but if you have no objection, I'm going to send private and confidential the one I have written," he said, "to Mr. Bonnet as a personal message."

H: Yeah.

H.M.Jr: Bonnet  
and of course what the English are doing is insisting that the French name the rate but we tried to get the English to name a rate and they never will.

H: Yeah.

- 3 -

H.M.Jr: Now they're insisting that the French do.

H: Yes.

H.M.Jr: And I don't think Bonnet's going to take it.

H: I think the French have a very good answer.

H.M.Jr: Yes.

H: Now we've got an order to sell francs at 3.8381 and to buy them at 3.8281, which is a very close point, and it sounds like old days really.

H.M.Jr: Yes.

H: Now that price they're giving is as compared to the pound to the dollar.

H.M.Jr: I understand.

H: and we've also got a gold price - they are willing to sell gold at the equivalent of 3.8925.

H.M.Jr: Yes.

H: and to buy it at 3.8341.

H.M.Jr: Yes.

H: Which also is good.

H.M.Jr: Yes.

H: Knoke asked him what he thought the other members of the tripartite arrangement would do - whether there is any chance of their devaluing, and Cariguel said he didn't think there was any possibility of that.

H.M.Jr: Uh-huh.

- 4 -

H: That the cost of living in France is 30 per cent higher than in any of the other three countries.

H.M.Jr: Yes.

H: And that they could therefore justify their reduction on that basis.

H.M.Jr: Well ...

H: Well, that's all gossip.

H.M.Jr: Yes.

H: And that's all I've got.

H.M.Jr: Well, thanks, and we're all right for a while and my guess is that the other countries will not devalue further and we notified them - their embassies and legations here as to what we've done.

H: Yes.

H.M.Jr: And we'll just have to watch now. And as I understand it, they're trying to do what they call a "parti" in French.

H: Well - ah - yes.

H.M.Jr: What?

H: Yes, yes, yes - I think - and they're the ones that ...

H.M.Jr: Well ...

H: It's a floating franc; that's what they'll all call it.

H.M.Jr: Yes. This is no time to scold the French.

H: No, I agree with you completely on that philosophy. They have taken an awful licking and are in a hell of a hole, and I think they are trying to do a job, belatedly, but they are trying very hard.

H.M.Jr: Righto.

- 5 -

H: Incidentally, the Bank of England - they bought two and a quarter million pounds, eleven million dollars, today.

H.M.Jr: Now what's the significance of that?

H: Well, it meant that at those rates, you see -

H.M.Jr: Yes.

H: The franc was strong at 3.8281, in other words.

H.M.Jr: I see.

H: They sold francs and bought dollars and pounds at that rate.

H.M.Jr: Well, that's all right, isn't it?

H: Oh yes, that's all right. I'm glad to hear it.

H.M.Jr: All right, George.

H: All right.

H.M.Jr: Thank you for calling.

H: Thanks. Good night.

TELEGRAM

50

The White House  
Washington

*Handwritten:* July 1/37

FOR THE PRESIDENT OF THE UNITED STATES:

On my return from the wedding last night at 8:45 I found the following message awaiting me. INSERT 1. *(Butterworth 424)*

After three hours work with the assistance of the following people, Mr. Wayne C. Taylor, Mr. Herman Oliphant, Mr. Clarence Opper, Mr. Archie Lohead, Dr. Harry White, Dr. Jacob Viner, Dr. Winfield Reifler, and Dr. Herbert Feiss, and the especially able representation on the part of Mr. Butterworth of the American Embassy in London,

I telephoned at twelve o'clock Eastern Standard Time the following message to Butterworth for ~~Sir~~ Sir John Simon. INSERT 2.

At seven o'clock this morning Butterworth telephoned me the following message from Sir John Simon which I took over the telephone and is consequently not letter perfect. INSERT 3.

At 9:15 Eastern Standard Time I gave out the following message to the American Press. ~~XXXXXXXXXX~~ *-the following message* I have sent to Finance Minister Bonnet of France which is identical with a message being sent by the British Government. I was sorry that I was unable to reach you on account

of your being at the wedding. I sincerely hope that the action which I have taken meets with your entire approval.

HENRY MORCEN THAU, Jr.

Insert 4 sent by the British Government.

TELEGRAM

Dispatched from White House  
to President at Hyde Park  
July 1st, 1937, 11:25 a. m.

FOR THE PRESIDENT OF THE UNITED STATES:

On my return from the wedding last night at 8:45 I found the following message awaiting me:

"Secretary of State,  
Washington

London  
Undated  
Rec'd 5:30 p.m.,  
June 30, 1937.

Urgent and Rush

For Treasury from Butterworth

Inasmuch as telephone connection was so poor and British Treasury has now informed me that they feel that a decision by Mr. Morgenthau tonight, regardless of the fact that it will not reach here until the early hours of the morning, is highly desirable (repeat highly desirable) I am putting on the direct wire the Chancellor of the Exchequer's message to the Secretary of the Treasury together with the Chancellor's proposed reply to Bonnet. The former reads as follows: 'I have received written reply from Bonnet together with further oral message today. Gist of his statements is that French equalization account can and will obtain gold from Bank of France for purpose of supporting franc and that it is not their intention to allow franc to fluctuate without control. On the other hand they

- 2 -

anticipate a drop when markets reopen. In their view pre-existing arrangements for technical cooperation between exchange funds can be resumed with sole difference that franc will not be held within previous gold limits. They pressed strongly for reply today as to whether we regard this new departure as coming within tripartite monetary agreement. While these explanations make position clearer in certain directions there is of course no certainty as to level of which franc will be allowed to fall or as to success with which they will control fluctuations thereafter. My feeling is that it will be desirable to continue arrangements envisaged in tripartite monetary agreement for present but it will be impossible to decide on our final attitude until we have some experience of what happens. I am anxious to avoid a position in which we should announce that tripartite monetary agreement continued in full force and then on finding that the situation was developing on unsatisfactory lines should ourselves be compelled to appear later as bringing agreement to an end so far as France is concerned. I should explain that it seems to us that the whole question whether the franc can be sustained and therefore whether France can continue inside the tripartite monetary agreement is mainly governed by the reality or otherwise of the budgetary reforms which the new French Government are now foreshadowing. Unless we have some

- 3 -

clearly defined point at which they can hold the franc, we should be powerless to intervene in the whole matter. With this in mind I propose to send following reply to Bonnet if you see no objection." The draft reply to Monsieur Bonnet reads as follows:

"The Chancellor thanks Monsieur Bonnet for the messages communicated today by Monsieur Monick. In view of the insistent demands made in the British Parliament for an immediate statement, and bearing in mind the representations which Monsieur Bonnet made, the Chancellor this afternoon made following statement in the House of Commons, of which he understands Monsieur Bonnet already has a copy. The Chancellor is glad to have the further indications given of the measures which the French Government propose to take in connection with the exchange value of the franc. He has noted that the French equalization account both can and will obtain gold from the Bank of France for the purpose of supporting the franc henceforward. At the same time the Chancellor is not unnaturally anxious as to the immediate position which may arise following the reopening of the market when it is anticipated that a fall in the franc may take place. The Chancellor cannot conceal that a movement of this kind may cause considerable apprehension in this country and will render

- 4 -

His Majesty's Government's position difficult. The Chancellor has noted that it is Monsieur Bonnet's intention to continue the same type of practical arrangements for management of the franc as have recently been in force in cooperation with the British and United States authorities. In view of the general character of the decision reached by the French Government which, as indicated in his message yesterday, the Chancellor feels may have more serious repercussions than the French Government have assumed, the Chancellor cannot avoid apprehension both on the score of the level to which the franc may fall and on the difficulty of controlling it and he remains for his part uncertain how far and in what way the authorities in this country would be able to continue reciprocal arrangements on the lines which have been followed up to now. He can only suggest that the development of the matter must be carefully watched and further consultations take place as soon as it is seen how the exchange situation of the franc actually develops in the immediate future. So far as under the proposed arrangements the franc is kept relatively steady and not too far from recent level, he is willing that the practice under tripartite monetary agreement should continue but he would like to know before business opens on the 1st July to what precise level as compared with recent weeks Monsieur Bonnet will allow the franc to move."

BINGHAM"

- 5 -

After three hours work with the assistance of the following people, Mr. Wayne C. Taylor, Mr. Herman Cliphant, Mr. Clarence Opper, Mr. Archie Lockhead, Dr. Harry White, Dr. Jacob Viner, Dr. Winfield Reifler, and Dr. Herbert Feis, and the especially able representation on the part of Mr. Butterworth of the American Embassy in London, I telephoned at twelve o'clock Eastern Standard Time the following message to Butterworth for Sir John Simon:

"Thank you for the expression of your views transmitted to me on June 29 and 30. I regret that a brief absence precluded an immediate comment on your proposed reply to Monsieur Bonnet.

"Taking into consideration the limited time within which Monsieur Bonnet was able to operate and the extreme difficulties of the situation which faced him on his arrival, I feel that his failure to consult completely with our two Treasuries is understandable.

"I share your apprehension over the repercussions which might arise from an undervalued or unduly fluctuating franc, but I believe that we can best minimize these dangers by avoiding, in so far as possible, any move on our part which might add to any lack of confidence in the future of the franc.

"In the present juncture of world affairs it is of prime importance to preserve the beneficial effects which resulted from the Tri-partite Declaration and its ensuing arrangements.

- 6 -

It was thus demonstrated that great democratic nations could, with mutual confidence, create and carry out cooperative measures.

"In view of all these considerations, it is my conviction that every reasonable effort should be made to make it possible for France to continue as a participant in the Tri-partite Declaration.

"It is therefore my sincere hope and desire that you and I may present to Monsieur Bonnet similar messages somewhat along the following lines:

'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 Tri-partite Declaration.

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

At seven o'clock this morning Butterworth telephoned me the following message from Sir John Simon which I took over the telephone and is consequently not letter perfect:

"I am most grateful for your message. I fully agree with you as to the importance of preserving the beneficial effect of the tripartite declaration.

- 7 -

"I am sending to Mr. Bonnet a message in the terms you suggested and I am telling him that I understand that you are sending a similar message and that I suggest that if Mr. Bonnet desires, and if you agree, the two messages should be released simultaneously at 5 P.M. London time, for publication. I should also like to have your consent to say in the House of Commons at any time after 3 P.M., that I have sent this message and that you have sent a similar message. At the same time I am sending to Mr. Bonnet a confidential, personal, message along the lines of the draft communicated to you yesterday with the substance of which I assume you are in general agreement. The possibilities of maintaining with the French authorities the full measure of cooperation envisaged in the tripartite agreement and prestige of that declaration in the eyes of the world must, I feel, depend on the franc being kept relatively stable at a reasonable rate, and I feel that you would agree for me to tell Bonnet frankly of my convictions on this."

At 9:15 A. M., Eastern Standard time, I gave out the following message to the American Press:

"I have sent the following message to Finance Minister Bonnet of France which is identical with a

- 8 -

message being sent by the British Government:

'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.'

I was sorry that I was unable to reach you on account of your being at the wedding. I sincerely hope that the action which I have taken meets with your entire approval.

HENRY MORGENTHAU, JR.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 1, 1927.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATIONWITH BANK OF FRANCE.

Mr. Carignel called me at 11:48 a. m. He would have liked to have called me late last night but, unfortunately, he was tied up in conferences all during the night. They had had a fairly good day today, having bought about  $2\frac{1}{4}$  million pounds sterling and \$1,000,000. Naturally, however, people showed a tendency to remain critical. I mentioned that I understood we would get gold figures from him today. He replied that they were on the way and gave them to me.

I asked how our and the British notes had been received in Paris and he replied that, from the impression he got, people were immensely pleased with both Washington and London and found that both had been very helpful. This, he said, applied particularly to Mr. Morgenthau. I asked whether there had been any reaction from Holland, Switzerland and Belgium. He replied, "No," but added that they did not think any of them would move because the cost of living in France was so high - they were 20% higher than any other European country - that those three countries were perfectly safe. What the situation in this respect would be in six months or a year, he naturally could not say.

LNK:ENC

July 1, 1937  
11:25 a.m.

H.M.Jr.: Hello.

Treasury  
Operator: Mr. Kennedy.

H.M.Jr.: Hello.

K: Hello, Mr. Secretary, how are you?

H.M.Jr.: O. K., Admiral, how are you?

K: All right, so far.

H.M.Jr.: Listen, I've got a tough guy here by the name of Admiral Waesche sitting across my desk -

K: That's right - he's a good man for you too.

H.M.Jr.: Yeah, he's all right.

K: Yeah.

H.M.Jr.: And he walks in here and says "Want a - " no, already trained these fellows, see?

K: Yeah.

H.M.Jr.: Well, I says, "Fine, I'm -"

K: You say, "How much?" - Don't kid me!

H.M.Jr.: Exactly, yeah.

K: Yeah.

H.M.Jr.: He said, "Two million." And I said, "Well, if the Maritime Commission wants to get the money, we're glad to do the work but I'm not going to ask for any money."

K: Ha-Ha. Good.

- 2 -

- H.H.Jr.: Well, I didn't know about this yesterday.
- K: I said, I mean when they told me that the Coast Guard was going to put up the dough, why I just reversed the - held onto my side and wondered when the hell you were going to get it.
- H.H.Jr.: Well, he's over here and he's still grinning and got one black eye.
- E: Yeah, he has.
- H.H.Jr.: Yeah.
- K: In other words you think that I'm the only place that ought to be shelling out dough for you.
- H.H.Jr.: No, no, but we've got to get it - we've got to cut all our departments 10 per cent now because he ordered it -
- K: Laughs. It comes out of the poor old Maritime Commission.
- E.H.Jr.: Yeah.
- K: In other words you'd love to do the work but you wouldn't want to pay for the privilege.
- H.H.Jr.: Exactly.
- E: Well, I don't know as I blame you a hell of a lot but nevertheless -
- H.H.Jr.: Well, you and I always called a spade a spade.
- K: That's right.
- H.H.Jr.: Yeah.
- K: Well, I think - I said Carl was right yesterday. I couldn't see any reason

- 3 -

why you would unless you people needed more experience in training all our sailors. Well, O. K., Henry, I'll see what we can work out.

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

K: Thank you for the invitation. I'm sorry I couldn't go but I'm going up the Cape.

H.M.Jr.: Oh, lucky boy!

K: What are you going to take off? August?

H.M.Jr.: I hope - yes, yes, the month of August.

K: But you're going to Honolulu then.

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

K: Well, we'll get you good treatment on our ships.

H.M.Jr.: All right.

K: All right, Henry. Thank you a lot.

ooOoo

July 1, 1937  
12:18 A. M.

H.M.Jr.: Good morning, Mr. Cochran.

H. Merle  
Cochran: Good morning, sir.

H.M.Jr.: I hope I woke you up. Are you at your home?

C: Yes.

H.M.Jr.: Well, now, here's the situation. I got back here about nine o'clock. I went up to the wedding up there and we've had these various requests from the British. You see they want to send British dispatches and finally we agreed - we drafted a message which I will read to you and which Butterworth is now taking over to the British Treasury.

C: Yes, sir.

H.M.Jr.: I just got through reading it to him, see?

C: Yes, Butterworth is delivering it to the British.

H.M.Jr.: What?

C: Butterworth is delivering to the British.

H.M.Jr.: He's going to deliver it in a few minutes.

C: Yes.

H.M.Jr.: But there's one thing when I get through that I want to ask you. This is the message that he's taking to Sir John Simon, see?

C: Yes, sir.

H.M.Jr.: "Thank you for the expression of your views transmitted to me on June 29th and the 30th. I regret that a brief absence precluded an immediate comment on your proposed reply to Monsieur Bonnet.

- 2 -

"Taking into consideration the limited time within which Monsieur Bonnet was able to operate and the extreme difficulties of the situation which faced him on his arrival, I feel that his failure to consult completely with our two Treasuries is understandable.

"I share your apprehension over the repercussions which might arise from an undervalued or unduly fluctuating franc, but I believe that we can best minimize these dangers by avoiding, in so far as possible, any move on our part which might add to any lack of confidence in the future of the franc.

G: Yes, sir.

H.K.Jr.: "In the present juncture of world affairs, I trust you will agree with me that it is of prime importance to preserve the beneficial effects which resulted from the Tripartite Declaration and its ensuing arrangements. It was thus demonstrated that great democratic nations could, with mutual confidence, create and carry out cooperative measures.

"In view of all these considerations, it is my conviction that every reasonable effort should be made to make it possible for France to continue as a participant in the Tripartite Declaration.

G: Yes.

H.K.Jr.: "It is therefore my sincere hope and desire that you and I may present to Monsieur Bonnet similar messages somewhat along the following lines:

"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 con-

- 3 -

tinuation 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.'

- C: "hat was your last word?
- H.W.Jr: "Which she is now confronted."
- C: Yes, sir.
- H.W.Jr: Now that message is quite different in tone with the message that Sir John Simon proposed to send.
- C: Yes.
- H.W.Jr: And I told them that pending hearing from them, we would continue to say nothing but that if he concurred with me that last part that we wrote - we could make that last part public, you see.
- C: Yes, yes.
- H.W.Jr: Now the point that Butterworth says that they're - that the British are bringing all pressure possible on the French to give them a definite rate. Now they gave them - they said that they instructed - they said, I understand, a man from the Bank of England was over yesterday to see the man .....
- C: I didn't get that last.
- H.W.Jr: I would gather from what he said that Bolton, or somebody who corresponded to Bolton, was over to see Cariguel yesterday.
- C: Yes, there was a man here - I think it was Cobalt.

- 4 -

H.M.Jr: Well, somebody. And that they told him that they were going to have a rate of 120.

C: Yes.

H.M.Jr: And I then told Butterworth in confidence that you had heard from Rueff and Cariguel that they were going to open up tomorrow with a rate between 125 and 130. Hello?

C: ... it was directly from Cariguel.

H.M.Jr: What's that?

C: Mr. Cariguel gave me that directly yesterday....

H.M.Jr: Yes.

C: ...at half past ten last night.

H.M.Jr: But I told Butterworth that he could not give that to the British Treasury unless you telephone him now and told him that that would be all right for him to do it.

C: I see.

H.M.Jr: Would that embarrass you, if he told that to the British?

C: See, the British came over yesterday to find out what the situation was going to be.

H.M.Jr: Yes.

C: And Cariguel told me that he gave them a general idea as to the plan....

H.M.Jr: Yes.

C: ...but that we were the only ones to whom he had given the figures.

H.M.Jr: I see.

C: And that's the way he put it up to me last night.

- 5 -

H.M.Jr: Well, if you don't telephone to Butterworth, Butterworth will not give that to anybody.

C: I appreciate that very - thank you very much, because did not know that I had the statement.

H.M.Jr: Well then, just sit tight; don't do anything.

C: And I thought it was very essential for you to have the picture ....

H.M.Jr: Yes.

C: ....for your own consideration.

H.M.Jr: Yes.

C: That's why I phoned late last night.

H.M.Jr: Well, do you have Butterworth's home telephone?

C: No, I haven't.

H.M.Jr: Well, do you have an English telephone book?

C: No, I haven't.

H.M.Jr: Well, before I hang up - I will get it tomorrow and I will give it to you. I think you better telephone him.

C: Yes, sir.

H.M.Jr: I'll get it for you. I think we better - I'll give it to you.

C: Yes.

H.M.Jr: Now what I'm doing is - I'm not - Butterworth says he doubts that he'll have any answer for five or six hours, see?

C: I didn't get that.

- 6 -

- H.M.Jr.: He doesn't think he'll have any answer for me in less than five or six hours.
- C: I see.
- H.M.Jr.: So in the meantime we're all going to bed here and hope to get a night's sleep.
- C: That certainly will be fine.
- H.M.Jr.: And Butterworth seems to think that the British would do all they could to make the French give them a rate and of course -
- C: They will have a rate for the franc.
- H.M.Jr.: Well -
- C: By that time.
- H.M.Jr.: Well, what we - you can tell the spirit of my message - that I'm going to do everything I can to make it possible for France to stay in the tripartite agreement, see?
- C: Yes, yes, I see that.
- H.M.Jr.: And I'm going to do everything I can and I think that's a pretty strong message.
- C: Yes, I do.
- H.M.Jr.: And I hope that Sir John Simon will receive it favorably.
- C: Yes.
- H.M.Jr.: Now Butterworth's telephone number is Langham - L-a-n-g-h-a-m 2257.
- C: 2257.

- 7 -

- H.M.Jr.: I think as soon as I hang up you better call him because - to tell him not to use that, see?
- C: Yes.
- H.M.Jr.: Will you call him right away?
- C: Very well, I'll call him right away.
- H.M.Jr.: Now is there anything else you want to tell me?
- C: No, I told Taylor last night everything which I thought was important. I mean - I talked to Cariguel after he had had the meeting at the bank, you see.
- H.M.Jr.: Yeah.
- C: And I told him, "It would be a little easier for me if you people got out a statement from which we'd have some idea as to how things were going to open up here."
- H.M.Jr.: Yeah.
- C: And he said, "Well, I'll tell you in strict confidence. I haven't told anyone else."
- H.M.Jr.: Yeah.
- C: How it was going to open.
- H.M.Jr.: Uh-huh.
- C: 125 let it go towards 130 and then try to bring it back to 125.
- H.M.Jr.: Well, you better call up Butterworth and tell him not to use that.
- C: All right.

- 8 -

- H.M.Jr: Now, as I say, in the meantime we'll sit tight.
- C: All right.
- H.A.Sr: Of course the French situation has not affected our market in the slightest, you know.
- C: It has not.
- H.M.Jr: Now that the steel strike is getting better our stock market and our bond market has improved in the last two days.
- C: Yes.
- H.M.Jr: So we haven't felt any impact of the French situation.
- C: Oh, no, no, the French - they - they're in such a bad fix that a depreciation to this extent I don't think is going to be felt by anyone.
- H.M.Jr: Un-huh.
- C: And Rueff continually makes the point which I am sure you have had in mind too.
- H.M.Jr: What's that?
- C: That if they can give the impression that they are doing something, it will help them in getting through the heavy places right now.
- H.M.Jr: I didn't get that.
- C: I say I'm sure you had the same idea which Rueff has that it will strengthen the alliance here in this country -
- H.A.Jr: Yes.
- C: - if they can let the world see that they have not lost their standing with the other countries' democracy.

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H.M.Jr: Well, in view of that statement, tell Rueff to send a message over to their embassy here that the people in the French embassy here in Washington should keep their mouths shut. Both Henry and Appert talk too God damn much.

C: They do.

H.M.Jr: Both of them.

C: I see that from the papers but both of them have been there for years.

H.M.Jr: Well, both of - they should send word to Henry and Appert - you can do it diplomatically - that they should keep their mouths shut, because -

C: Yes, yes.

H.M.Jr: Because the New York Times ran a story quoting Henry that he had notified the Treasury - Hello?

C: Yes.

H.M.Jr: That he had notified the Treasury that the French were going to leave the tripartite agreement.

C: Is that so?

H.M.Jr: Yeah.

C: Well that makes it -

H.M.Jr: He subsequently disclaimed it but -

C: well, I'll get in touch with Rueff and tell him to get word to -

H.M.Jr: Now wait a minute. Wait a minute.  
(Feis: He absolutely disclaimed that, Mr. Secretary. Henry has one of the best service records in the world. You're possibly making the..... )

H.M.Jr: Wait a minute, Dr. Feis is shaking his head. Wait a minute.  
(Feis: Over at the Department, Henry is regarded as one of the most capable and regarded - you're giving the most serious black mark in that man's record. I don't care anything about Appert)

H.M.Jr: Dr. Feis says we should not say anything about Henry so forget it.

- 10 -

C: All right.

H.M.Jr.: Forget it.

C: All right.

H.M.Jr.: I'll tell it to Henry myself tomorrow.

C: Yes.

H.M.Jr.: Otherwise - forget it. It doesn't mean anything to me.

C: I won't do anything until I hear from you further then?

H.M.Jr.: No. Just forget about it and I'm going to see Henry myself tomorrow.

C: And not to use the figures.

H.M.Jr.: Oh, on the figures?

C: I say the only thing I'm going to do now is to telephone Butterworth not to reveal the figures to the British.

H.M.Jr.: Yeah, that's right.

C: And that's the only thing I'm to do until I hear from you.

H.M.Jr.: And then go back to bed..

C: All right, sir.

H.M.Jr.: Good night.

C: Good night.

oo0oo

It is, <sup>therefore</sup> ~~our~~ my (1.)  
73  
sincere hope  
and desire that  
you and I  
~~our two governments~~

may present  
similar messages  
somewhat  
along the following

— ~~present to~~  
Monsieur Benet

Thank you for the expression of your views transmitted to me on June 29 and 30. I regret that a brief absence precluded an immediate comment on your proposed reply to Monsieur Bonnet.

Taking into consideration the limited time within which Monsieur Bonnet was able to operate and the extreme difficulties of the situation which faced him on his arrival, I feel that his failure to consult completely with our two Treasuries is understandable.

I share your apprehension over the repercussions which might arise from an undervalued or unduly fluctuating franc, but I believe that <sup>we can best minimize</sup> ~~the danger of such unfortunate consequences can best be minimized~~ by avoiding, in so far as possible, any move on our part which might add to any lack of confidence <sup>in the future of the franc.</sup> ~~in its future.~~

In the present juncture of world affairs, I trust that you will agree with me that it is of prime importance to preserve, ~~even at some cost and risk in other connections,~~ the beneficial effects ~~on confidence~~ in the future of democracy which resulted from the Tri-partite Declaration and its ensuing arrangements. <sup>It was this</sup> These demonstrated that ~~the~~ great democratic <sup>nations with</sup> ~~power~~ could, <sup>create</sup> ~~in~~ ~~fact~~ mutual trust and confidence, devise and operate ~~measures for the cooperative management of economic matters~~ of international consequences.

In view of all these considerations, it is my conviction that every <sup>reasonable</sup> effort should be made to permit France to continue as a participant in the Tri-partite Declaration, <sup>make it possible for</sup> with the thought, of course, that this position may be reconsidered at any time in the future should subsequent developments make it appear desirable to do so.

→ ~~If we are agreed along these lines, I could propose sending the following message to Monsieur Bonnet as adequate to meet the situation~~

"Now that the French Ministry of Finance has been given the powers which it sought, and is thereby enabled to take ~~such action as it feels will best~~ <sup>to</sup> meet the <sup>present</sup> situation, I look forward to a continuation of close cooperation between our Treasuries under the Tri-partite Declaration.

"May I express to you ~~personally~~ <sup>my</sup> ~~cordial good wishes,~~ and the sincere hope that France will soon emerge from the temporary difficulties with which she is now confronted."

Thank you for the expression of your views transmitted to me on June 29 and 30. I regret that a brief absence precluded an immediate comment on your proposed reply to Monsieur Bonnet.

Taking into consideration the limited time within which Monsieur Bonnet was able to operate and the extreme difficulties of the situation which faced him on his arrival, I feel that his failure to consult completely with our two Treasuries is understandable.

I share your apprehension over the repercussions which might arise from an undervalued or unduly fluctuating franc, but I believe that we can best minimize this danger by avoiding, in so far as possible, any move on our part which might add to any lack of confidence in the future of the franc.

In the present juncture of world affairs, I trust you will agree with me that it is of prime importance to preserve the beneficial effects which resulted from the Tri-partite Declaration and its ensuing arrangements. These steps demonstrated that great democratic nations could, with mutual confidence, create and carry out cooperative measures.

In view of all these considerations, it is my conviction that every reasonable effort should be made to permit France to continue as a participant in the Tri-partite Declaration.

It is therefore my sincere hope and desire that you and I may present to Monsieur Bonnet similar messages somewhat along the following lines:

(QUOTE) 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 Tri-partite Declaration.

May I express to you ~~personally my cordial~~ good wishes, and the sincere hope that France will soon emerge from the temporary difficulties with which she is now confronted. UNQUOTE

FINAL FORM OF MESSAGE TO SIR JOHN SIMON, JUNE 30

Thank you for the expression of your views transmitted to me on June 29 and 30. I regret that a brief absence precluded an immediate comment on your proposed reply to Monsieur Bonnet.

Taking into consideration the limited time within which Monsieur Bonnet was able to operate and the extreme difficulties of the situation which faced him on his arrival, I feel that his failure to consult completely with our two Treasuries is understandable.

I share your apprehension over the repercussions which might arise from an undervalued or unduly fluctuating franc, but I believe that we can best minimize these dangers by avoiding, in so far as possible, any move on our part which might add to any lack of confidence in the future of the franc.

In the present juncture of world affairs, I trust you will agree with me that it is of prime importance to preserve the beneficial effects which resulted from the tripartite declaration and its ensuing arrangements. It was thus demonstrated that great democratic nations could, with mutual confidence, create and carry out cooperative measures.

In view of all these considerations, it is my conviction that every reasonable effort should be made to make it possible for France to continue as a participant in the tripartite declaration.

It is therefore my sincere hope and desire that you and I may present to Monsieur Bonnet similar messages somewhat along the following lines:

QUOTE: 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. UNQUOTE

July 1, 1957.

12:32 p. m.

Jesse  
Jones: - will do for the next six or seven months.

H.H.Jr.: Yes, Jesse.

J: I thought we might put out some more of those cotton notes -

H.H.Jr.: Uh-huh.

J: About fifty or sixty million dollars -

H.H.Jr.: Uh-huh.

J: At a low rate. It wouldn't hurt you any, would it?

H.H.Jr.: Well, I'm not clicking very good this morning. Would - you couldn't let it go until next week?

J: Well, I'd appreciate it because any decision I made right now wouldn't be worth a nickel.

J: Well, then I'll tell you - when we get back - if you'll put it down on your ticket there - and I'll come over along about Tuesday or Wednesday and we'll - I'll talk about two or three matters with you.

H.H.Jr.: Well, I'd like to do that.

J: All right, fine.

H.H.Jr.: If you'll give me a little breathing spell, if it doesn't -

J: NO, no, I would say no hurry about this.

- 2 -

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

J: But I was just waiting until after July the 1st, don't you see?

H.M.Jr.: Right-o.

J: Then I think we can fix it so that -

H.M.Jr.: I don't think - I think you'll gain by waiting anyway - with the 1st of July settlement date over, I think things ought to be a little easier.

J: I think so. Well, I've just been waiting until after July 1st -

H.M.Jr.: Right.

J: Till I talk to you about it.

H.M.Jr.: Are you feeling all right?

J: I feel fine, Henry. Too many of these parties and dinners -

H.M.Jr.: All right.

J: But I've had a little talk with the chinaman -

H.M.Jr.: Yeah .

J: And I'll talk to you about that when you get back too.

H.M.Jr.: Thank you, Jesse.

J: Bye.

ooOoo

81  
~~85~~

July 1, 1937  
2:15 P. M.

(Message telephoned for Secretary Morgenthau by Mr. Jules Henry, Counselor  
of the French Embassy.)

"I wish to express my heartfelt thanks to Mr. Morgenthau for the wishes he was kind enough to convey to me. The French Government attaches the greatest value to the close collaboration which unites the two Treasuries. The energetic efforts we are now making to achieve our financial rehabilitation will allow us to pursue fruitfully the policy of the Tri-partite declaration and to put an end to the difficulties with which we have been confronted.

(Signed) Georges Bonnet"

July 1, 1937  
2:15 P. M.

(Message telephoned for Secretary Morgenthau by Mr. Jules Henry, Counselor  
of the French Embassy.)

"I wish to express my heartfelt thanks to Mr. Morgenthau for the wishes he was kind enough to convey to me. The French Government attaches the greatest value to the close collaboration which unites the two Treasuries. The energetic efforts we are now making to achieve our financial rehabilitation will allow us to pursue fruitfully the policy of the Tri-partite declaration and to put an end to the difficulties with which we have been confronted.

(Signed) Georges Bonnet

AMBASSADE DE FRANCE

AUX ETATS-UNIS

Washington, July 1, 1937.

My dear Mr. Secretary,

Referring to the telephone conversation I had with your office early this afternoon, I take pleasure in enclosing herewith M. George Bonnet's answer to the message you asked me to transmit to him this morning./.

With high regards, believe me,

Very sincerely yours,

*Julie Henry*

Honorable Henry Morgenthau  
Secretary of the Treasury  
Treasury Department  
Washington  
D.C.

I wish to express my heartfelt thanks to Secretary Morgenthau for the wishes he was kind enough to convey to me.

The French Government attaches the greatest value to the close collaboration which unites the two Treasuries.

The energetic effort which we are now making to achieve our financial rehabilitation will allow us to pursue fruitfully the policy of the Tripartite Declaration and to put an end to the difficulties with which we have been confronted./.

JR

GRAY

London

Dated July 1, 1937

Rec'd 1:37 p.m.

Secretary of State,  
Washington.

427, July 1, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

During the course of the day the movement of funds back to France has steadily increased and I gathered in strict confidence from a private bank which is acting on behalf of the French authorities that they have been selling very substantial amounts of francs at about 128.

I had a word with the British Treasury who in general terms reiterated the view which I reported yesterday, namely, that they think that 125 should be the maximum limit of depreciation.

BINGHAM

KLF

July 1, 1937  
3:43 p.m.

A.W.Jr: Hello.

Cordell  
Hull: Hello, Henry.

H.M.Jr: Hello, Cordell.

H: Oh, I'm sorry I missed you but I had three  
or four Senators in here this morning -

H.M.Jr: Well, that's enough to keep anybody  
down.

H: And if there had been a prima donna  
among them, I would have been tied up  
sure enough.

H.M.Jr: I just called up to find out whether  
everything was all right - if you thought  
everything was all right in regard to  
what we've done in the last -

H: Well, the way Brooks told laymen that it  
was entirely that way. I think you worked  
it out first rate.

H.M.Jr: What do you mean a layman?

H: What?

H.M.Jr: What do you mean a layman?

H: Well, I'm not mentioning any - it's not  
necessary for me to say that.

H.M.Jr: Well ....

H: Really.

H.M.Jr: Well, well, what I want to say is this.  
I take it that Feis gave you the story.

H: Yeah.

- 2 -

H.M.Jr: And we pushed Sir John Simon pretty hard and he gave in.

H: You did a good piece of work on him.

H.M.Jr: And I want to say that Butterworth particularly - I will write you an official letter but I want to tell you - he particularly conducted himself well in London.

H: Well, that's good. I felt all the time he'd come through whenever there was a real test.

H.M.Jr: He did, and I'm going to write him an official letter complimenting him -

H: Yeah.

H.M.Jr: And in my telegram to the President today, I particularly mentioned Butterworth.

H: Yes, I see.

H.M.Jr: But Feis was very helpful too.

H: Yes.

H.M.Jr: And -

H: Well, that's good.

H.M.Jr: And I hope now we're going to have a breathing spell.

H: Well, we'll keep on the lookout and hope for the best.

H.M.Jr: The thing worked pretty well today.

H: Are they?

H.M.Jr: I mean, it went - the foreign exchange worked all right today.

- 3 -

H: Oh, I see.

H.M.Jr: And our own Government bond behaved very well.

H: Yes.

H.M.Jr: And believe me, financing - we need a breathing spell.

H: Yes, there's no question about it.

H.M.Jr: Well, I -

H: Well, I want to keep in touch with you.

H.M.Jr: Yeah. How did you get away from the wedding?

H: Good God, I never did know for a second how I got in there or got out.

H.M.Jr: You know how I got away?

H: We were three hours in coming two miles.

H.M.Jr: You know how I got away?

H: No, I never did know.

H.M.Jr: Well, I heard Mrs. Roosevelt say she was going to go down to broadcast -

H: Oh!

H.M.Jr: At half past seven.

H: Oh! That's the way you got out!

H.M.Jr: And I squeezed in between a driver and a state trooper in a three-year old Chevrolet and she was in the back seat and I was squeezed in between these two people.

- 4 -

- H: Well, you would have come out if you had to come on one of those motorcycles.
- H.M.Jr: Ha-ha! Well, I don't know how I'd have got out but if it - I just rode along and she had to make that broadcast and I just rode too.
- H: Well, you were mighty lucky because we didn't get back until way late.
- H.M.Jr: Well, I just - well, we've tried every way to keep your Department posted and your people have been most helpful and I appreciate it.
- H: Well, thank you, Henry.
- H.M.Jr: Right.

Thursday  
July 1, 1937  
3:46 p.m.

HMJr: Hello.  
Treas.  
Operator: Senator Nye.

HMJr: All right.

T.O.: Go ahead.

HMJr: Hello.  
G. P.  
Nye: Hello.

HMJr: Henry Morgenthau, Junior -

N: Oh, hello there. Morgenthau -

HMJr: Yeah.

N: I merely wanted to call about this man Earle Bates. You remember you put him on in the mailing room down there?

HMJr: Sure - thirty days.

N: For thirty days, yeah. It's been a long thirty days.

HMJr: Yeah.

N: Is there any improvement, any improved status looking up for him there?

HMJr: Gosh, I don't know, but you can find out.

N: Well -

HMJr: You mean to say we've still got him working here?

N: Yes, sir.

HMJr: Gosh, I must have slipped.

N: Yeah, you did slip, -

HMJr: In this -

N: - on that.

-2-

HMJr: In this economy drive.

N: (Laughs) - Well, you've been awfully nice on that.

HMJr: Bates?

N: Bates - B-a-t-e-s -

HMJr: He's got red hair, hasn't he?

N: What's that?

HMJr: Red hair?

N: Red hair - I'll say it's red.

HMJr: (Laughs)

N: You bet.

HMJr: Well, I'll ask about him, Senator.

N: I wish you would.

HMJr: O.K.

N: A little interest in that might help along a whole lot.

HMJr: All right.

N: Thank you a whole lot, Mr. Secretary.

HMJr: All right. Be good.

REPORT OF SECRETARY MORGENTHAU'S  
PRESS CONFERENCE, JULY 1, 1937:

H.M.Jr.: The reason that these gentlemen are sitting here--they happen to be the people--with the exception of Mr. Taylor who'll be here in a minute or two--who helped me since Monday night on working with the British and French, and Chick Schwarz can give you a list of them, but those are the people who have worked with me. Since Monday night we've been in consultation with the French and with the British with the proposed change in the financial arrangements that the French have made, and this morning the French and the British and ourselves came to an agreement, and we are giving out simultaneous statements at this time. I am very much pleased that the three countries have been able to come to an understanding which permits the continuance of the tripartite agreement.

Q. Mr. Secretary, in the future will there be any change in present cooperation as embodied in the original?

- 2 -

A. Have you read the statement?

Q. Yes.

A. Well, I think that this statement covers all aspects. I have told you everything that there is to be told, and, as Ethel Barrymore used to say, "there isn't any more."

Q. Mr. Secretary, will you make any amendments in your announcements of October 13 and November?

A. This is the only statement we have to make.

Q. The last time there was a preliminary statement and then subsequent ones, but this is the end?

A. This is the statement, and it's being given out, I believe, by Mr. Bonnet and by Sir John Simon in the Parliament at this minute.

Q. Mr. Secretary, it says, "May I express to you the sincere hope that France. . ." You mean express to the press?

A. That is a message to Mr. Bonnet.

Q. Oh, this goes to Mr. Bonnet?

A. I'm sorry, we've worked under such pressures here. This is a message to Mr. Bonnet and the English are sending an identical message to Mr. Bonnet.

- 3 -

- Q. How about the other three countries that were interested in the agreement? How about Belgium, Switzerland and those countries?
- A. Of course, the tripartite agreement--the original agreement--is between, as I say, ourselves, England and France and on a matter like this we work with those two countries and of course will advise now the other three countries, but in a juncture like this we work with England and France.
- Q. You will continue to sell gold to France?
- A. There are no changes in any of the technical arrangements. All of the technical arrangements stand as they have, and they have stood. There will be no change in any of the technical arrangements established under the tripartite agreement. Now I'll answer any questions, if there's any doubt in your mind, because I've worked under terrific pressure and got back here last night at a quarter of nine and we only got this cleaned up at one o'clock this morning.
- Q. The thought is, isn't it, Mr. Secretary, that after this French situation is ironed out that the status between the currencies will be approximately what

- 4 -

it was during the months preceding this crisis. In other words, you will not have the sharp fluctuations which we've avoided under this agreement?

A. Here the French have had this discussion which has been going on now for three or four days, and due to the fact that the tripartite agreement was in force we have had no disturbance in the American market, no disturbance of any kind. As a matter of fact, this week, if you look at our Government bond market, it's been steady and it's been rising, and if we didn't have the tripartite agreement and if it hadn't been in force, we'd have had great disturbance. But each day, all I can say is, the same technical arrangements have been working and our fiscal agents--the Federal Reserve Bank of New York has carried them out under our instructions.

Q. Did France sell you any gold during those days?

A. We've been doing a small amount of business for their account--a small amount of business.

Q. Just what does that mean, Mr. Secretary?

- 5 -

- A. Well, I mean we, as people, have wanted to buy or sell francs--we have supplied them with the necessary francs for the account of the Bank of France. In other words, the United States Treasury has not dealt in any francs and we don't own any francs. But I again want to say that the old order--if any such program had been under consideration--we'd have had great disturbance in our market, but we have been able to avoid it and there's been really no disturbance; business has been going on and our own markets and our own business men have not been affected.
- Q. When did they inform you they were going to suspend gold payments?
- A. I believe that we had our first communication-- I think it was Monday. I mean they have lived up to their agreement; they have notified us in plenty of time.
- Q. When did you say? Monday?
- A. Monday? We got our first notice from them Monday? Monday.

ooOoo

## MESSAGE TO BONNET:

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 Tri-partite Declaration.

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

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 1, 1937, 8 p.m.

NO.: 896

FROM COCHRAN. RUSH.

At two o'clock Butterworth telegraphed me the text of the identic statement to be made this afternoon at 3:15 London time by Secretary Morgenthau and Sir John Simon.

I saw the French Minister of Finance, Bonnet, alone in his office at five minutes past three and read to him in English the message from Secretary Morgenthau as transmitted to me from Butterworth. Then I translated the message into French. The Minister took down the text in French so he could communicate it to Chautemps the Premier. I was asked by Bonnet to tell Secretary Morgenthau that he was touched by his message and that he appreciated very much the assistance and good wishes which had been extended to him; he said he would send Secretary Morgenthau a personal acknowledgment of appreciation.

Bonnet shook his head rather sadly when I read the part of the message regarding France emerging from her temporary difficulties. I was reminded by Bonnet that he had said last September at the time of the realignment of the franc that the Treasury and the franc could not bear the social program then envisaged. He greatly regretted

- 2 -

gretted the fact that he had to leave Washington, and said that he had asked Chautemps to hold the post for his return if he does not receive support for his program as Minister. Bonnet said that he intends to try to make all sides bear their share of the burdens; he realizes that he has a most difficult task ahead of him, but he will do the best he can.

After I saw Bonnet I communicated to Rueff the English text of the message mentioned above.

This afternoon at four o'clock in my conversation with Secretary Morgenthau by telephone, in which I reported the delivery of his message, I read to him the following telegram which I had received today from President Bachmann of the Swiss National Bank: "could you give me information about consequences of French monetary measures of tripartite agreement. Does it remain unchanged?"

Secretary Morgenthau instructed me orally to telephone the Central Banks of Belgium, Switzerland and the Netherlands. I read the message of the Secretary to Governor Franck at 4:40 p.m., and explained the situation to him. I telephoned to Bachmann at Zurich at 4:55 and gave him the same information. I was assured by Bachmann that the status of the Swiss franc would not be changed and  
that

- 3 -

that the decline of the French franc would not be followed. I talked with Director Beaufort of the Bank of the Netherlands at 5 o'clock, since President Trip had just left for his home in the Hague; Beaufort said he would communicate my message to his Bank President.

There was early intervention by the French control to sell francs until the rate of 129 for the franc-sterling rate was reached. It is the belief of one market observer that some three million pounds were acquired by the control. \$1,825,000 were bought for the control by his bank alone. It is said that Lazard unloaded at a profit the dollars they acquired during the last two days. There is still an active and rather nervous market, but it is still orderly, with rentes up.

The June 26 statement of the Bank of France showed a gold loss of two and one-half billion francs (which the control got) and it showed that the advances to the State had increased by one billion four hundred million francs. Coverage is 52.80 versus 54.92.

END MESSAGE.

BULLITT.

EA:LWW

THE WHITE HOUSE  
WASHINGTON

July 1, 1937

My dear Mr. Administrator:

As under the provisions of the Emergency Relief Appropriation Act of 1937 no additional funds will be made available for relief or work relief during the fiscal year 1938, it will be necessary to make the appropriation contained therein last during that entire fiscal year.

I am reserving therefrom, \$1,300,000,000 to provide for all obligations to be incurred for the administration and work relief projects of your Administration, including the National Youth Administration, as well as the land utilization projects of the Resettlement Administration. In addition to the foregoing amount, I am prepared to approve direct allocations, not to exceed \$35,000,000 during the first half of the fiscal year, to Federal agencies to provide employment on work relief projects for such numbers of certified workers as you recommend.

You are directed to so administer the funds made available to your Administration that obligations incurred shall not exceed the following amounts for the periods indicated:

First quarter	\$ 350,000,000
Second quarter	300,000,000
Third quarter	300,000,000
Fourth quarter	250,000,000

This will leave a reserve of \$100,000,000 to be allocated by me to your Administration to meet any unforeseen emergency which may arise during the fiscal year.

In order that you may be able to make sufficient funds available to the state administrators to enable them to plan their work more efficiently, I have allocated the following amounts for the first quarter of the fiscal year:

- 2 -

For obligations incurred under limitation a	\$ 3,000,000
" " " " " b	12,000,000
" " " " " c	17,000,000
" " " " " d	7,000,000
" " " " on projects approved under the Emergency Relief Appropriation Act of 1935 and the Emergency Relief Approp- riation Act of 1936	260,000,000
For obligations incurred for Administration	
General	10,000,000
Supervisory	<u>5,400,000</u>

\* Total allocated ..... \$319,400,000

This leaves \$30,600,000 for allocation including funds for land utilization projects of the Resettlement Administration within the \$350,000,000 for the first quarter.

Should it be found that the foregoing distribution does not provide enough funds in some accounts and provides surplus funds in other accounts an adjustment may be made about the middle of August when I allocate funds for obligation in October.

Sincerely yours,

(signed) FRANKLIN D. ROOSEVELT

The Honorable,

The Administrator,

Works Progress Administration.

SECRETARY MORGENTHAU ANNOUNCED TODAY THAT THE TRI-PARTITE MONETARY AGREEMENT BETWEEN THE UNITED STATES, GREAT BRITAIN AND FRANCE DESIGNED TO MAINTAIN INTERNATIONAL CURRENCY STABILITY, IS STILL IN FORCE DESPITE THE CRITICAL FRENCH FISCAL SITUATION.

7/1--R926A

ADD MORGENTHAU

THE SECRETARY MADE THE ANNOUNCEMENT AT AN EARLY MORNING PRESS CONFERENCE AFTER ALL NIGHT CONSULTATION WITH FRENCH AND BRITISH FISCAL AUTHORITIES.

"SINCE MONDAY NIGHT WE HAVE BEEN IN CONSULTATION WITH FRANCE AND GREAT BRITAIN IN CONNECTION WITH THE PROPOSED CHANGE IN THE FINANCIAL ARRANGEMENTS THAT THE FRENCH HAVE MADE, MORGENTHAU SAID.

"THIS MORNING THE FRENCH AND BRITISH AND OURSELVES CAME TO AN AGREEMENT AND WE ARE GIVING OUR SIMULTANEOUS STATEMENTS AT THIS TIME.

"I AM VERY MUCH PLEASED THAT THE THREE COUNTRIES WERE ABLE TO COME TO AN UNDERSTANDING WHICH PERMITS CONTINUANCE OF THE TRI-PARTITE AGREEMENT."

MORGENTHAU AT THE SAME TIME MADE PUBLIC A MESSAGE HE SENT TO FINANCE MINISTER GEORGES BONNET OF FRANCE, WHICH HE SAID WAS IDENTICAL WITH THAT BEING SENT BY THE BRITISH GOVERNMENT.

7/1--R928A

ADD MORGENTHAU

IT SAID:

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"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 TREASURYS 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."

THE AGREEMENT TO CONTINUE THE TRI-PARTITE AGREEMENT WAS REACHED DESPITE THE FACT THAT THE ACTION OF THE FRENCH GOVERNMENT IN DEVALUING THE FRANC HAD BEEN CONSIDERED AN ABROGATION OF ONE OF THE MAJOR PROVISIONS OF THE ACCORD--THAT FRANCE WOULD MAINTAIN THE MINIMUM LEVEL OF THE FRANC AT 4.35 CENTS.

WITH MORGENTHAU WHEN HE MADE THE ANNOUNCEMENT SAT ALMOST A DOZEN MEN WHOM THE SECRETARY DESCRIBED AS HAVING WORKED WITH HIM AND THE FRENCH AND BRITISH IN SOLVING THE PROBLEM CAUSED BY THE FRENCH FISCAL CRISIS.

7/1--R932A

ADD MORGENTHAU

"I BELIEVE MY STATEMENT COVERS ALL ASPECTS," MORGENTHAU SAID, ADDING WITH A LAUGH:

"AS ETHEL BARRYMORE USED TO SAY 'THERE ISN'T ANY MORE.'"

MORGENTHAU WAS ASKED WHETHER BELGIUM, SWITZERLAND AND THE NETHERLANDS WHO AGREED TO BE "ASSOCIATED" WITH THE TRIPARTITE AGREEMENT SHORTLY AFTER IT WAS REACHED LAST SEPT. 25 HAD AGREED TO THE COURSE ADOPTED.

"INASMUCH AS OUR ORIGINAL AGREEMENT WAS WITH GREAT BRITAIN AND FRANCE," THE SECRETARY SAID, "WE NATURALLY FIRST WORKED WITH THEM. NOW, HOWEVER, WE WILL ADVISE THE OTHER THREE COUNTRIES."

MORGENTHAU MADE IT CLEAR THAT THERE HAD BEEN NO REVISIONS IN THE OPERATIONS OF THE AGREEMENT, UNDER WHICH THE THREE NATIONS AGREED TO USE THEIR STABILIZATION FUNDS TO PREVENT UNBUX FLUCTUATIONS IN THEIR CURRENCIES AND TO MAINTAIN THEM IN LINE WITH EACH OTHER.

7/1--R937A

Regraded Uclassified

10 18 A M

JUL 1 1951

MORGENTHAU ANNOUNCES CONTINUANCE OF TRI-  
PARTITE AGREEMENT

WASHN- SECY MORGENTHAU TODAY MADE PUBLIC  
A MESSAGE TO THE FRENCH FINANCE MINISTER  
WHICH THE SECRETARY SAID ANNOUNCES CONTINUANCE  
OF THE TRI-PARTITE MONETARY AGREEMENT- THE  
MESSAGE TO GEORGES BONNET WHICH IS IDENTICAL  
WITH A MESSAGE BEING SENT TO HIM BY GREAT  
BRITAIN SAYS -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 COOPER-  
ATION BETWEEN OUR TREASURIES UNDER THE TRI-  
PARTITE DECLARATION

-MAY I EXPRESS TO YOU THE SINCERE HOPE  
THAT FRANCE WILL SOON EMERGE FROM THE TEMPORARY  
DIFFICULTIES WITH WHICH SHE IS NOW CONFRONTED-

SECY MORGENTHAU SAID THAT HE HAD BEEN FIRST  
INFORMED OF THE FRENCH INTENTION TO SUSPEND  
GOLD PAYMENTS ON MONDAY AND THAT HE HAD BEEN  
WORKING SINCE MONDAY NIGHT IN CONSULTATION  
WITH THE FRENCH AND BRITISH - ON THE PROPOSED  
CHANGES IN FINANCIAL ARRANGEMENTS WHICH THE  
FRENCH HAVE MADE-

-THIS MORNING- SECY MORGENTHAU SAID -THE FRENCH AND BRITISH AND OURSELVES CAME TO AN AGREEMENT AND WE ARE GIVING OUT SIMULTANEOUS STATEMENTS- I AM VERY MUCH PLEASED THAT THE THREE COUNTRIES HAVE BEEN ABLE TO COME TO AN AGREEMENT WHICH PERMITS CONTINUANCE OF THE TRI-PARTITE AGREEMENT

-THERE ARE NO CHANGES IN THE TECHNICAL ARRANGEMENTS ESTABLISHED UNDER THE TRI-PARTITE

AGREEMENT- THE SECRETARY CONTINUED

SECY MORGENTHAU DISCLOSED THAT SINCE MONDAY THE TREASURY HAS BEEN DOING A SMALL AMOUNT OF BUSINESS FOR THE ACCOUNT OF THE BANK OF FRANCE SUPPLYING FRANCS TO THOSE AMERICANS WHO NEED THEM- THIS BUSINESS HE EXPLAINED WAS DONE FOR FRENCH ACCOUNT BECAUSE- THE UNITED STATES TREASURY DOES NOT DEAL IN FRANCS AND DOES NOT OWN ANY-

EMPHASIZING THAT THE AGREEMENT HAD REMAINED IN EFFECT DURING THE FRENCH HOLIDAY SECY MORGENTHAU DECLARED THAT HAD ANY SUCH REALIGNMENT BEEN ATTEMPTED UNDER THE -OLD ORDER- WORLD MARKETS WOULD HAVE BEEN TREATLY DISTURBED

-DUE TO THE FACT THAT THE AGREEMENT HAS BEEN IN FORCE THERE HAS BEEN NO DISTURBANCE IN OUR MARKETS- THE SECRETARY REMARKED- - -IF YOU WILL LOOK AT YOUR GOVERNMENT BOND MARKETS YOU WILL SEE THAT THERE HAS BEEN NO DISTURBANCE AND THAT GOVERNMENT BONDS HAVE BEEN GOING UP-  
-0-

ADD MORGENTHAU

940 JUL 1 1937

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WASHN - SECY MORGENTHAU EXPLAINED THAT DURING THE PRESENT CRISIS HE HAD BEEN CONSULTING ONLY WITH FRANCE AND GREAT BRITIAN THE ORIGINAL PARTNERS IN THE WORLD MONETARY PACT - HE SAID THAT NOW THE THREE ASSOCIATED POWERS BELGIUM HOLLAND AND SWITZERLAND WILL BE INFORMED F THE RENFWED STATUS OF THE AGREEMENT

ADD MORGENTHAU

1139 JUL 1 1937

WASHN - SECY MORGENTHAU-S STATEMENT THAT THE U S TREASURY HAD BEEN SUPPLING AMERICANS WITH FRANCS DURING THE FRENCH GOLD HOLIDAY WAS MADE IN RESPONSE TO AN INQUIRY ON WHETHER THE U S HAD SOLD GOLD TO FRANCE DURING THE PERIOD WHEN FRANCE WAS REFUSING THE SELL GOLD

HE REPLIED IN THE AFFIRMATIVE AND ADDED THAT THE TREASURY HAD SOLD FRANCS FOR THE ACCOUNT OF THE BANK OF FRANCE - THE EXCHANGE TRANSACTION WHICH WAS CARRIED OUT IS BELIEVED TO BE BASICALLY AS FOLLOWS-

THE NEW YORK FEDERAL RESERVE BANK ACTING ESSENTIALLY AS AN AGENT OF THE BANK OF FRANCE SOLD FRANCS TO THOSE AMERICANS NEEDING THEM AND RECEIVED DOLLARS IN RETURN - THE BANK OF FRANCE AT THE CLOSE OF THE DAY CONVERTED THESE DOLLAR BALANCES IN GOLD AT THAT DAY-S DOLLAR-FRANC RATIO SINCE UNDER THE EXCHANGE ARRANGEMENTS CURRENCY ACCOUNTS ARE CLOSED OUT BY THE THREE COUNTRIES AT THE END OF EACH DAY - THE PRICE AT WHICH THE TRANSACTIONS WERE CARRIED ON DURING THE HOLIDAY IS NOT KNOWN BUT IS BELIEVED TO BE SLIGHTLY IN EXCESS OF 4.46 CENTS PER FRANG

PARIS.--THE FRENCH FRANC SLID OFF BELOW THE 4 CENT LEVEL TODAY AS FRENCH MARKETS REOPENED AFTER THE FINANCIAL CRISIS WHICH GAVE THE GOVERNMENT AUTOCRATIC POWERS TO SAFEGUARD THE CURRENCY.

THE GOVERNMENT'S INTENTION HAD BEEN TO PERMIT THE FRANC TO EAST TO ITS OWN LEVEL. THE FRANC MOVED STEADILY DOWNWARD IN RELATION TO BOTH STERLING AND THE DOLLAR. WHEN OFFICIAL TRADING STARTED ON OPENING OF THE BOURSE AT NOON THE FRANC WAS QUOTED 25.45 TO THE DOLLAR (3.929 CENTS PER FRANC) AND 126 TO STERLING.

PRICES OF SECURITIES ON THE BOURSE GENERALLY WERE HIGHER WITH RENTES UP 2 TO 3 POINTS AND FRENCH INDUSTRIAL ISSUES PARTICULARLY IN DEMAND.

MEANWHILE THE GOVERNMENT TURNED TO A NEW PROBLEM--THE THREAT OF HOTEL, CAFE AND RESTAURANT OWNERS TO HOLD A ONE-DAY STRIKE SATURDAY.

THE CABINET MET AND DELEGATED PREMIER CHAUTEMPS TO TRY TO ARBITRATE BETWEEN THE OWNERS AND THEIR WORKERS.

OWNERS CALLED THEIR STRIKE IN PROTEST AGAINST THE 40-HOUR WORKING WEEK DECREED UNDER THE NEW SOCIAL LAWS.

TODAY'S OFFICIAL JOURNAL PUBLISHED DECREES ORDERING THE MARKETS REOPENED AND ENDING THE MORATORIUM ON PAYMENTS IN GOLD AND FOREIGN CURRENCIES.

7/1--RE47A

E ADD FRANC, PARIS

THE FRANC WAS QUOTED UNOFFICIALLY ABOVE 4 CENTS THIS MORNING BUT WHEN THE BOURSE OPENED AT NOON IT DECLINED RAPIDLY, CLOSING 26.06 FRANCS TO THE DOLLAR (3.837 CENTS PER FRANC) AND 125.93 FRANCS TO THE POUND.

PRICES ROSE ON THE BOURSE AND MAINTAINED THEIR GAINS DESPITE LATE PROFIT TAKING.

7/1--N1003A

FRENCH MARKETS REOPEN

7.14s

109  
JUL 1 1937

PARIS - MARKETS REOPENED TODAY - THE CABINET MET AND DELEGATED PREMIER CAMILLE CHAUTEMPS TO TRY TO ARBITRATE BETWEEN HOTEL CAFE AND RESTAURANT OWNERS AND THEIR WORKERS TO AVOID A THREATENED ONE DAY NATIONAL STRIKE SATURDAY IN PROTEST AGAINST THE 40 HOUR WORKING WEEK DECREED UNDER THE NEW SOCIAL LAWS - THE WORKERS ANNOUNCED THAT IF THE STRIKE THREATENED BY THE OWNERS WERE HELD THEY WOULD OCCUPY THE HOTELS RESTAURANTS AND CAFES

TODAY-S OFFICIAL JOURNAL PUBLISHED DECREES ENDING THE MORATORIUM ON PAYMENTS IN GOLD AND FOREIGN CURRENCIES

PUBLISHED ALSO WAS THE TEXT OF AN AGREEMENT BETWEEN THE GOVERNMENT AND THE BANK OF FRANCE ACCORDING THE GOVERNMENT NEW PROVISIONAL ADVANCES TO BE DRAWN ON OF A MAXIMUM OF 15 000 000 000 FRANCS

AN UNOFFICIAL BANK RATE FOR THE DEVALUED FRANC WAS ESTABLISHED - 24 80 FRANCS TO THE DOLLAR AND 122 5 TO THE POUND STERLING AS COMPARED TO 22 40 AND 110 55 MONDAY-

-0-

FRENCH SITUATION

7.23s

JUL 1 1937

PARIS - AT ITS MEETING THE CABINET DREW UP ITS PRE-VACATION PROGRAM FOR PARLIAMENT - IT DECIDED TO SEEK REVISION OF LAWS COVERING FARM DEBTS PASSAGE OF AN ACT GIVING THE GOVERNMENT FULL POWERS TO ALTER TARIFFS AND PROLONGATION OF EXISTING COLLECTIVE LABOR CONTRACTS UNTIL THE END OF THE YEAR

LONDON.--BOTH BRITAIN AND THE U.S. HAVE SENT MESSAGES TO THE FRENCH GOVERNMENT "LOOKING FORWARD TO " A PERIOD OF FULL CO-OPERATION IN FINANCE, NOW THAT THE FRENCH GOVERNMENT HAS RECEIVED FULL POWERS TO ACT, SIR JOHN SIMON, CHANCELLOR OF THE EXCHEQUER, ANNOUNCED TODAY IN COMMONS.

7/1--R1015A

ADD FINANCE, LONDON (TIMED 1015A)

SIR JOHN, REITERATING THAT FRANCE HAD ASSURED HIM OF HER ANXIETY TO CONTINUE CLOSE CO-OPERATION WITH THE BRITISH AND U.S. GOVERNMENTS SAID:

"I TODAY SENT THE FOLLOWING REPLY TO THE FRENCH MINISTER OF FINANCE

"NOW THAT YOU, AS FRENCH MINISTER OF FINANCE, HAVE BEEN GIVEN THE FULL POWERS WHICH YOU SOUGHT TO DEAL WITH THE PRESENT SITUATION, I LOOK FORWARD TO CONTINUATION OF THE CLOSE CO-OPERATION BETWEEN OUR TREASURIES UNDER THE TRI-PARTITE DECLARATION.

"I DESIRE TO EXPRESS MY SINCERE HOPE THAT FRANCE WILL SOON EMERGE FROM THE TEMPORARY DIFFICULTIES WITH WHICH SHE IS NOW CONFRONTED."

7/1--R1046A F

-BT U P-

July 1 1947

1016

## SIMON ON TRI-PARTITE AGREEMENT

LONDON- BOTH BRITAIN AND THE UNITED STATES HAVE SENT MESSAGES TO THE FRENCH GOVERNMENT -LOOKING FORWARD TO- A PERIOD OF FULL COOPERATION IN FINANCE NOW THAT THE FRENCH GOVERNMENT HAS RECEIVED FULL POWERS TO ACT SIR JOHN SIMON CHANCELLOR OF THE EXCHEQUER ANNOUNCED IN THE HOUSE OF COMMONS

-0-

SIR JOHN SIMON

L 1331

11-08

LONDON- SIR JOHN REITERATING THAT FRANCE HAD ASSURED HIM OF HER ANXIETY TO CONTINUE CLOSE CO-OPERATION WITH THE BRITISH AND UNITED STATES GOVERNMENTS SAID-

-I TODAY SENT THE FOLLOWING REPLY TO THE FRENCH MINISTER OF FINANCE-

-NOW THAT YOU AS FRENCH MINISTER OF FINANCE HAVE BEEN GIVEN THE FULL POWERS WHICH YOU SOUGHT TO DEAL WITH THE PRESENT SITUATION I LOOK FORWARD TO CONTINUATION OF THE CLOSE CO-OPERATION BETWEEN OUR TREASURIES UNDER THE TRI-PARTITE DECLARATION

-I DESIRE TO EXPRESS MY SINCERE HOPE THAT FRANCE WILL SOON EMERGE FROM THE TEMPORARY DIFFICULTIES WITH WHICH SHE IS NOW CONFRONTED-

-0-



DEPARTMENT OF STATE  
WASHINGTON

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*Handwritten signature*  
July 2, 1937.

My dear Mr. Secretary:

I enclose for your information one copy of  
paraphrase of telegram No. 897 of July 1, 1937,  
from the American Ambassador, Paris, reporting  
a conversation which he had with the French Min-  
ister of Finance.

Sincerely yours,

*Herbert Feis*

Herbert Feis,  
Adviser on International  
Economic Affairs.

Enclosure;  
No. 897 of July 1  
from Paris.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

RECEIVED  
11/5  
2 1937  
TREASURY DEPARTMENT  
U. S. DEPARTMENT OF THE TREASURY

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 1, 1937, 8 p.m.

NO.: 897

STRICTLY CONFIDENTIAL FOR THE SECRETARY.

This afternoon I talked with Bonnet. Secretary Morgenthau's message, which Cochran had earlier delivered to him, delighted him. He said he felt that the United States had a genuine sympathy for France's difficulties which Great Britain unfortunately lacked. Bonnet said that the fact that the French Government intended to let the franc float for a period disturbed the British. The British he said did not want France to adopt the same system they had found so satisfactory for themselves - and had been urging him to fix a new gold parity for the franc. For the present, he added, he had no intention of doing this.

An unquestionably extremely serious problem faced him, Bonnet said. The Government's expenditures for national defense, public works, national debt interest, and so on, were too great a burden for France to bear, and in addition it was not possible for a country like France to apply the 40 hour week to all activities without fatally reducing the country's productivity. Today he had told the Premier that he thought it absolutely essential

tial

- 2 -

tial that the application of the 40 hour week be seriously modified.

I questioned the Finance Minister as to whether, in case of alteration of the 40 hour legislation, labor circles might not react violently. His answer was that at the moment the Communists were not to be feared; recent events in the Soviet Union had greatly reduced their prestige. He expressed the hope that Blum could and would hold the Socialists in line to their program.

The Finance Minister went on to say that his general plan for the reestablishment of the Government's finances had now been drawn up. This afternoon he had issued orders for the immediate cancellation of a billion francs of public works which during the remainder of this year were to be carried out. Preparations had also been made to cancel a billion and a half francs of public works which were scheduled for next year. At a time when France was putting out about ten billion francs a year on national defense he thought no other expenditure on public works was justifiable.

A decree had also been drawn up by Bonnet which he believed would increase the Government's yearly revenues by at least eight billion francs. Increases in railroad, telephone, telegraph and tobacco rates, and so on are provided for in the decree, as well as an income tax increase.

I asked

- 3 -

I asked Bonnet whether he had thought about collecting the income tax at the present rates rather than increasing the rates and continuing to permit frauds on a large scale. Bonnet admitted that should he collect the income tax rigorously he would be the first French Finance Minister who had ever done so. I gathered that the increase in the income tax rates would be designed to gild the surplus for the working classes rather than to collect much more revenue.

The hope was expressed by Bonnet that he would be able to raise the French rentes quotations to such an extent that in the comparatively near future it would be possible to carry through a conversion operation which would greatly reduce the public debt interest.

Delbos had promised Bonnet that he would not appoint a new Ambassador to Washington until after August 17, 1937, when his term as Ambassador normally expires. Bonnet said that "I have no idea what may happen before that time and I wish to hold open the possibility of returning to Washington where both my wife and myself have been exceedingly happy".

END MESSAGE.

BULLITT.

EA:LWW

OFFICE CORRESPONDENCE

DATE July 2, 1927.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHL. W. KnodeBANK OF ENGLAND.

Mr. Bolton called me at 11:23. Personally, he said, he was disappointed and depressed over developments in France. Generally speaking, people over there were inclined to suspend judgment realizing that everything depended upon the nature of the various decrees to be issued by Bonnet. At the moment, the market seemed to have settled down in the neighborhood of 130 francs to the pound; there was a relatively small amount of bear covering which, compared with the losses France suffered last month (£75,000,000), was negligible, possibly between 5 and 10%, but probably nearer 5%. From what he heard and saw it seemed to him that the French program so far had primarily consisted of borrowing more money from the Bank of France, which would hardly encourage the Frenchman, currency-minded as he now is, to bring his capital back to France. He (Bolton) had thought for a long time that the only way the French could get their fiscal house in order was to do as they had done in England, namely, apply very heavy taxation. He did not question that the new administration was perfectly willing to do this. What was doubtful, however, was whether they would be able to put their wishes into practice. It seemed easy enough to increase taxation but to collect it was a difficult problem for France. To him, Bonnet did not seem another Poincare. The British had cooperated very closely with the French these days and were doing their best to get things in working order.

Yesterday had been an extraordinarily difficult day but the market now seemed in hand. The difficulty had been to try and hit on a rate at which the market as a whole would tend to buy francs. This

OFFICE CORRESPONDENCE

DATE July 2, 1927.

CONFIDENTIAL FILES \_\_\_\_\_

SUBJECT: TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.

L. W. Knacke \_\_\_\_\_

- 2 -

seemed essential because the present administration must have some encouragement from the exchange market and could not carry on with a perpetually weakening franc. At the present level it looked as though the fellow with the short position was inclined to take a profit, but the market as a whole, London, Paris and Amsterdam, it seemed to him, was very suspicious of the whole government program. The present situation seemed to be a close parallel to that of 1924 to 1925 when many efforts were made by governments of the left (Marriot, etc.); none of them, however, really amounted to much and it was not until the franc reached the two cent level that the final turn came.

I replied that I refused to be quite as pessimistic as Bolton seemed to be; that I could readily understand the continued somewhat critical attitude on the part of the Frenchmen themselves pending further developments; that this, in my opinion, did not by any means, however, mean that after observing for a while what seemed to me a very honest effort on the part of Bonnet to find the solution, the men in the street would be impressed with what the government was trying to do. It seemed to me a little too early either to be highly satisfied or disappointed. This, it seemed to me, was also the feeling of most of those in Wall Street with whom I had discussed latest developments.

*Bolton stated*

People in general in Europe were still disturbed about the Spanish situation with the Fascist governments playing their hand as high as they could. The London bullion market was reduced to a very

FEDERAL RESERVE BANK  
OF NEW YORK

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OFFICE CORRESPONDENCE

CONFIDENTIAL FILES

DATE July 2, 1937.

SUBJECT: TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.

BY L. W. Kneke

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small figure and unless the hoarding demand for gold revived, he expected the London discount from New York parity to narrow down to about a halfpenny or, for that matter, possibly even to disappear entirely.

✓  
LWK:KNC

JR

GRAY

London

Dated July 2, 1937

Rec'd 1:20 p.m.

Secretary of State,  
Washington.

430. July 2, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The Bank of England was today operating on behalf of the French authorities and giving francs direct to the brokers. Dealings were much smaller than yesterday, the total funds repatriated probably amounted to about one-half as much as yesterday.

BINGHAM

CSE

## PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris, France

DATE: July 2, 1937, 4 p.m.

NO.: 309

FROM THE SECRETARY OF THE TREASURY.

FOR COCHRAN.

As part of the complete record I am trying to maintain will you please prepare and mail a detailed and systematic report of the activities which you have carried on for the Treasury during the past ten days.

HULL.

SAME TELEGRAM SENT TO LONDON, FOR BUTTERWORTH FROM  
THE SECRETARY OF THE TREASURY, No. 270 of July 2, 4 p.m.

EA:LWW

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 2, 1937, 6 p.m.

NO.: 906

FROM COCHRAN.

Feature of French press is the message to Minister of Finance Bonnet from Secretary Morgenthau and Bonnet's reply regarding continuation of cooperation between the three parties to the Tripartite Agreement. The maintenance of the Agreement is warmly welcomed by the press as a matter of high importance. It is felt that this reaffirming of the Agreement definitely excludes France from resorting to exchange control or requisitioning holdings of French citizens in other countries.

I have had conversations with three heads of Paris-American banks. These three said they were happy to see the United States Treasury continue to lend its moral support to the French Ministry of Finance. There was unanimous agreement that greater stability is likely to result from this action than would have followed any tendency to separate France from the Agreement. It is the opinion of these three bankers that so far Bonnet has acted wisely in his new position, particularly in making known the really serious financial situation with which France is confronted. The thing which worries them most is whether the French political situation will permit

permit

- 2 -

permit Bonnet to follow a policy which offers a chance of succeeding in his undertaking.

This morning there is a decree in JOURNAL OFFICIAL the intention of which is to prevent and suppress all illegitimate price increases. The decree prohibits the increase of wholesale and retail prices of merchandise and foodstuffs as well as all tariffs applied in industrial or commercial enterprises above those which were received as of June 28. Imported products are envisaged as an exception, as well as foodstuffs which are perishable. Parliament, it is believed, will not be adjourned this week. It is anticipated that before the summer recess the Socialists will press for certain legislation.

The French control on the exchange market today continued yesterday's policy of purchasing sterling, and dollars to a lesser extent. Throughout the day rates were comparatively steady with the franc permitted to recover only slightly and very gradually against sterling. It is the opinion of market observer that <sup>today</sup> the control may have acquired another two million pounds. One million dollars for the control was purchased by his bank. Sterling and some dollars were sold by Switzerland and Belgium. There was a decline in French rentes, with almost a 2-franc decline in some of them. The Bourse ~~is~~ did not have a good atmosphere. There has been no quick dispelling

- 3 -

dispelling of doubts of market operators as to the ability of the present government to overcome the crisis. Today there is added apprehension regarding the international outlook as a result of difficulties on the Spanish Non-intervention Committee. There is in addition much concern as to whether the negotiations going on in Paris today will avoid the closing of French hotels which is threatened for tomorrow.

END MESSAGE.

BULLITT.

EA: LWW

SMS

GRAY

Rome

Dated July 3, 1937

Rec'd 4:08 p.m.

Secretary of State,  
Washington.

314, July 3, 7 p.m.

My despatch No. 459, June 30.

Gayda this evening asserts that the lira is in no way affected by the vicissitudes of the franc and would be touched only in the unlikely event that the dollar and pound were revalued. Blaming the French financial situation on the follies of the Popular Front Government, Gayda remarks that contrary to predictions even in French circles the tripartite monetary agreement has been renewed and attributes this to the fact that "political considerations and the joint interest of the three great democracies which are committed to proving their vitality during an international period" which is proving the contrary have taken precedence over financial and monetary considerations. The misdeeds of the Fronte Populaire are covered over like those of the Spanish

sms 2 - No. 314, July 3, from Rome.

Spanish Frente Popular. This is no concern of ours. It is, however, obvious that once more a grave perturbation has occurred in the whole problem of the world monetary and economic readjustment hoped for by President Roosevelt and for which Van Zeeland was called to America." He finds significant in this connection the sudden silence of the American press regarding the Van Zeeland mission.

PHILLIPS

sms

not  
final 126

Memorandum on difficulties in the Soviet  
gold industry, forwarded by Ambassador Davies,  
dated July 3, 1937.

Summary of the memorandum.

Mr. August Chopp, an American engineer who worked in the Soviet gold mining industry for several years, reported his impressions of that industry when he renewed his passport at the Moscow embassy. In the last two and a half years he worked in a district which has some of the richest mines in the country.

Mr. Chopp was certain that Russian gold production in 1937 had fallen off as compared with the first six months of 1936 and felt that it would continue to fall. The reason he ascribed to the decline was the arrest of technically competent men on charges of sabotage and their replacement by new and inexperienced engineers (Mr. Chopp believed the men were innocent). Mr. Chopp stressed the fact that the productivity of labor in Soviet mines is very low in spite of the purchase of a fair amount of United States machinery.

Sept. 9, 1937

Yacht SEA CLOUD,  
En route to High,  
August 12, 1937.

In Re: Soviet Gold - Baltic Policies -  
European Peace.

Dear Henry:

Since my last letter to you with reference to the gold situation, concerning which you asked me to send you such information as I could gather from time to time, I have sent reports to the State Department with the request that copies be sent to you. Doubtless you have received them.

When in London in June, Bigelow and I had lunch with the Russian Ambassador, Malin, who is a very able, shrewd man, and we deliberately set out to emphasize under the appearance of casualness, the great interest which the Soviet Union had in the protection of the price of gold and I think that we got over to him quite clearly (without direct approach) the wisdom of the Soviet Government cooperating with the United States, particularly with the Treasury of the United States. I am sure that he reported it to his Government.

When in London I also had quite an extended conference with Litvinov and discussed with him at length the gold situation of the world and he seemed impressed with the desirability of establishing closer contacts with you and stated that he had authorized the appointment of an additional secretary to be attached to the Washington Soviet Embassy for contact purposes with the Treasury. I asked him the direct question as to what the actual production of gold was and what their present gold reserves were. He hedged on the reply. He did say, however, that he could state confidentially to me that the current estimates were rather exaggerated. Of course, under this regime over here, Litvinov has to be very careful to stick within the confines of his own field and he is naturally hesitant about encroaching upon the military powers of the Government, who are jealously guarding the facts with reference to the gold supply of the country as a military and strategic secret and who, I have no doubt, are constantly exaggerating its size for propaganda purposes and its possible effect on their enemies.

Characteristic

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

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Characteristic of the breadth of the President's outlook and on his suggestion I have been visiting the countries of Eastern Europe and the Baltic with a view of getting for him and the Department a perspective upon the forces and personalities that are affecting the equation in European affairs. I have just returned from Finland and Sweden. They are enjoying a tremendous amount of prosperity amounting almost to a boom. The level of commodity prices has been rising rapidly and has practically reached the 1929 index figure. They have been having a hard time trying to hold down the cost of living. Their currencies are, of course, both tied to the pound and inflation in England directly affects them. I talked with the leaders of government, including the Minister for Finance in each of these countries, and find that they are somewhat concerned over the situation. Both countries have stopped buying gold for some time past. The only gold that Sweden buys is from her own mines. Their banks are full of money as a result of profits from export trade, which have been deposited and converted into Swedish obligations. Sweden particularly is taking precautionary measures by legislation looking to the protection of the price level. Sweden has given permissive authority to a Government agency to purchase 70,000,000 kronen worth of commodities. Both countries are exceedingly anxious, however, in protecting themselves not to disturb the stability of international exchange. Everywhere I find expressions of the highest commendation for the acts of the President and yourself in maintaining the parity between the dollar and the pound prior to the embarkation on the policy of buying gold. There are indications, however, that confidence in the stability of the price of gold has been severely shaken, as indicated by the above-mentioned Swedish legislation.

The prevailing impression seems to be that there will be some further inflation in England, but that it will not go too far. I was impressed by the hard-headed quality and broad outlook of these men. Of course they are right up against the buzz-saw here. Both countries are small; splendidly organized; efficient; and at all times in jeopardy, both economically and from a military point of view.

It occurred to me that these impressions might be of some interest to you.

Generally speaking, the view is that a European war is not immediately imminent. Practically all of them have the idea that neither the German military, naval, or civil authorities want war. They think that Germany is not ready for it. Equally positive is the expression that the situation is exceedingly precarious and that some untoward incident

might

Regraded Uclassified

- 3 -

might precipitate a conflagration. Apart from this danger they state that a real menace to stability of peace lies in the fact that there is a dictatorship in Germany and Italy which has absolute authority in power and is not subject to the check of a Cabinet or any other coordinate branch of government. Strangely enough, they seem to feel less safer in Italy than they do in Germany and voice the apprehension of no one knows but what Mussolini might conclude that the most propitious time for him to project a war is now. France is generally regarded as having the best military equipment and army in Europe, but the opinion is very confident that France will do almost anything to avoid a war. There is a general recognition, however, that financially, politically, and socially France is in an exceedingly precarious state, although there seems to be a very strong feeling that fundamentally the French people are sound. The view is frequently expressed that financially France will be up against it in September or October.

You doubtless have much more accurate information upon all of these factors. However, it occurred to me that you might be interested in what I find these people over here are thinking of.

Please give my warm regards to your very wonderful parents, whom I always think of in terms of affection. My best to the boss when you see him and with kindest remembrances to Mrs. Morgenthau and yourself,

Sincerely yours,



Joseph E. Davies

September 2, 1937

My dear Mr. Ambassador:

In the absence of the Secretary, who is en route to Washington from a vacation in Hawaii, may I acknowledge receipt of your letter to him dated August 12.

Your communication will be brought to his personal attention as soon as he reaches the office.

Sincerely,

H. S. Klotz,  
Private Secretary

Hon. Joseph E. Davies,  
United States Ambassador,  
United States Embassy,  
Moscow, U.S.S.R.

NMC;mas

*Sent via Diplomatic Pouch*

Moscow, July 3, 1937.

Subject: Transmitting Memorandum Regarding  
Difficulties in the Soviet Gold  
Industry.

The Honorable  
The Secretary of State,  
Washington.

Sir:

I have the honor to forward as an enclosure to this  
1/ despatch, a memorandum outlining the statements made by  
Mr. August Chopp, an American citizen who has worked in  
the Soviet gold mining industry for a number of years.  
Reference is made, in this connection, to the Embassy's  
telegrams No. 127, June 22, 11 p.m. and No. 153, July  
7, 11 a.m., and to the Embassy's despatch No. 401 of  
June 23, 1937, outlining the statements made by an

American

American mining engineer on the same subject.

It will be noted that the statements made by Mr. Chopp in the attached memorandum are similar to those made by Mr. Wilson in the above-mentioned despatch, and tend to confirm the fact that it is possible that the gold production will not increase in 1937 and may possibly be below the level attained in 1936.

It is interesting to note the statements made by Mr. Chopp regarding the actual cost of production of gold in the Berikuli mine of the Krasnoyarsk district, where he was recently employed. If the figures given by Mr. Chopp are accurate, it appears that at that particular mine the cost of production is quite high.

Respectfully yours,

Joseph E. Davies

Enclosure

1. Memorandum, as noted.

863.4

ED:ows

Original and four copies to the Department.

Enclosure No. 1 to despatch  
No. 418 of July 3, 1937,  
from the American Embassy,  
Moscow, U.S.S.R.

June 30, 1937.

STRICTLY CONFIDENTIAL.

MEMORANDUM OF STATEMENTS MADE BY MR. AUGUST  
CHOPP, AN AMERICAN CITIZEN WHO HAS BEEN  
WORKING FOR THE SOVIET GOLD TRUST FOR A  
NUMBER OF YEARS, TO MR. DURROW, THIRD  
SECRETARY OF THE EMBASSY.

Mr. August Chopp, an American citizen who has been working for over seven years for the Soviet Gold Industry, called at the Embassy on June 30, for the purpose of renewing his American passport.

The following is a summary of the statements made by Mr. Chopp at that time:

Mr. Chopp stated that at the termination of his last contract about a month ago, he was advised by the authorities that they could no longer use his services. Furthermore, he added that he did not make any efforts to obtain the renewal of his contract since he did not desire to continue working for a Soviet enterprise which was in difficulties, which in turn might cause him to be arrested as being responsible therefor. He is therefore returning to the United States.

During his stay in the Soviet Union Mr. Chopp has worked in gold mining enterprises in Kazakhstan, as well as in central Siberia in the district around Krasnoyarsk. Although he is not a graduate engineer, Mr. Chopp is an expert at tunneling and has been working during his entire stay in this country in that capacity.

Fur

For the past two-and-a half years Mr. Chopp has been working in various mining camps in the district south of Krasnoyarsk and has most recently been working in mines at Koptova and Berikuli, near the Tama Tavian border. According to Mr. Chopp, the mines in this district are some of the richest in the country and have, until this year, been steadily increasing their production.

Due to the recent wave of arrests and dismissals in industry which materially affected this district as well, Mr. Chopp stated that the 1937 production had definitely fallen below the production of 1936. In confirmation of this fact he stated that at Berikuli, where he was last employed, the chief engineer of the mine and his four assistants, all members of the Communist Party, were arrested about two months ago on charges of being "Trotskyist wreckers." According to Mr. Chopp, the engineers in question had run into difficulties in the operation of the mine, but that in his close contact with them he is convinced that they had not deliberately tried to sabotage the work or wreck the mine.

In this connection, Mr. Chopp stated that the real reason for the failure of the mine to meet the planned production was that the gold content of the vein had fallen off considerably. According to the planned production for 1937, the authorities expected the mine to give 6.2 grams of gold per ton, but at the beginning of 1937 the average was only 3.5. Because of the falling off of the gold content the production costs naturally

- 3 -

rose considerably. Mr. Chopp stated that the 1937 plan called for a production cost of 17.60 rubles per <sup>gram</sup> ~~ton~~ when the actual cost during the first six months averaged 51 rubles per <sup>gram</sup> ~~ton~~. Because of the increased production cost, the engineers were accused of "wrecking activities" and, as stated above, were arrested some time ago.

Mr. Chopp added that, to his certain knowledge, directors and engineers in other mining enterprises in the Krasnoyarsk district had also been arrested and charged with "wrecking" for the same reasons as indicated above.

For instance, in Kopleva, where Mr. Chopp had worked until about a year ago, the technical director and his subordinates, were arrested because of the falling off in the production of the mine. Mr. Chopp explained that in the Kopleva mine they are working two veins, one averaging 37 grams per ton and the other only containing 6 grams per ton. He stated that he had advised the technical director of the plant over a year ago that he would have to sink additional shafts and drive new tunnels in the rich vein if he expected to continue to maintain the production pace of 1935. He suggested further that both the rich and the poor veins should be worked simultaneously, thus giving a lower average yield which would be more in keeping with the actual production capacity of the mine, rather than producing as much as possible from the rich vein from the old shafts and tunnels, since in the end they would have to stop production from this vein pending the construction of new shafts and tunnels, which

would

X for correction  
/see/24

would cause a sudden drop in production. Despite Mr. Chopp's advice in this matter, the director continued to press the operations in the rich vein to the neglect of the poorer vein which eventually led to the situation described above. For the past six months it has been necessary to sink the new shafts and drive new tunnels, thus practically stopping the production of the rich vein and radically reducing the output during this period. Because of this situation, the director was accused of "wrecking activities" and arrested about two months ago. Mr. Chopp added that the new tunnel will be completed in approximately two months, at which time he believes that the mine should almost attain its previous production capacity, if the wave of arrests has not demoralized the new directors and workers too seriously.

In regard to the mines at Beribuli and Kopiova, Mr. Chopp stated that although they should, under ordinary circumstances, continue producing a considerable quantity of gold, he felt that by arresting the engineers and technical men, the authorities had jeopardized any chances to increase the capacity of the mines and in all probability under new inexperienced engineers, the production would continue to fall off. In this connection, Mr. Chopp added that although the engineers at these mines, when they first arrived on the job, were not fully qualified to handle the situation, they had, during the two or three years they were on the job, learned much practical mining and knew the peculiarities of the respective mines. He feared, therefore, that the new  
 engineers

engineers to be sent to replace them would, perhaps, not be well versed in practical mining and would, of course, not know of the peculiarities of the respective enterprises. For this reason and due to the fact that they would naturally be fearful of taking any definite decisions which might cause them to be arrested, as had been the case of their predecessors, Mr. Chopp felt that the production in these mines would naturally fall off.

In connection with the gold production of 1937, Mr. Chopp stated that, in view of his own experiences outlined above, and conversations he had with other persons in the Krasnoyarsk district and in Moscow, he was certain that the gold production in 1937 had fallen off as compared to that of the first six months of 1936.

In connection with mining activities in general, Mr. Chopp stated that the Soviet gold industry is working all mines yielding at least 4 grams per ton and in certain cases were actually operating mines giving a smaller yield. Because of the low yield in many of the mines, production costs are generally quite high.

Mr. Chopp stated that the so-called "gold stores" in the mining districts are still open, where individual miners may exchange their placer gold and nuggets for foodstuffs and industrial commodities. In this connection he stated that the official rate of exchange at these shops is 9.60 paper rubles to one gold ruble. He added, however, that individuals possessing gold for exchange at the shop ask 15 rubles for each gold ruble's

worth

- 6 -

worth of goods purchased by them for delivery to third persons. This operation is, of course, illegal, but, Mr. Choop stated, is generally practiced in the gold camps.

Regarding the productivity of labor, Mr. Choop said that, based on his experience in connection with mining operations in other countries, the productivity of labor in Soviet gold mines is very low, despite the fact that they have purchased a considerable amount of American mining machinery.

August 2, 1937.

Dear Mr. Secretary:

Thank you for your letter of July 30th with which you transmitted a copy of confidential despatch 418 making further reference to conditions on the Soviet gold industry.

Sincerely yours,

(Signed) Wayne C. Taylor

The Honorable,  
Cordell Hall,  
Secretary of State.



DEPARTMENT OF STATE  
WASHINGTON

July 30, 1937

In reply refer to  
Eu 861.6341/85

My dear Mr. Taylor:

With reference to my letter of July 17 to Mr. Morgenthau, with which was transmitted a copy of a despatch in regard to conditions in the Soviet gold industry, I am enclosing for your information a copy of a further confidential despatch on that subject which has been received from our Embassy in Moscow.

Sincerely yours,

Enclosure:

From Moscow No. 418  
July 3, 1937

The Honorable

Wayne Taylor,

Acting Secretary of the Treasury.



EMBASSY OF THE UNITED STATES OF AMERICA  
MOSCOW

July 8, 1937

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Acknowledged  
7-30-37

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

My dear Mr. Secretary:

In the official government press, Pravda, of July 5th, published here in Moscow, there is an article on the Gold industry, which indicates that the gold production for the past six months has slowed down considerably. It arises in connection with an attack upon the Chief Administrator of the Gold Production Section of the Commissariat for Heavy Industry, which, in effect, states "that this organization is honeycombed with incompetent Trotskiists who have built nests for themselves" and "who have been guilty of making verified, false annual reports on Copper and Mining."

Since my return to Moscow I again have been making efforts to procure more or less accurate information as to the extent of the gold reserve here at present, but it is very difficult to obtain.

You will recall, that I wrote you from London to the effect that Litvinov had admitted to me that the general reports of the size of the gold reserve were exaggerated.

With assurances of my respect and esteem,

I am,

Very truly yours,

Joseph E. Davies



EMBASSY OF THE  
UNITED STATES OF AMERICA  
Moscow, 10 July '37

acknowledged  
7-30

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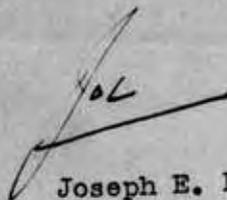
Personal and Confidential

The Honorable Henry Morgenthau  
Secretary of the Treasury  
Washington

My dear Henry:

For your information I am sending  
you a copy of a letter I have just sent to Sec-  
retary Hull which explains itself.

Very truly yours,



Joseph E. Davies

Enclosure.

Moscow, 10 July '37

The Honorable  
The Secretary of State  
Washington

My dear Mr. Secretary:

Prior to my departure last autumn and again in the spring, I had several conferences with the Secretary of the Treasury, Mr. Morgenthau. He asked me to keep him informed on the gold situation.

Pursuant thereto I had an investigation of the matter made here and also had the matter taken up with Minister Lane at Riga. Dispatches have gone forward to the Department which I have no doubt have been transmitted to the Secretary of the Treasury. It occurred to me that you might want to check this up to see if the information has gone to him.

In the report prepared on gold by the Mission at Riga a map was attached. It occurred to me the Treasury might like such a map. I am handing you herewith a brief report by Secretary Durbrow with a map showing the seventeen gold mining areas in the Soviet Union and their relative importance. I do it with the thought that you might like to forward it to Secretary Morgenthau for his use.

It happened that this week I had the opportunity to meet one of the leading geologists of the Far East, Dr. Wong, who is here attending the International Geological Congress. I was very much interested in learning from him that the great bulk of the gold in the Soviet Union is placer-mined and that the costs of production are very low. He spoke with first hand knowledge as he is familiar with the principle mining regions of Siberia and Eastern Russia and seemed impressed by the enormous gold wealth of the Soviet Union.

With assurances of my respect and esteem,

I am

Very truly yours,

Joseph E. Davies

Enclosure.

July 6, 1937  
11:49 a.m.

H.M.Jr: Congressman Doughton, please.

Treasury  
Operator: Right.

H.M.Jr: Hello.

T. O.: Congressman Doughton,

H.M.Jr: Hello.

D: All right?

H.M.Jr: Henry talking.

D: Oh, yes.

H.M.Jr: Here's the thing just the way I said.

D: How's that?

H.M.Jr: I got this message from Magill: that you and Harrison -

D: That I did what?

H.M.Jr: That you and Harrison wanted us to look at the President and Mrs. Roosevelt's return over the week-end and to study them and that then that you and Harrison were going to call on the President Monday - I mean Tuesday - and ask him for his return. Now that's the way I understood it. Now by the time it went around, maybe between Magill and myself, there was a misunderstanding, but that's the way I understood it and that's the way I told the President it was when I saw him on Sunday.

D: Yes.

H.M.Jr: Now then if there's been any slip-up, it's in the family; nobody knows about it; no-one is trying to do anybody any harm but I felt that I should report those facts to the President, which I did on Sunday

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and I simply told him that "Mr. President, pending your instructions, I'm not going to look at your returns."

D: How's that?

H.M.Jr: I told the President unless he instructed me to, that I would not look at his returns. You see? I've never seen his returns. As I understand it, all the returns of all the Presidents have always gone in the safe of the Commissioner of Internal Revenue and they've been kept there. You see?

D: Yeah.

H.M.Jr: Now outside of my conversation with Magill and the President and Oliphant, I mean nobody knows about this so it's strictly in the Treasury and with one or two of you gentlemen on the Hill. You see what I mean? So that the misunderstanding is unfortunate but -

D: See there's a misunderstanding as far as I'm concerned. Some of them may have suggested - I don't remember - that - directly that it might be well to find out about it so that you'd know just what you had to meet.

H.M.Jr: Well, he said -

D: What we want - what I want to do is talk with the President about it. But I know that if we never called on him for any returns -

H.M.Jr: Well -

D: And I never asked you to see - I never asked you to see his returns.

H.M.Jr: Well, Magill said that Harrison did.

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- D: Harrison may have said that. I didn't.
- H.M.Jr: He said Senator Harrison did.
- D: Yeah, maybe it was Harrison but I didn't - I know I didn't.
- H.M.Jr: Well -
- D: I didn't ask anybody to see the President's returns nor I didn't call on them for them.
- H.M.Jr: Well, he said -
- D: Your Committee didn't. And I didn't like (a squealing noise makes the rest inaudible.)
- H.M.Jr: Well, I'm sorry. You can blame me if you want to.
- D: No, I'm not going to blame anybody but -
- H.M.Jr: But I'm telling you just how it happened and -
- D: Well, I know I'm as innocent about it as a man can be. I've been trying to be as helpful as I could. It makes it a little difficult but I know what this (rest inaudible)
- H.M.Jr: Well, Bob, you've - I've worked with you now for four years and you know I've always put my cards up on the - I've always -
- D: Yeah, I know you have and so have I.
- H.M.Jr: Yes, you have too. Well, there's this - it may be but as I understand it they were sitting around (the next part is inaudible) where the discussion took place.
- D: I just didn't want the President to think I had done something that I would have no intention on earth of doing.
- H.M.Jr: Yeah.

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- D: Now I certainly would be the last man in the world - I'm just trying in my limited way to help get the matter of this here (inaudible)
- H.M.Jr: Well -
- D: Without the least reflection on anybody in the most helpful way possible.
- H.M.Jr: Well, Magill and I distinctly understood -
- D: Well, I'm the last man in the world that would do anything that would be anyway not - be discourteous to the President.
- H.M.Jr: Well, I appreciate that. Where does the matter stand right now?
- D: Well, it stands as far as I'm concerned - it's just all off. I suppose I'm not - don't intend to think that you've done anything wrong or said anything wrong. You've done maybe - somebody I believe is under a misapprehension about it -
- H.M.Jr: Well, when -
- D: As far as I'm concerned, the President just has it all wrong for me and I think Magill will tell you as far as I'm concerned, there's no foundation in the world for it.
- H.M.Jr: When do you expect to see the President?
- D: Five o'clock this afternoon.
- H.M.Jr: I see. All right, well, that's -
- D: I just thought I ought to call you about it.
- H.M.Jr: Well, I appreciate it. I -
- D: You always do, you know. I just -

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H.M.Jr: Fine. I -

D: I had the best of motives and the very best of spirits. I'm not offending you about anything.

H.M.Jr: No. Well, you see the thing moved so fast. -

D: How's that?

H.M.Jr: The thing's come so fast, you can't always do it right. I think - things have been happening so quickly - so many decisions here they come so fast that a fellow can't tell.

D: Yes.

H.M.Jr: And it's perfectly -

D: All in the world that I want is to do - if I don't I'd just as - I'd be careful of the President.

H.M.Jr: Well -

D: Then as far as the other misunderstanding is concerned, I think everybody has acted perfectly innocent about it.

H.M.Jr: Yeah. Am I going to see you tonight?

D: How's that?

H.M.Jr: You're going to come to dinner tonight.

D: I thought it was tomorrow night.

H.M.Jr: It's tonight, isn't it?

D: Sure, yes sir, I'll be there.

H.M.Jr: Yeah, the 6th.

D: Yes, sir.

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H.M.Jr: It's tonight.

D: Thank you very much.

H.M.Jr: Yeah. Yes, it's tonight.

July 6, 1937.  
12:06 p.m.

H.M.Jr: Hello.

Treasury  
Operator: Irey.

H.M.Jr: Hello.

Elmer Irey: Hello, Mr. Morgenthau.

H.M.Jr: Hello, Elmer.

I: Yes, sir?

H.M.Jr: Elmer, I wish you'd - I want to ask the following questions. I understand that you sent for the returns of the various Cabinet members plus the President and Mrs. Roosevelt's.

I: No, sir. I did nothing but get the returns of the President - I didn't get Mrs. Roosevelt's - and I got yours and Mrs. Morgenthau's.

H.M.Jr: You got mine and Mrs. Morgenthau's?

I: Yes, sir. They're the only three sets of returns that I got.

H.M.Jr: Which return did you get?

I: The President's and yours and Mrs. Morgenthau's.

H.M.Jr: Well, how did you happen to pick those three?

I: Because Tarleau, who was working for Mr. Magill back in the beginning of this investigation told us that that was what Mr. Magill wanted - that we should get those returns. We got them and have had them locked up in the safe ever since we got them.

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- H.M.Jr: Just repeat that again, will you?
- I: I say Tarleau, who was working for Mr. Magill at that time, suggested - told us that Mr. Magill wanted us to get those returns and we did so and have had them locked up in the safe ever since. I thought - the thought at that time was to make an analysis of them so that if they were called for, we would be in a position to explain what the situation was, but was done or said nothing about them but just hold them.
- H.M.Jr: You said nothing was - I didn't get that.
- I: I said but we have said or done nothing about them; we've just held them.
- H.M.Jr: And examined them?
- I: Yes, and examined them and I have them right here on the desk now because I got a message from the Commissioner suggesting that we bring them back and I just got them out - we were just going to take them in when I got this message.
- H.M.Jr: What did the Commissioner want with them?
- I: "hy, he'd had a talk with Mr. Magill and as I understand it, Mr. Magill had suggested to him that he get the facts.
- H.M.Jr: Uh-huh.
- I: But I will say that they have just simply been kept intact and of course there's nobody knows anything about them.
- H.M.Jr: Well, I don't understand it and I don't like it because there's no reason why our returns should be treated any different

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from any other of the six million taxpayers.

- I: Well, there wasn't any, as I understand it, Mr. Secretary, there was any thought of treating you differently; it was just simply so that if these people had called for the returns, they would be available so that - for study. Now that's what I thought they had in mind. I've been holding them that way and I told Mr. Magill that after I got them that I did have them.
- H.M.Jr: Uh-huh. And you're now going to give them back to the Commissioner?
- I: Going to give them back to the Commissioner, yes, sir.
- H.M.Jr: Well, the Commissioner has asked for them?
- I: Yes, sir.
- H.M.Jr: Well, that's all right.
- I: Just within the last ten or fifteen minutes.
- H.M.Jr: Well, Mr. Magill is sitting here and I'm going to - this is all news to me.
- I: Yes.
- H.M.Jr: It wasn't done at any suggestion from me.
- I: Well, that's the situation, sir.
- H.M.Jr: Well, I want you to know it was no suggestion on my part.
- I: Yes.
- H.M.Jr: That anything like this be done.

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I: Well, I -

H.M.Jr: But it's the first time I've heard of it.

I: Yeah. Well, I do want you to know, Mr. Secretary that there was no - no effort on my part to do anything out of the regular course or anything with them.

H.M.Jr: No.

I: It was just - at Helvering's direction that I got them, - held them.

H.M.Jr: Well, stay in your office for another twenty minutes, will you?

I: Yeah, all right, sir.

H.M.Jr: Thanks.

I: All right.

July 6, 1937  
12:09 p.m.

H.M.Jr: Hello.

Guy T.  
Helvering: Hello.

H.M.Jr: Guy?

H: Yes.

H.M.Jr: Would you tell me what is this about  
Irey's picking up certain returns?

H: Well, he came in and said that Mr.  
Tarleau in Mr. Magill's office that  
there had been instructions from Mr. Magill,  
as he understood it, - Mr. Magill had asked  
for certain returns -

H.M.Jr: Yeah.

H: Including yours and the President's.

H.M.Jr: Yes.

H: Of course yours were contained in the  
regular files like everybody's else  
returns and I told him - I'm  
sure that he got those to look over -  
to check and see that there was abso-  
lutely no - I couldn't give him the  
President's at the time -

H.M.Jr: You did not?

H: But I had told McIntyre what I wanted  
about it and asked him to advise me.  
I also told Miss LeHand.

H.M.Jr: What -

H: But I got no advise about it -

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H.M.Jr: What did you tell them Guy?

H: What?

H.M.Jr: Just what did you tell McIntyre and Miss LeHand?

H: I told them that the Committee wanted to check his returns here - this Committee we appointed in the Treasury -

H.M.Jr: Yeah.

H: So that if there is any question comes up on it -

H.M.Jr: Yeah.

H: Mac told me that he didn't see how I could do anything else but I then told Miss LeHand also about it but I don't think they paid much attention to me.

H.M.Jr: Uh-huh.

H: And after about a week I told Irey he could have the returns so they could check them but not let them out of his immediate possession.

H.M.Jr: Well, now, I just got through talking to Irey, see?

H: Yeah.

H.M.Jr: And I understand from him - and this is the first time that I have ever heard about it -

H: Yeah.

H.M.Jr: And it's now ten minutes past twelve - that according to Irey, Tarleau called him up and asked to take Mrs. Roosevelt's, Mrs. Morgenthau and my returns and lock them up in a safe, see?

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H: Yes.

H.M.Jr: He has not got the President's returns.

H: Oh, yes, he has. He's going to bring them back to me right now.

H.M.Jr: Well, I just got through talking to him.

H: To Irey?

H.M.Jr: Yeah.

H: Well - I just had him in here and asked him now to bring -

H.M.Jr: Well, maybe I misunderstood unless - I'll call him up, but anyway as far as this thing of Tarleau taking any action in regard to Mrs. Morgenthau and my returns, I want you to make an official note that I didn't know anything about it, see? And it's news to me.

H: Yes, well I think as far as their - your returns are concerned anyhow, they could publish them out in the paper if they wanted to.

H.M.Jr: Of course they can. Now what I'd like to instruct you officially now is that you put Mrs. Morgenthau and my returns back into the file where everybody else's return is.

H: Yes.

H.M.Jr: See?

H: Yeah.

H.M.Jr: I'd like them to be put back in the file where everybody else's returns are - whatever the normal place for their return is I'd like them put back there. See?

H: Yes.

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H.M.Jr: That's Mrs. Morgenthau and my returns.

H: Well, I think they've been kept there all the time until they asked for them to re-check so that we'd be sure that if anything came up about them -

H.M.Jr: Well, there's something slipped somewhere and I'd like you and Irey to be over at my office at 3.

H: Yes.

H.M.Jr: There's some mistake - there's some misunderstanding somewhere.

H: Yeah.

H.M.Jr: So - but before you come back, I wish you'd make a note that I called you and that Mrs. Morgenthau and my returns should go back in the regular file in their regular place.

H: Yeah.

H.M.Jr: See?

H: Yeah.

H.M.Jr: And that this is the first that I have heard about it. And I understood Irey to say that he had Mrs. Roosevelt's return but not the President's but I'll call him.

H: No, I have Mrs. Roosevelt's return here on my desk as a result of a letter she wrote me on last Friday I think.

H.M.Jr: I see. And also I want to let you know officially that we have found the letter - we have a copy of it that we sent Mrs. Roosevelt in '34 -

H: Yeah.

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- H.M.Jr: And it said that the General Counsel of Internal Revenue passed on it. You know I asked you about this?
- H: Yes.
- H.M.Jr: Well, I finally located Robert Jackson in Jamestown and he said he did give such a ruling and he was brought over particularly for him by a man by the name of Cameron?
- H: There's a man up there -
- H.M.Jr: Cannon - Cannon, Cannon.
- H: Luther Cannon.
- H.M.Jr: He said he was one of the best men and he went over it very carefully.
- H: Yes.
- H.M.Jr: And he said that Cannon and he both hold that if Mrs. Roosevelt's contract as they saw it in '34, that she has no Federal tax to pay.
- H: Yeah.
- H.M.Jr: And he still holds that position.
- H: Yes.
- H.M.Jr: So that clears up that situation.
- H: Yes.
- H.M.Jr: And you remember I asked you.
- H: Yes.
- H.M.Jr: Well, it was Robert Jackson and Cannon who read the contract and he said they went over it very carefully. They held that she had no tax to pay.

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- H: Well, I don't think there's any question about that if she didn't make the contracts for herself.
- H.M.Jr: Yeah.
- H: And, well, we stand on that ruling?
- H.M.Jr: Well, I should think so but that's up to you. It would have to come from you anyway. She wrote you the letter.
- H: Yes, but I don't know -
- H.M.Jr: Well, let's talk about it but this Tarleau thing has certainly got me mystified.
- H: Yeah.
- H.M.Jr: I don't see by what authority he would do a thing like that and -
- H: Well, that's all between Mr. Magill - I thought the orders came directly from Mr. Magill. I talked to him just now and he told me to hold -
- H.M.Jr: Well, I gathered he didn't.
- H: He said he didn't know anything about it?
- H.M.Jr: No, it's news to him.
- H: Well, I called Irey in here and I -
- H.M.Jr: No, it's news to Magill.
- H: Yeah.
- H.M.Jr: All right, I'll see you at 3 and you have Irey with you, please.
- H: Yes.

July 6, 1937.  
12:30 p.m.

Operator: Operator.

H.M.Jr: Irey.

Operator: Right.

Irey: Hello

H.M.Jr: Irey.

I: Yes, Mr. Secretary.

H.M.Jr: Which three returns did you say you have?

I: I have the President's, and yours and Mrs. Morgenthau's.

H.M.Jr: O, I understood you to say Mrs. Morgenthau's, mine and Mrs. Roosevelt's.

I: Oh, no, I haven't touched Mrs. Roosevelt's.

H.M.Jr: Oh, you have the President's, Mrs. Morgenthau's and mine.

I: Yes, Sir.

H.M.Jr: Well, what I've just told the Commissioner is this -- that this is the first I've known about it, see.

I: Yes.

H.M.Jr: That no such instructions were given out with my knowledge.

I: Yes.

H.M.Jr: And I know want Mrs. Morgenthau's and my returns put in the file where everybody else's returns . . .

I: . . . Yes.

H.M.Jr: Do you understand?

I: Yes.

H.M.Jr: So when you go back I want, I want - wherever the normal place is for our return to be in the file

I: Yes.

H.M.Jr: That's where I want Mrs. Morgenthau's and my returns to be.

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I: All right. I'll get them back there right away. . . .

H.M.Jr: And, and those - and Tarleau certainly is going to have to explain by what authority he gave any such orders.

I: Yes. All right, Sir.

H.M.Jr: And I've asked that - Mr. Helvering and you to come to my office at three today.

I: All right, I'll . . .

H.M.Jr: But I want you to make a note that I called you at this time - this is the first I've heard about it - that no such instructions were given with my knowledge or with Mr. Magill's knowledge.

I: Yes. Well, of course that's news to me. I didn't know because I . . .

H.M.Jr: . . . and that I am now instructing the Commissioner and you to return Mrs. Morgenthau's and my returns to their proper place in the regular file of Internal Revenue.

I: All right, Sir.

H.M.Jr: And you will return the President's return to Mr. Helvering.

I: All right. All right, Sir, I'll do that.

H.M.Jr: Thank you.

I: All right.

July 6, 1937.  
12:35 p.m.

H.M.Jr: Hello.

Operator: Secretary Hull coming on.

H.M.Jr: Hello

Hull: Hello.

H.M.Jr: Henry talking.

H: Henry, what's going on?

H.M.Jr: Well, that was what I was calling up to find out from you. All we know is that the French, financial thing has, up till this morning worked pretty well.

H: Yeah.

H.M.Jr: And they've been gaining - a - a - foreign exchange, and up to now it's worked pretty well.

H: Well, that's good.

H. M. Jr: And, we think that they've gained about two billion francs.

H: I see. Well, that's encouraging at least.

H.M.Jr: Very.

H: Yeah.

H.M.Jr: And I wondered if there was anything on the political thing which you might tell me.

H: No, there's nothing especially new. The Committee of Twenty-Seven -- Twenty-Seven Nations -- in that, non-intervention pact towards Spain meet tomorrow.

H.M.Jr: I see.

H: I had a long talk this morning, of course this is very confidential, with the Italian Ambassador.

H.M.Jr: I see.

H: And I hammered home our peace program and appealed to him to appeal to Mussolini to repeat his speech every week.

H.M.Jr: I see.

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H: I told him that people forget in twenty-four hours.

H.M.Jr: Yeah.

H: And that that was a fine starting off if he'd just, just repeat that every week.

H.M.Jr: Yeah.

H: And I hammered in all of our and he had nothing much to . . . he just wanted to explain their attitude towards Spain.

H.M.Jr: I see.

H: Well, that was that, there was no territorial aggression, and so on. Of course, the trouble is to get the British to believe them.

H.M.Jr: I see.

H: So there's - he professed disposition to work everything out amicably, and so on and so on. And I told him that we had a very inflexible neutrality law here and we were hoping and assuming that no Government over there - the British, nor the Russians, nor the Germans, nor the French, nor the Italians would do enough officially in the Spanish situation to involve our Neutrality Act.

H.M.Jr: Well, how would you say the Spanish thing looks? I mean, I mean, is it . . . .

H: Well, we can't tell until to-morrow.

H.M.Jr: Till to-morrow?

H: Yeah. The, the Twenty-Eight Nations - Twenty-Seven Nations meet then.

H.M.Jr: I see.

H: And there'll be, probably, a lot of sparring and one crisis after another, maybe, and - for some days, and then they'll work it out.

H.M.Jr: Well, . . . .

H: . . .That's, that's the probability.

H.M.Jr: Well, if, if, if the French go in strength, that's helpful, isn't it?

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H: Yes, Sir, that's very helpful.

H.M.Jr: That's the way I'd figured it.

H: Yeah. Yeah.

H.M.Jr: And - - that's what I thought.

H: Yeah.

H.M.Jr: Well, thanks and . . . .

H: Well, I'm glad you're back Henry.

H.M.Jr: Thank you.

H: All right.

RE ROOSEVELT AND MORGENTHAU INCOME  
TAX RETURNS

July 6, 1937  
3:00 p.m.

Present: Mr. Magill  
Mr. Helvering  
Mr. Ireys

Magill: I think we'll get a chance for another public hearing if you want it.

H.M.Jr: Now, the message I got from the White House was that - I already told it to you (Magill) - was that when Harrison and Doughton were over there, that you and I would be available. Well, I thought that it would be easier for Magill if he was present when the President saw Harrison and Doughton, because sometimes out of those meetings there seems to be a difference of opinion as to just what was or wasn't said; it's happened about every time there's been a meeting. So evidently what.....

(Ireys comes in)

H.M.Jr: Good morning.

Ireys: Good morning, sir.

H.M.Jr: Now, I told both Commissioner Helvering and Mr. Ireys that ten minutes past twelve today - that this was the first time that I had learned that Mr. Tarleau, of Mr. Magill's office, had instructed you (Ireys) by telephone....

Ireys: Not by telephone.

H.M.Jr: What?

Ireys: Not by telephone - Tarleau didn't instruct by telephone; he instructed verbally.

H.M.Jr: Well, verbally.

Ireys: Yes.

H.M.Jr: .....to get out the President's return, my return, and Mrs. Morgenthau's return.

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Irey: That's right.

H.M.Jr: Well, he did this without the knowledge of either Magill or myself. Now, I've also asked Mr. Helvering to put Mrs. Morgenthau's return and my return back in the usual place in the file.

Helvering: And it's been done.

H.M.Jr: All right, it's been done.

Irey: Yes, that's been done.

H.M.Jr: Now, as long as you did have a chance to see Mrs. Morgenthau's return and my return, I want to ask you, officially, whether there is anything about it that isn't a hundred percent correct.

Irey: I saw nothing in any of the returns for any of the years that was questionable in any degree.

H.M.Jr: How far back did you go?

Irey: 1933, '34, '35, and '36.

H.M.Jr: Not the slightest.....

Irey: Not the slightest.

H.M.Jr: Have you (Helvering) looked at it?

Helvering: No, I haven't seen the returns, but Mr. Russell told me he checked your return for '34 and '35, and if he checked them himself personally, they're all right. I didn't see anything.

H.M.Jr: Did anybody check with you (Irey)?

Irey: Mr. Burford, my assistant, and I checked them together.

H.M.Jr: '33, '34, '35, and '36.

Irey: Covering that period.

H.M.Jr: Both of you. And didn't notice anything.

Irey: Didn't notice anything, didn't see anything that was questionable.

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H.M.Jr: Now, here's the situation in regard to the President's return. I got word Friday night by telephone from Oliphant that he had got a message from Magill that at a conference with Senator Harrison and Doughton - that they wanted the Treasury to get out the President's and Mrs. Roosevelt's returns and study them over the weekend in order to be ready for Tuesday, when, as I understood it, Mr. Harrison and Mr. Doughton were going to call on the President and request that those two returns go before the Committee. I took the position that, in view of the past practice of the President's return - of all Presidents' returns - that I wouldn't look at the President's return unless he so instructed me, that I had no reason to suspect anything about his return. And I told him July 4th at Hyde Park and he told me that he approved the position I had taken and that he would be delighted to see Senator Harrison and Mr. Doughton on Tuesday and take the matter up himself, and he furthermore told me at that time that he wished to handle it himself, see? He said, "I want to handle this thing myself." So I would say that in view of that very positive position he's taken - I want to tell you gentlemen that I feel that unless - our position, at least my position, I think, would be the same, would be to wait until he sent for us, in view of the fact that every other President's return, as I understand, has been put in the safe by the Commissioner of Internal Revenue and kept there and has never been examined. Is that right?

Helvering: I haven't had a chance to see, but I don't think - never known it since I've been in there. I inquired as to the practice, and they say that when the President's return is filed, on account of some fear of people getting his signature off of the return for scrapbooks and things, that they'd been filed with the Commissioner, and that's been done all four years.

H.M.Jr: Well, I just wanted to make a record of what happened the last couple days.

## TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE July 6, 1937

TO The Secretary  
FROM Mr. Taylor

On the morning of July 1st I talked to Mr. Feer of the Swiss Legation, Count Limpurg of the Netherlands Legation, and Mr. Leonard of the Belgian Embassy, as you requested. I explained to each of these men that whereas I was not sure that their Governments had been already notified by either the French or the British Treasuries, that the United States Treasury wished to notify the representatives in Washington of the action which had been taken by the British and ourselves in connection with the French situation. I handed each of them a copy of the message which you sent Monsieur Bonnet and informed them that an identical message had also been forwarded by Sir John Simon, and that these communications signified that France is still a member of the Tripartite Agreement; that it was unnecessary to go into all the details leading up to the transmission of these messages, but that the British and American Treasuries were satisfied that under all the circumstances it was the best move to make, and that we were hopeful that the French situation would now work itself out in an orderly manner.

The representatives of all three countries expressed great relief that France is still a member and hoped that she would be able to get the benefits of this move by further wise financial measures.

W.F.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 6, 1937

TO The Secretary  
FROM Mr. Taylor

I have had several conversations with Dr. Kuo regarding the silver now held in this country by China, the credit now being extended on a month-to-month basis, etc. In these conversations I suggested to him that this country was not interested in purchasing silver as such, and that the original purchases of silver from China had been part of a complete plan, and that our approach to the present situation would naturally be similar.

After Dr. Kung's second conversation with you, Dr. Kuo returned and reported that Dr. Kung felt that the credit itself had been extremely useful to China, and that they wished to make arrangements for continuing to have this credit available, and suggested that it mature on December 31, 1937 with whatever renewal privileges we were willing to grant up to six months; that they wish to keep the 50 million ounces of silver now used as collateral for this credit intact, but that they wish to dispose of approximately 12 million ounces and reinvest the proceeds in short-term securities of this Government; that they in addition wish to bring the percentage of gold coverage for their notes up to approximately 15% as against the present 8%, and that in order to do so they would like to dispose of between 50 million and 60 million ounces of silver and convert the proceeds into gold.

- 2 -

I told Dr. Kuo that we would take the matters under advisement and have an answer available on Dr. Kung's return. You will note that the 50 million to 60 million ounces of silver which they wish to convert into gold coincide almost exactly with the amount of silver now held in this country.

At first glance there might not appear to be too much merit in the proposals of Dr. Kung, but I am inclined to believe that it is desirable to accept them, at least in part. It would be very useful to have a government other than the British and ourselves add to their gold holdings at this time; it would be equally desirable for us to show a loss in our inactive account or in our other gold holdings, and, in case the transaction is handled by the purchase of silver we would get a double benefit from the standpoint of the Treasury as we would desterilize the amount of gold and would also feed silver certificates into the Federal Reserve System. Whether we would care to treat all the silver now held by China in this country in this fashion or not is debatable, but it seems to me that the idea has distinct possibilities.

July 8, 1937

4 p.m.

Present:

Mr. Taylor  
Dr. Viner  
Mr. Lochhead

In connection with the recent call of Kr. Kung at the Secretary's office, the Secretary told the group the following:

"My feeling about Kung is this: you have to do something for the fellow. He is here and he has to save his face. My thought is to tell him that instead of giving a month to month extension, we will give 90 days. In other words, the present one would run to October 1 with notice on the 15th of September if we would extend it. I don't want to commit myself beyond six months on the price of silver. But I will only commit myself to the first of October. Now, that is against the 50,00,000 ounces which is here. I want to do it on quarterly dates." Lochhead inquired, "Quarterly basis and the quarter would start October 1?" The Secretary replied, "Yes. I am willing to do that."

Continuing, the Secretary said, "Now, what I am willing to do so that he gets something, I am willing to buy the 12,000,000 ounces of silver provided he takes those dollars and buys gold and earmarks it. If he wants to invest some of his money in Governments, he has cash balances; he can do it. But if he wants to sell us the 12,000,000 ounces of silver, we will give him dollars; he, in turn, takes those dollars and immediately invests it in gold and leaves it here for earmark." Viner interrupted to ask, "Will you release that gold?" Lochhead remarked, "They have \$20,000,000 gold now." Viner added, "The question is, will you insist he definitely maintain that balance?" The Secretary then explained, "We will have some agreement that it goes into his reserve as part of his monetary system and unless there is some very important reason, like a raid against his foreign exchange system, he maintains it, which he has lived up to very well." Taylor remarked, "They want to increase their gold holdings." Viner's comment then was, "They do? Sounds all right to me." Lochhead said, "Gold is 8% of their holdings."

HM, Jr. then explained further: "They have in this country

-2-

now two lots, one of 50,000,000 on which we agreed monthly to lend them 40 cents, and then they have 12,000,000. Now they want to sell that because they want to increase their gold up to 15%. I say before we talk about any more, we will start with the 12,000,000; buy that, convert it into gold and put it in your gold reserve. Now if the President wants to treat them extra nice, has some reason, I might buy the whole lot if they turn it into gold, but I think as a starter, let's start out with the 12,000,000 ounces. If the President is insistent, I feel very kindly, let's do the whole work; let's buy the 82,000,000 provided they take it in gold earmark." Lochhead remarked, "They have about \$23,000,000 to \$25,000,000 cash now." HM, Jr. added, "They have plenty of cash, so they would just add this to their gold reserve."

Taylor's reaction was, "I think it suits our book perfectly beautiful." HM, Jr. remarked, "Yes, but I would start with the 12,000,000." Taylor added, "Yes, but if it works out all right, I would just as soon go through with all of it." Lochhead then said, "Except if they sell the credit, we should still let them borrow against gold because it is important that they still can say they have a credit." HM, Jr.'s response was, "Even if we buy it, they can borrow against gold." Taylor agreed, saying, "Yes. Because the fact of having credit is extremely important to them. That was the first question they asked Dr. Kuo to find out." Continuing his remarks, Lochhead said, "The Japs don't know what the credit is and it has been extremely useful to the Chinese. They haven't used any of it, but they still like to have it."

HM, Jr. then said, "I am inclined not to give them the whole cherry at the first bite. They are great traders. Start with the 12,000,000 and be very reluctant about the 50,000,000." Lochhead said, "The 12,000,000 was separate. They shipped it out of Shanghai when the Japs scared them and they have it in commercial vaults in San Francisco."

HM, Jr. then concluded this discussion by saying, "I would like Jake Viner to turn it over. He (Dr. Kung) wants to come in on Thursday. The only hurry is I don't know how long he is going to be here."

OFFICE CORRESPONDENCE

DATE July 6, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

FROM

L. W. KnackWITH BANK OF FRANCE.

I called Mr. Cariguel at 10:52 today. Things were going well with him in the exchange market, he said. Since the opening of business last Thursday, July 1, up to the moment he spoke, they had sold about 2,000,000,000 francs as follows: on Thursday 464,000,000, on Friday 559,000,000, on Saturday 52,000,000, on Monday 612,000,000 and so far today 350,000,000. He was quite pleased, he said; the franc was still wanted.

I referred to an editorial in the Sun last Friday to the effect that since under a recent government decree the bank was prevented from selling gold to the fund, the only support our Treasury could give to the French was the purchase of paper francs. I asked him to confirm to me, for my own personal satisfaction, that if the fund needed gold tomorrow it would get it from the Bank of France. Cariguel's reply was "Naturally" and <sup>that</sup> he considered the Sun's editorial ridiculous. He continued that he did not know who the instigator of that article might be; they had not seen any one in Paris who was connected with the Sun directly or indirectly.

The next statement of the Bank of France to be published on Thursday will show a further loss of gold which, however, should be the last one as long as the French fund continues to build up gold and devisen assets.

The stock market in Paris was very much better today after an unexplained reaction yesterday (it could probably best be ascribed to a general desire of everybody at the same time to take profits).

LEK:KNC

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 6, 1937, 11 a.m.

NO.: 925

FROM COCHRAN.

I had lunch yesterday with Beyen, the President of the BIS. Beyen expressed regret that the report had come out while Van Zeeland was in the United States that a plan was afoot for seeking from the United States loans for Germany and Italy with the BIS as intermediary. Beyen assures me that if there is any such plan the BIS was not at the back of it. It is his feeling that if such ideas may be attributed to the BIS it is unfortunate for that institution.

On the question of gold, Beyen is still of the same opinion that he expressed to me at Basel in June - that more harm than the situation itself is causing would result from any artificial attempt to alter the present price or production of gold. Therefore he said again he hopes that nothing may be done until the situation is more clarified and longer time to study the various factors involved has been taken.

The BIS President is in Paris for two days to confer with officials of the Bank of France. His visit is part of his plan for visiting banks which are members of the BIS. He visited Praha last week, accompanied by Marcel Van Zeeland.

- 2 -

Van Zeeland. He will visit the Scandinavian and Baltic countries in the near future.

BULLITT.

031113033

7271 1 1031

RECEIVED  
OFFICE OF THE DIRECTOR  
INVESTIGATION

EA:LWW

JR

PLAIN

London

Dated July 6, 1937

Rec'd 2:40 p.m.

Secretary of State,  
Washington.

440. July 6, 8 p.m.

FOR TREASURY FROM BUTTERWORTH.

In spite of the various disturbing influences which have affected security and commodity markets during the past two months British industrial and commercial activity appears to be continuing in an all round upward trend; and the growing discussion of the slump to come has so far, at least, shown no signs of appearance in the figures of actual production and trade although security markets have been decidedly affected.

Unemployment returns, the most comprehensive barometer of industrial activity, indicate clearly that industrial recovery goes on and is not confined to trades connected with the rearmament activity. The reduction of the registered unemployed in June to 1,350,000 brings the level down to that of 1929 and shows an improvement over May of 95,000 and over a year ago of 346,000. All districts showed an improvement and practically all trades. Coal production and consumption are both well above last year's levels and iron and steel production continue at expanded

-2-

JR #440, July 6, 8 p.m., from London.

expanded rates. The scarcity of raw material for the steel industry remains and order books are reported full. Textile manufacturing also has increased, stimulated as in the case of coal production by both home demand and expanding export markets.

Building plans approved though showing a slackening in May, which is generally attributed to the original NDC tax proposals, are expected to increase in June and even at the May level remain high. The slump in building is coming, but it has not yet begun, though building costs are rising; in this connection see Clay's remarks in the third paragraph of my 172, March 25, 9 p.m.

The most significant feature of the British economic position during 1937 is the increase in the export trade which for the first five months amounted to 18 per cent as compared with the corresponding period of 1936. Imports also increased by 17 per cent and re-exports by 22 per cent. To some considerable extent these rises reflect price changes but the volume of trade in most products has also increased.

The expansion was widely spread touching every one of the main categories. In textile and clothing groups after years of only slight increases or recessions, exports this year increased for the first five months from £50 million

-3-

JR #440, July 6, 8 p.m., from London.

million to £57 million. The metals and engineering group, which had lead the vanguard of British export recovery in 1934 and 1935 and halted in 1936 has stepped to the fore again with an increase from £56 million for the first five months of 1936 to £67.6 million for the corresponding period of 1937. Food, drink and tobacco exports also increased influenced largely by the continued expansion in exports of spirits to the United States; chemicals, wool and miscellaneous items have all increased while even coal exports have gone up due in part to larger shipments to France and also to Italy.

The growing purchasing power resulting from the rise in the prices of primary products has definitely stimulated British exports. British preoccupation with the level of prices (see No. 368, June 10, 7 p.m.) should be considered in connection with the fact that from their point of view not the least important result of the trend of prices will be its influence on British overseas trade at a time when exports will be of increasing importance to the maintenance of the present degree of British industrial activity.

The balance of merchandise trade showed an import surplus for the five months of £154 million as compared with £132 million in the first five months of 1936 but with freight rates now at something like 75 per cent above those  
prevailing

-4-

JR #440, July 6, 8 p.m., from London.

prevailing in May 1936 and with the coronation-stimulated tourist expenditure of this year the balance of payments position should not thus far be unfavorable to sterling.

The franc continued bid today due mainly to covering operations.

BINGHAM

GW:WVC

RECEIVED

JUL 11 1936

THE TREASURY DEPARTMENT  
WASHINGTON, D. C.

## PARAPHRASE OF TELEGRAM SENT

TO: AMERICAN EMBASSY, PARIS (FRANCE)

DATE: July 6, 1937, 4 p.m.

NO.: 317

FROM SECRETARY MORGENTHAU

FOR AMBASSADOR BULLITT

The Secretary of the Treasury requests that you accept his thanks and appreciation for your recent messages bearing upon Bonnet's plans and the financial position of the French. The messages have been most helpful to the Treasury.

HULL.

RECEIVED

JUL 7 1937

TREASURY DEPARTMENT  
U. S. DEPARTMENT OF THE TREASURY  
WASHINGTON, D. C.

EA:LWW

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 6, 1937, 6 p.m.

NO.: 929

FROM COCHRAN.

Continued bidding by French control for sterling today. The control has acquired a good amount, at the same time lowering the price gradually 128.46 to .1. The same Paris-American bank which purchased \$1,600,000 for the control yesterday had purchased by 4:00 o'clock this afternoon \$1,500,000. There has been no undue pushing of dollar purchases; they follow rather than get ahead of the transactions in francs and sterling. Gains in forward franc of recent days are maintained. Official rediscount rate of the Bank of France was lowered today from six to five percent, advances from seven to six, and thirty days from six to five. Slight improvement in rentes.

So far the repatriation of francs consists largely of short covering and of provision for operating funds for personal use as well as business. It is likely that serious repatriation of flight capital will await developments in France. The questions of the moment are what taxes upon securities and business may be imposed by

Bonnet's

- 2 -

Bonnet's measures which it is expected will be issued in a few days. Some gossip on the market says that among the items will be an 80 percent tax on devaluation profits. A warning was issued by Bonnet in the press against the public accepting the rumors now in circulation in anticipation of the program he is planning.

END SECTION ONE.

BULLITT.

EA:LWW

RB

GRAY

Paris

Dated July 6, 1937

Rec'd 3:12 p. m.

Secretary of State  
Washington.

929, July 6, 6 p. m. (SECTION TWO)

Notice of a loan issue by the Midi Railway Company is given in today's press but the amount is not stated. The interest rate is six percent, with exemption from income tax and the ten percent levy. The bonds are redeemable at par before 1982 by six monthly drawings and by purchases on the market, the issue price is 820 francs for each one hundred franc bond nominal value.

A decree published in Journal Officiel of today ordered the reopening as of July 6 of the commodity markets closed by decree of June 28.

According to the ECONOMIQUE of July 5 interest payments on the French  $7\frac{1}{2}$  percent loan 1921 and on the 7 percent 1924 loan issued in the United States, are henceforth to be made at the current exchange rate of the dollar. No official statement has so far been noted in this respect. (END OF MESSAGE)

BULLITT

HPD

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

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

NO.: 930 FROM COCHRAN

RUSH.

At 7 O'clock this evening I visited Rueff at the Ministry of Finance. The French stabilization fund, he said, had gained six hundred million French francs of foreign exchange yesterday, and today it gained over five hundred millions. The results so far are gratifying to him, after the change<sup>of</sup>/last week in French monetary policy. The week-end speech of Blum at Bordeaux, he said, removed importantly the immediate fear that the financial plans of the Chautemps' Government might be blocked by the Socialists. Parliament he believes will recess tonight or tomorrow night. Therefore Bonnet expects that by the end of the week he should be able to announce his proposals in the financial and tax field. The broad lines upon which Bonnet has constructed his plan are encouraging to Rueff.

I was told by Rueff that he wanted to keep me informed of all developments on tripartite matters. Therefore he showed me an exchange of confidential and personal notes between Bonnet and the Chancellor of the Exchequer. Rueff would not let me have a copy of the documents (both in French) but he permitted me to take notes on them.

I do

- 3 -

I do not know whether Secretary Morgenthau is familiar with the note from the Chancellor, therefore I am providing herewith a paraphrased translation in summary of the text (which is dated June 30) as well as a paraphrased translation in more exact detail of the communication from Bonnet to Simon which consists of a note dated July 6, forwarded through Monick for delivery on July 7.

END SECTION ONE.

BULLITT.

EA:LWW

RB

SPECIAL GRAY

Paris

Dated July 6, 1937

Rec'd 6:44 p. m.

Secretary of State  
Washington.

RUSH.

930, July 6, 9 p. m. SECTION TWO.

Communication No. One.

Simon thanked Bonnet for the messages Monick had given him the previous day. The Chancellor had on the same day he received these messages been obliged to make a statement upon the French financial situation to the House of Commons upon the latter's insistence and had borne Bonnet's remarks in mind in phrasing his declaration.

The Chancellor noted with pleasure that Bonnet was in agreement with him as to the essential importance of restoration of budgetary equilibrium. The Chancellor was convinced that the return of confidence in the French franc depended upon effective measures designed to achieve the above indicated results.

Furthermore, the Chancellor was happy to have indications as to the measures planned in regard to the relations  
of the

RB

-2-#930, July 6, 9 p. m. from  
Paris SECTION TWO

of the franc on the exchange market. He noted that the French stabilization fund could and would in fact purchase gold from the Bank of France with the view to supporting the franc.

The Chancellor noted the intention of Bonnet to follow management of the franc rate by utilizing the same measures as heretofore in effect in collaboration with the British and American authorities.

Because of the serious repercussions which France's general uncertainty might have, the Chancellor was somewhat apprehensive as to the level to which the franc might fall and as to the difficulties of controlling it. The Chancellor did not see clearly on his side in what measure and by what methods the British monetary authorities should follow the reciprocal arrangements along the line observed to the present. He could only suggest that the developments of the situation be followed carefully and that new consultations be held whenever it is possible to see how the situation of the French franc on the exchange market is actually evolving. From the moment that, thanks to the arrangements proposed, the franc is maintained at a relatively stable level and not too far from that observed recently the Chancellor gladly accepts that the mechanism

RB

-3-#930, July 6, 9 p. m. from  
Paris SECTION TWO

the mechanism envisaged by the tripartite monetary agreement shall continue to function. But he would like to know as soon as possible to what exact level in comparison with that of past weeks Bonnet has the intention of letting the franc go.

BULLITT

SMS

RGC

RB

SPECIAL GRAY

PARIS

Dated July 6, 1937

Rec'd 7:40 p. m.

Secretary of State  
Washington.

RUSH.

930, July 6, 9 p. m. SECTION THREE.

Communication No. 2.

Bonnet thanked Simon for knowledge of the declaration which he made to the House of Commons on June 30.

Bonnet was entirely ready to proceed to the consultations which Simon suggested and hoped the British Government would let him know as to what date it would find opportune for such consultations.

The Chancellor had already been able to see that the French stabilization fund intends to maintain its regulatory influence on the franc market; it will do the same in the future. This action will be facilitated by the measures for financial relief which the French Government has in view and which will result in establishing an almost completely balanced budgetary situation. This should thus permit maintaining the greatest possible equilibrium on the franc market.

The French

RB

-2-#930, July 6, 9 p. m. from  
Paris SECTION THREE

The French Government feels that it will thus have done everything possible to prevent the decisions which it was obliged to take from causing significant disturbances on the international exchange markets.

However, the Minister of Finance is not able to reply precisely to the question posed in the last sentence of the communication from the Chancellor of the Exchequer. The French monetary policy is oriented entirely in the sense of the maintenance of the greatest possible stability of the franc. But it is not possible to assume undertakings which would involve in this policy obligations similar to those which the French Government has just precisely abolished. The Minister of Finance can not anticipate what factors will influence the exchange market in the future nor in what direction their action will be exercised and he does not feel authorized to expose the French Government to finding itself some day in a situation of modifying anew the limits imposed upon the fluctuations of its currency especially taking into account the needs of its economy and of its international situation.

The French Government is of the conviction that the above assurances constitute a basis for the soundest and

most

RB

-3-#930, July 6, 9 p. m. from  
Paris SECTION THREE

most practical cooperation which could not be the case  
in a precise undertaking. Bonnet suggests that when his  
fiscal proposals have been promulgated he will go and see  
Simon with the view to discussing with him the problems  
which the policy of the tripartite declaration raises.

END MESSAGE.

BULLITT

SMS

RECEIVED

NPL

JUL 6 1941

RECEIVED  
JUL 6 1941  
SECTION THREE

--  
8.205  
FRENCH CRISIS HAS PASSED IN THE OPINION  
OF THE STREET -- AT LEAST FOR THE TIME  
BEING -- THE FRENCH BANK RATE WAS REDUCED 1 PC  
THIS MORNING -- NEW GOVERNMENT IS MOVING QUICKLY  
TOWARD SOLUTION OF THE NATION'S FINANCIAL  
TROUBLES AND WILL INCLUDE DRASTIC MEASURES  
TO MAKE FOR ANY DEGREE OF PERMANENCE IN  
FRENCH POLITICAL ECONOMIC AND FINANCIAL  
AFFAIRS

*Bank of France Rate*

PARIS.--THE BANK OF FRANCE LOWERED THE DISCOUNT RATE TODAY FROM SIX TO FIVE PER CENT.

7/6--R835A

**BANK RATE, PARIS**

THE RATE ON ADVANCES ON BONDS WAS REDUCED FROM 7 PER CENT TO 6 PER CENT AND THE RATE ON 30-DAY LOANS FROM 6 PER CENT TO 5 PER CENT.

7/6--R842A

BY U P

7.01

JUL 6 1937

FRENCH BANK RATE 5 PC

PARIS - THE BANK OF FRANCE LOWERED THE  
DISCOUNT RATE TODAY FROM 6 PC TO 5 PC

-0-

-BY U P-

ADD FRENCH BANK RATE CUT

8.23

JUL 6 1937

PARIS - THE RATE ON ADVANCES ON BONDS WAS  
REDUCED FROM 7 PC TO 6 PC AND THE RATE ON  
30-DAY LOANS FROM 6 PC TO 5 PC

-0-

ADD FRENCH BANK RATE 5 PC

8.30

JUL 6 1937

PARIS - THE REDUCTION IN THE BANK RATE  
REFLECTS THE VIEW OF THE AUTHORITIES THAT  
PRESSURE ON EXCHANGES HAS TERMINATED - FURTHER  
REDUCTION IS EXPECTED IF FUNDS CONTINUE THEIR  
INFLOW

THE BOURSE WAS FIRM ALL-AROUND

-0-

Dow-Jones  
9:28 A.M. 7/6/37

**FRENCH LOAN COUPON PAYMENTS**

Paris- The French Finance Ministry has decided to pay coupons on French loans issued in America at the current rate of exchange. The two loans affected are the 7 1/2% loan of 1921 and the 7% loan of 1924. The decision modifies the loan service stipulated after the first devaluation on October 1, 1936 whereby the Government ruled the coupons would be paid at 25.52 per dollar corresponding to the dollars gold parity prior to the United States devaluation. The 25.52 rate was adopted because of the American decision denouncing the gold clause on American bonds. Had America maintained the gold clause France would have paid 36 francs per dollar on its loans.

1150D JUL 6 1937

SWISS FRANC POSITION

BERNE- REUTERS- M MEYER HEAD OF THE FINANCE AND CUSTOMS DEPARTMENT REPORTED TODAY TO THE FEDERAL COUNCIL ON THE LATEST DEVALUATION OF THE FRENCH FRANC- HE STATED THAT THIS STEP HAD NO EFFECT WHATEVER ON THE POSITION OF THE SWISS FRANC

-0-

## MEETING RE TAX BILL

July 7, 1937  
9:30 A.M.

Present: Mr. Taylor  
Mr. Magill  
Mr. Haas  
Dr. Viner  
Mr. Oliphant  
Mr. Lochhead  
Mr. Opper  
Mr. White

H.M.Jr: This conference was called at the suggestion of Mr. Wayne Taylor, who had this nice dream that somebody would call together the State Department and the Federal Reserve and the Treasury and we'd agree on a tax program. And I told him half-jokingly, half-seriously, that Magill and I weren't just in any humor to fuss about anything like that. But I don't know what's been going on, if anybody's got a tax bill. What's been going on? I don't know. I don't know who's heading this up under Taylor, but if they haven't got something by now I'm just not going to wait, that's all there is to it. I'm not going to fuss with the State Department and the Federal Reserve. I haven't got the physical energy or the time left; just got ten days left. I've got to do Brazil, I've got to do China, and the rest of my stuff. Who's been fussing - who's been heading this up, Wayne?

Taylor: George.

H.M.Jr: Where are we, George?

Haas: We had planned - we've been working with the S.E.C. and the Federal Reserve and the people in the Bureau, the legal staff, economic staff, trying to see what kind of program we could work out which would meet the three questions; one is the question of tax evasion in regard to foreigners, the other is the question of hot money, and to get a program which would be acceptable, at least in some degree, to the State Department. We worked over the weekend on it and we have something; we're not particularly proud of it. But I think the next step is, I'd like to

-2-

have an opportunity to go over it with Jake - I haven't done that - and then the next step is to bring it up to Mr. Magill and Mr. Taylor. And that's just where we're at. I could go into the details of where we're at on the thing, but.....

H.M.Jr: This has been going on now for how many months?

Haas: Oh, a long time; it's like perpetual motion; you'll never get a perfect plan. But I think we've reached the stage where you either look at it and say, "That's not good enough," and throw it out or - and just go ahead with the withholding tax. I think we've made some progress on it.

H.M.Jr: Well, on tax legislation - now, after all, the final say is Magill's. Now.....

Haas: I'm working under Mr. Magill's instructions. He asked me to do it.

H.M.Jr: I understand. But I expect to leave here on the night of the 19th and I'm going to be gone until the second of September - and that's definite. I mean that was decided this morning at 8:30 after I'd been with the doctor for an hour. And I called up "Dr." McIntyre and - as I say, I'm going; doesn't make any difference what they say across the street; I'm going. I've just been with him for one solid hour. So now we might just as well face this situation. I mean I can handle Brazil, I can handle China; we can get that thing cleaned up. Wayne is leaving tonight and will not be back, most likely, until the 19th or 20th, something like that. So it's just a question - I mean everybody might just as well call a spade a spade. I mean the French situation now looks 75 percent as though she'd go, and if she goes she's good until October. I'm leaving the country in as good a shape as she's been in since - well, prior to the 15th of March.

Lochhead: And the gold situation looks much better.

H.M.Jr: I've taken this thing - the full responsibility of the gold situation as far as the world goes since the first of January, and I've taken the blunt of the Federal Reserve increasing their excess reserves when they shouldn't have. And this thing from the

-3-

15th of March until today has just been hell, and on top of that we've had this tax thing forced on us when we would have wanted to do it in November. We had to do it, and Magill's going down the line on that. And I haven't had the wildest dreams anything like that would happen. But we've handled that. But we weren't ready to handle it. Magill's done a beautiful job; everybody helped - Oliphant helped, everybody helped.

And so I just haven't got time - I mean I can make decisions, but I haven't got time to sit around and analyze a tax program. Why, we've had this thing for six months, and I just say - if somebody could say, "Here's a plan," or "Here's three plans; which one do you like best? I recommend this plan," I'll say "Yes" or "No."

Magill: We have....

H.M.Jr: I mean I'm just talking very quietly and straight from the shoulder, and I can't fool around with anybody that doesn't - that can't come in and say, "Mr. Morgenthau, I recommend this and I'm willing to put my professional reputation on it." But to say after six months you don't know whether it's any good or not - don't bring it around here, George.

Haas: Well, the thing on that, Mr. Secretary....

H.M.Jr: Don't bring something that you can't stand up for. I'm in this position; the people in this room have either got to say, "We recommend this and are willing to stand behind it and are willing to put our professional reputation behind it," or "We won't recommend anything."

Haas: Mr. Secretary, we'll do that at this stage, but....

H.M.Jr: You've got to do it for Magill too.

Haas: I know, but we wanted - I expected to, and it hasn't reached that stage - that Ros was going to make the recommendation to you and I was going to make....

H.M.Jr: But you're not ready to make your recommendation to him.

Haas: I'll be ready.

-4-

H.M.Jr: When?

Haas: This morning.

H.M.Jr: Are you going to stake your reputation on it?

Haas: I'll go right in now and tell him.

Magill: I talked to Mr. Doughton this morning over the telephone and there apparently are going to be no meetings today of the Committee, but they do expect to meet tomorrow morning in executive session. I dare say, since they've gotten over the problem that you (H.M.Jr) and I discussed yesterday, that they would decide tomorrow probably what they're going to do on different phases of legislation, so I would like by tomorrow to have a perfectly clear proposition on this non-resident alien matter and the other matters which we are working on.

H.M.Jr: Well now, Ros, I'm talking very quietly and very collectedly and I'm calling a spade a spade. Now, I wish that everybody else who's got any problem or anything else - that we'll do the same. Now, Taylor's all right; he's been taken care of; he knows what his job is. Now, if anybody - it's you (Magill). Now if this thing is going to break now, get this thing, you don't know yet where you're at, do you?

Magill: Well, I know where I'm at in this way. I know what I'm going to recommend if I don't get something from the Department?

H.M.Jr: Do you want me to hold this evening free? Do you want me to - I mean I have nothing this evening. But I don't want to - what I want you to do.....

Magill: I don't want to burden you with it unduly.

H.M.Jr: I'm not going to get into any argument anyway. I'm willing to have you walk in any time between now - can't do it tomorrow; let's get this thing straight here what my schedule is tomorrow. I can only stretch myself so far, and I stretch myself the limit.

(To Kieley) I wish you'd tell - if you'd make a note please - Mr. Schwarz that if it's just as agreeable to the press I'd like to see them at nine o'clock tomorrow morning and the reason is - tell them that I.

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have Dr. Sousa Costa coming in at 9:30, Finance Minister from Brazil, and Dr. Kung, the Finance Minister of China, at 11. And you know I've made the appointment with Brazil. Let the Chinese know Dr. Kung can come any time - any morning, I told them - Kung at 11. Brazil at 9:30 - they know that. But tell the press at nine. So that takes care of tomorrow morning.

Now, I'm free this afternoon and I'm ready to talk, and I just say - at four o'clock this afternoon the Brazilians are sending us a memorandum of what they have in mind. I tried to get the President - that's why I asked you people to wait - because I wanted to ask him just how generous he wants to be with China. And in talking with you fellows - in fifteen minutes we can tell what we want to do on China; it's just a question of the President - how much does he want to do for China. And on the Brazilian thing, we get that memorandum at four this afternoon, which gives us a chance to look at it, and I don't think that's going to be so difficult. So the thing comes back to you, see?

Magill: Well, the way it looks to me is this. If George and Jake and Wayne - if that's the committee, or whoever it is in the Department that's working on it - Clarence, if you've been working on it - whoever it is - if you can agree on what your recommendations will be, I'm quite free all day today and I can talk to you any time that you reach an accord among yourselves, and I'd like to spend half an hour or an hour, whatever is necessary, going over it, and then after that...

H.M.Jr: Well, I can't understand why Haas hasn't had this thing all sewed up and finished. Been on this thing now since - you've had nothing since you're back except this tax thing.

Haas: Well, I don't....

H.M.Jr: It's always....

Haas: I don't want to argue about it, Mr. Secretary; I mean you're tired and... It's one of those problems - a tough one and I don't think we can ever get a.....

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- H.M.Jr: All right, then Magill and I will settle it. I can settle it with him in 30 seconds. I'm not going to fuss around.
- Haas: I can settle it, Mr. Secretary, with Ros in a short time.
- H.M.Jr: I can settle it with him in 30 seconds. It was settled a long time ago as far as I'm concerned; the 35 percent withholding tax was approved by the State Department; I got Mr. Hull on record personally - and to make them show their income file. As far as I'm concerned, I don't want anything else.
- White: Mr. Secretary, that's not Mr. Haas's fault; I think that's chiefly mine, because they were ready to agree some time ago and George has been pushing this right along. It's a complicated matter and I've wanted to be satisfied so far as I'm concerned that they couldn't find something that would deal with the problem more effectively. And that's why - I don't think George is in any way at fault; if there is any criticism, it's due to me.
- Lochhead: I have a little different idea. We agreed on a withholding tax pretty well, but then the Federal Reserve Board said - Mr. Eccles said that we must have something that's going to stop the gold movement, we have to catch the capital gains; and we've been trying to work something on capital gains, and I don't think we'll ever agree on that.
- H.M.Jr: No. All right. Now listen, Eccles has stopped because he can't go ahead with his hundred percent reserve thing, and Eccles has been trying to trade with us right straight along, and if he should say we can't go ahead with the tax program, I can say, "All right, Marriner, take your banking legislation up on the Hill; go ahead." Well, he won't do it.
- White: Is that off then, that hundred percent thing?
- H.M.Jr: No, it's on, when the right time comes, but everything - all legislation is off until the Court thing is finished, and I'll be back from Hawaii in plenty of time.

(Hearty laughter)

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H.M.Jr: Am I right?

Oliphant: I think so. I think Wheeler has some remarks he wants to make.

H.M.Jr: I'll be back - I'll be back in plenty of time.

Haas: Mr. Secretary, just joking, the job that I was trying to do was to try to get these different units together, not trying to get myself together - I wouldn't have so much trouble there, or our own division. But it's the State Department, S.E.C., Federal Reserve, and the Bureau of Internal Revenue, trying to bring them together - that's what takes all the time.

H.M.Jr: Well, Magill says he fortunately has - you're available now?

Magill: I'm available all day. I told Doughton I'm subject to his call; I may have to talk to him.

H.M.Jr: All right. Well, when this meeting is over, will you put your teeth into this and take a look at it?

Magill: Well, I would much rather do the way that George has suggested; that is, let him talk to Jake Viner and whoever else has been working on it and see if they can agree on something. Last time we met, which was a week or so ago, I think George thought everybody was in agreement, but they came into my room and they weren't in agreement at all; we talked around and when we got done it was worse off than when we started. Isn't that about it? I feel like I'd like to see whether there is a recommendation which they can make; if there isn't, I know what I'll recommend to you.

H.M.Jr: Well, let's put it - when will you be ready to see Magill?

Haas: Well, I think we just better put a time limitation on it. I think, say, 12 o'clock.

Magill: O.K.

H.M.Jr: All right. Well then, if you fellows - I mean I want to see Magill and Oliphant alone on this Internal Revenue situation now, and then if I have any time

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before 11 o'clock I'd like to talk to you fellows about this Chinese thing. But I'd like to talk to Magill and Oliphant now.

Magill: And I've got a date with you (Haas) at 12 o'clock.

RE ASSISTANT GENERAL COUNSEL, INTERNAL  
REVENUE

July 7, 1937  
9:50 A.M.

Present: Mr. Magill  
Mr. Oliphant  
Mr. McReynolds

Oliphant: Opper's a pretty quiet and conservative sort of fellow, isn't he? He said to me this morning that the fundamental difficulty underlying this whole situation was that Eccles stood like a mule on the proposition, regardless of what anybody else said, that this gold thing had to be handled; second, it had to be handled by a tax - by a tax bill drawn by his men. There's your fundamental difficulty.

H.M.Jr: Well, it's more than that. Eccles, as he always....

(On White House phone) Hello. - Thank you. (Has conversation with President, transcribed separately)

.....

Magill: I can tell you that; he's seeing two others - Crowther and Treadway.

H.M.Jr: Who?

Magill: Crowther and Treadway, the two Republican Ways and Means members.

H.M.Jr: He's seeing them?

Magill: (Nods yes)

H.M.Jr: Did I tell you last night that there would be no more public hearings on this thing, that this thing is finished? Did I say that last night on this tax business? Am I right?

Magill: (Laughs)

H.M.Jr: Well?

Magill: I'm not sure, I'm not sure. I'll bet you a dime just to show.....

(McReynolds comes in)

-2-

H.M.Jr: What?

Magill: .....a dime, to show my interest in it - that there will be another hearing.

McR: Oh, by the way, the boss owes me a quarter.

Magill: I'm bound to win the dime.

H.M.Jr: I haven't bet yet.

(Hands quarter to McR)

McR: Thank you, sir.

Magill: I haven't told you yet I'm bound to win. If you want to limit your bet to the Hearst matter, I think you've got a fighting chance.

H.M.Jr: Hearst matter?

Oliphant: LaFollette is insisting on bringing out the Hearst thing.

H.M.Jr: Well, that's - I don't know; you can tell me about it. I want to get over this thing. We'll have a little gossip afterwards.

Magill: Well, generally speaking, you're right as far as that's concerned. I could fix the bet so you'd lose it, but...

H.M.Jr: What's the situation about Assistant General Counsel, Internal Revenue?

Oliphant: There's been no change in it.

H.M.Jr: Is he (Shafroth) still here? I got your note last night; I thought he'd gone to Cape Cod.

Oliphant: Well, he's back. He was back yesterday. Just went over the weekend.

H.M.Jr: Has he been working?

Oliphant: Yes.

H.M.Jr: I thought he was going away for a week.

-3-

- Oliphant: Well, he didn't go away for a couple weeks; just went to Cape Cod over the weekend, then came back.
- McR: Leaving today, though?
- Oliphant: But he flew last night at 5:30 out to Missouri - I mean out to Denver, to spend a day or two putting his firm in order.
- H.M.Jr: (On phone) For Mrs. Morgenthau, find out where Mrs. Shafroth is if you can and let me know later on. Find out whether she is here or at Cape Cod. Let me know later.
- Well, I thought he was just going to lay low until this thing was through.
- Oliphant: I thought the understanding was that he.....
- H.M.Jr: And Russell Ryan was to carry on the routine work of the office. But this is very pleasing to me.
- Oliphant: That was my point, to try to get him away for a couple weeks to let him rest.
- H.M.Jr: That's what I....
- Oliphant: And Russell Ryan to carry on until the end of the session, so we could make a recess appointment.
- H.M.Jr: The impression I had was that he was just going to do nothing.
- Magill: I would like to see him carry on. I was thinking today, with your approval, that I would call up Russell Ryan, who has been working on this Board of Tax Appeals rules matter, and who I should think would be very effective in that connection, and urge him to go on and push it through.
- Oliphant: Oh, you don't need to. He's going to push it through; he's doing business.
- H.M.Jr: Then we have no position to fill and no problem.
- Oliphant: No, not now. We have no problem right now. Before you get away I want to talk to you about it.

-4-

H.M.Jr: Well, let's do it now. I mean that's the.....

Oliphant: You mean what's on my mind right now?

H.M.Jr: If you please.

Oliphant: I'd like to have supper with you, or lunch here, so you can begin to acquaint yourself with Rogge, find out something about him.

H.M.Jr: Have you (Magill) met him?

Magill: Yes, sir.

H.M.Jr: Have you met him, Mac?

McR: No, I haven't.

H.M.Jr: How well do you know him?

Magill: Not well. He was at Harvard taking graduate work the semester I was up there as a visiting professor, and I knew him slightly at that time. He's been associated with the firm in Chicago.....

H.M.Jr: He was a visiting professor?

Magill: No, he was a graduate student. He's been associated with the firm in Chicago with which I originally practiced 18 or 20 years ago, whatever it was, when I started out out there, so I hear about him through some of those men that I know.

H.M.Jr: Are you (Oliphant) sold on him?

Oliphant: Well, I - I'd just like to....

H.M.Jr: Have me take a look at him.

Oliphant: The two of us visit together.

H.M.Jr: Let Mac visit with him.

Oliphant: I'll find a reason - some problem for him to discuss with Mac. I don't want him to know it's.....

H.M.Jr: You (Magill) might be thinking about it too.

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Magill: All right.

H.M.Jr: But this makes it much easier for me, because I just thought there was no...

Oliphant: No, no, everything's in shape. This little detail on it - that Shafroth will be out there for two or three days, while Ryan has to take his wife up to Boston for an operation for a couple of days. Now, if there is a hiatus of one day in there, I have arranged to put Leming at the desk, who is a very sane and conservative man.

Magill: Have you thought about Randolph Paul?

Oliphant: Yes. He's too emotional, too much of a poet, if you know what I mean - too much of a....

Magill: Uh-huh.

Oliphant: The thing that strikes me about Rogge is that his make-up is like his physical build; he's a big sturdy man who went in there alone and fought three hundred lawyers and won the Dawes bank case, and whose heart is in the right place. I checked out there in Chicago, and the word I got back from several sources is that he's a rabid New Dealer - something of that sort.

H.M.Jr: How do you spell it?

Oliphant: R-o-g-g-e - John Rogge.

Conversation with President Roosevelt - July 7, 1937, 9:55 A.M.

H.M.Jr: Hello? - Thank you.

Hello? - - Good morning, how are you?

F.D.R.: Oh, pretty well.

H.M.Jr: Have you got a minute or two? I'm seeing the Federal Reserve at 11 and we're then going to settle our financing for the rest of the summer - just the executive committee.

F.D.R.: Yes.

H.M.Jr: Then I'm seeing Brazil at 9:30 tomorrow morning.

F.D.R.: Who?

H.M.Jr: The Brazilians - Brazil - Sousa Costa, from Brazil; don't need any help on that. But at 11 tomorrow I'm seeing Kung, the Chinese. How generous do you want me to be with him?

F.D.R.: How what?

H.M.Jr: Generous.

F.D.R.: With the Chinese?

H.M.Jr: I tell you what I can do. They've got 62 million ounces of silver in this country which they own. I can swap that for gold and they'll leave the gold here, earmarked in the Federal Reserve.

F.D.R.: Yes.

H.M.Jr: And all they will want is an agreement that they can borrow dollars against that when they need it. I think it's all right.

F.D.R.: I think it's grand.

H.M.Jr: And that will give the people in the world a feeling that somebody else has got an interest in gold.

F.D.R.: I like it very much.

H.M.Jr: You like that.

-2-

F.D.R.: Yes sir.

H.M.Jr: The other thing, with the Brazilians - besides selling them gold on the installment plan, I thought I'd try to sell them a little silver on the installment plan, see?

F.D.R.: Yes.

H.M.Jr: And get them....

F.D.R.: Grand.

H.M.Jr: ...get them to use up a little silver.

F.D.R.: When am I going to see the Brazilians?

H.M.Jr: Well, he's only here this week. He expects to go away to New York next week.

F.D.R.: All right, well, I can see him though.

H.M.Jr: I think you should.

F.D.R.: Arrange for him - when I should see him.

H.M.Jr: Well, why don't you think of doing this, if I might suggest it....

F.D.R.: Yes.

H.M.Jr: After we see him - his thing we can't do so quickly, and let's bring him back from New York the next week.

F.D.R.: That's all right.

H.M.Jr: And by that time we'll have gotten together....

F.D.R.: Yes, that's O.K.

H.M.Jr: How's that?

F.D.R.: Fine.

H.M.Jr: And then is there anything that you want to tell Magill or me about Harrison and Doughton?

F.D.R.: Nothing yet. I've seen two others this morning.

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H.M.Jr: Yes.

F.D.R.: I'll tell you later.

H.M.Jr: And will you save me Friday morning, bedside?

F.D.R.: Yes.

H.M.Jr: What?

F.D.R.: Yes, all right.

H.M.Jr: Friday morning.

F.D.R.: Yes.

H.M.Jr: Bedside.

F.D.R.: Righto.

H.M.Jr: Thank you.

July 7, 1937

To: The Secretary  
From: Mr. Magill

1. Tax investigation

Mr. Doughton informed me this afternoon that Colonel McIntyre had advised him that the President had a very satisfactory conference with Messrs. Treadway and Crowther. Colonel McIntyre suggested that Mr. Doughton discuss the situation further with the two Congressmen. Mr. Doughton was apparently in the dark as to the precise results of the conference with the President.

I am to see Mr. Doughton tomorrow morning at ten and he expects to call an executive session of the Committee for some hour later in the morning. Presumably the Committee will then decide the later course of the investigation and the topics on which legislation has to be drawn.

Messrs. Beaman, Kent, Tarleau, and various other men are now working together on the proposed legislation every afternoon. It ought to be ready in about a week.

2. Non-resident aliens

Mr. Haas' group presented a joint proposal for legislation to me this noon. It is my understanding that everyone agreed. Dr. Viner has agreed upon the recommendations but would prefer that legislation should be postponed until the next session of Congress. I told him that this was out of the question in view of your letter to the

- 2 -

President and in view of the fact that our economic experts had been working on the subject from six to nine months and, hence, would be expected to have formulated a well-rounded program.

The recommendation is that the withholding rate on individuals and corporations be increased to 22 percent, with the provision that individuals may, by filing returns, secure refunds of taxes they have paid on their American incomes in excess of the amounts that would be payable by American citizens with similar incomes; provided, however, that the rate of tax payable shall never be less than 10 percent. In the second place, they proposed an excise tax of 5 percent on capital gains from the sale of stocks in this country. This tax will be collectible by the brokers, and will be enforced by stamping the purchase price upon every certificate of stock bought by a non-resident alien. When a certificate so stamped is presented for transfer in this country, the excise tax will fall due on the difference between the then sale price and price stamped on the certificate. It is my understanding that this proposal has been informally cleared with the State Department, the SEC, and the Federal Reserve Board.

### 3. Bureau administration

Mr. Doughton asked me to see two men from the office of the Chief Counsel in the Bureau of Internal Revenue regarding irregularities which these men had apparently brought to Mr. Doughton's attention. I have now talked with both of these men; Mr. Oliphant was present at the second conference this afternoon. Much that they have to say consists of generalities and they have presented no proof of dishonesty.

- 3 -

Nevertheless, I feel (as I have previously) that as soon as my desk is a little clearer I want to take some active steps, in conjunction with Messrs. Oliphant and Helvering, on the subject of the reorganization of the procedure and the possible replacement of some of the men in key positions.

RM

July 7, 1937

Appert came in at 2:30. He said he was going back to Paris for several weeks' vacation and came in to bring a message from Mr. Bonnet to the Secretary. The message was to the effect that Mr. Bonnet thanks the Secretary for all he has done for France.

Mr. Appert then asked whether the Secretary had any message for Mr. Bonnet. HM, Jr replied, "No, except that I wish him success."

HM, Jr. then said to Mr. Appert, "I would like to say something to you, if I may without your misunderstanding me. When this gold scare was on so badly, you were in one of the New York banks for lunch and, if I may say so, I think you talked a little bit too freely as to how worried you were about the gold, etc., because the Vice President of the Bank where you were came down here and told me that you had said so-and-so and so-and-so. While the thing was on, I did not want to say anything to you, but I felt that the first opportunity that you and I were alone I would tell you."

Mr. Appert replied, "I am trying to remember in which bank I had lunch and I cannot remember. The last lunch I had in a bank was with Mr. Bonnet about a month and a half ago and that was at the Bankers Trust."

HM, Jr's next comment was, "This conversation is just between the two of us. I have not, and would not, mention it to anyone else. It is not my intention to hurt you, but I did want you to know that I felt that you talked a little too freely at that time." Appert answered, "I am very grateful to you. I am generally very careful about talking. I am afraid that someone must have misunderstood me."

The Secretary then said to Mr. Appert, "Give Mr. Bonnet my best regards and tell him that I wish him great success."

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 7, 1937, 4 p.m.

NO.: 934 FROM COCHRAN.

Today considerable fluctuation in exchange rates at Paris. The sterling rate continued to be lowered by French control. Control had a fairly good day acquiring pounds except for one period when it had to sell some around 128.20 most active selling of sterling against francs came from London.

\$630,000 purchased for French control today by Paris-American bank. Weak opening for dollar on rumor that American Treasury had refused to let French control have gold against transactions in exchange. I was contacted by my bourse friend, who denied this rumor to his fellow traders. Apparently it died down. Yesterday's weakness of the dollar was attributed by Paris to be due principally to French capital withdrawals from New York to London and Paris, and to sales of gold to the United States by Japan. Rise in French rentes of 70 centimes, bringing them to (1?) .40 francs, and in general there is a better atmosphere on the market.

Yesterday the Bank of France invoiced to the Federal Reserve for shipment on the NORMANDIE 29,163,000 French francs for account of BIS. It appears, from confidential information, that sales by German and Finnish central banks were the principal source of the gold.

There is again a rumor current again that Quesnay may

- 2 -

become Governor of the Bank of France, succeeding  
Labeyrie.

BULLITT.

EA:LWW

July 7, 1937.

Dear Trentham:

Complying with request of the British Treasury made to Ambassador Bingham, there are transmitted herewith for the files of your Embassy copies of cables containing the messages of the Chancellor of June 30th, together with copy of Secretary Mergenthau's reply thereto.

Yours sincerely,

(Signed) Wayne S. Taylor

Assistant Secretary.

Mr. E. N. R. Trentham,  
The British Embassy,  
Washington, D. C.

encl

MJD

GRAY

London

Dated July 6, 1937.

Rec'd. 9:45 a. m.

Secretary of State,  
Washington.

RUSH.

436, July 6, 1 p. m.

FOR TREASURY FROM BUTTERWORTH.

At the request of the British Treasury I agreed last week-end to ask you to be good enough to give Trentham for the files of the British Embassy copies of Simon's messages contained in my 424, June 30, 11 a. m., together with a copy of your reply thereto.

RR  
7770

BINGHAM

JUL 6 1937  
TREASURY DEPARTMENT  
Office of the Sec.  
Treasury Department is the Secretary

## MEETING WITH BRAZILIANS

July 7, 1937.  
9:30 a.m.

Present: Dr. Arthur de Sousa Costa  
An Interpreter  
Mr. Lochhead  
Mr. Williams  
Mr. Riefler  
Dr. Viner  
Mr. White  
Mr. Oliphant  
Dr. Feis  
Mr. Caffrey, American Ambassador to Brazil  
Mrs Klotz

H.M.Jr: Possibly the best way would be to read the Ambassador's letter.

Costa: The Ambassador is not coming.

H.M.Jr: Well, I'll read the letter from the Ambassador which I got last night.

"It gives me much pleasure to send to you a few notes concerning the subject of our conversation last night, and which, I hope, will provide you with elements for your conversation tomorrow with our Minister of Finance.

"The following memorandum was presented to the Under Secretary of State, Sumner Welles, on the occasion of his passage through Rio de Janeiro on December 31, 1936, setting out the general ideas of the Government of Brazil as regards the establishment, with the help of a loan, of a stabilizing fund in the United States, in connection with the formation of a central bank in Brazil, and also to the participation by Brazil in the Tripartite Monetary Agreement."

Now, I'm correct from - that from here on this memorandum is new, isn't it? This is new, beginning here?

Interpreter: Yes, that's new. No, I beg your pardon....

Feis: New in what sense, Mr. Secretary?

H.M.Jr: I mean this isn't the same as the December 31 memo.

-2-

Feis: I should say that it is just a slight development of what has already been available.

H.M.Jr: "(1) Central Bank. The American Government will place at the disposal of the Brazilian Government the amount which shall be considered technically necessary as the gold reserve for the Brazilian currency in circulation, and this gold reserve is such as to allow for the increase or decrease in the volume of paper money without running the risk of falling below minimum reserve requirements.

"The studies entered into for the determination of the necessary amount will be carried out by the experts of the Treasury Department of Brazil and submitted to the American experts during the discussions to be held in Washington.

"(2) The gold put at the disposal of the Brazilian Government by the American Government will be deposited in the Federal Reserve System.

"(3) The Brazilian Government will agree to remit annually a stipulated amount of foreign exchange currencies to the United States in amortization of this credit, and the amounts of gold corresponding to these remittances will be at the free disposal of the Brazilian Government for monetary purposes.

You notice I skip the interest rate. I just pass that over, because....

Costa: Yes.

H.M.Jr: ....your President and our President fixed that all for both of us.

"(5) The amortization quota will be fixed annually by agreement between the two Governments in accordance with the possibilities of Brazil.

"The purpose of the American Government in this operation is to facilitate the plan of the Government of Brazil to effect the stabilization of its currency, which is mutually convenient and helpful not only to the interests of both Governments but likewise to the collective American interests."

-3-

Now, what I'd like to say - if the Minister doesn't understand, I'll go very slowly - wouldn't it be better to translate as I go along?

Inter.: I think his Excellency will understand.

H.M.Jr: Well, if he doesn't, will he say so?

Costa: Yes, I will.

H.M.Jr: In the first place, I want to say that the United States Government is anxious to do everything possible to work out, in cooperation with the Brazilian Government, a financial program which will be mutually advantageous. As you appreciate, we only got this memorandum last night; we consider this question of tremendous importance to us, and we feel that in order to arrive at a plan which will be successful for a number of years and not just for a few months, it ought to take careful study on our part. Unfortunately, we are not as familiar with the finances of Brazil as we might be, and we feel that we have to go to school, that you will have to educate us as to your banking system and your methods of dealing with your financial problems.

Inter.: (Explains Secretary's remarks to Costa) Is that correct?

Feis: I think so. The Secretary has almost said what we said at the beginning of our meeting, that we fully want to cooperate, and because of limited knowledge of Brazil's financial and banking practices and the wish to establish something solid, the first thing he suggests is going to school. That's what he said.

H.M.Jr: That's right. We furthermore feel here that it would be a mistake to make any moves until we can arrive at a complete picture and we hope at a complete solution.

Inter.: (Explains to Costa)

H.M.Jr: Now, what I'd like to ask the Minister - how he would like to do this. Would he like to leave his financial experts here in the United States or would he like us to send some to Brazil? Now which - how would he like

-4-

to approach it, because I look at it - this isn't a matter of days, it's a matter of weeks; I mean it will be weeks of study, not just a matter of a few days.

Inter.: (Explains to Costa) Do you (Feis) follow what....

Feis: Yes, but not with enough certainty. I think I know what you mean, but I'm not certain enough.

(Interpreter and Costa confer)

Inter.: The Minister says that just now it seems to him that it would be better to have a general review of the possibilities of an understanding, and your technicians could make a questionnaire which could be considered by our technicians, and afterwards we could go into further details if necessary.

H.M.Jr: Well now, has the Minister the technicians here with him?

Costa: Yes, I have. I have some technicians here with me and I think we can begin the studies now.

H.M.Jr: Yes, but you see, you're only here for two more days.

Costa: Yes, I have time.

H.M.Jr: No, I mean the Minister goes to New York Friday night?

Costa: I can stay here if necessary.

H.M.Jr: Well now, might I ask the Minister does he personally wish to participate in these meetings?

Costa: Yes, I want to.

H.M.Jr: You do. Well then, if he's willing we have here our people and they're ready to suit their convenience to the Minister's.

Inter.: (After conferring with Costa) Would it be possible to have him meet with the technicians tomorrow at any time?

H.M.Jr: Any time that suits his convenience.

-5-

- Costa: In the morning at the same time - half past nine.
- H.M.Jr: Yes, but if you - if you'd explain to the Minister that I'll start the meeting and then I'll excuse myself, and if he doesn't mind having them question - ask him questions - if he would object to that?
- Costa: No, I want that.
- H.M.Jr: Fine. Well then,.....
- Costa: And if I can answer, I will; if I cannot, I will say.
- H.M.Jr: Well, at least we'll show the Minister how ignorant we are anyway.
- Costa: (Laughs)
- H.M.Jr: About Brazil.
- Costa: Yes.
- H.M.Jr: One other thing. The President of the United States said he was very anxious to meet Dr. Sousa Costa before he left. Now, could he come back any day next week to see the President of the United States?
- Costa: Yes.
- Inter.: (Explains to Costa)
- Costa: Yes. I'm going to New York the first days of the week, but I can come back any time.
- H.M.Jr: Well now, may I just ask do you men want to prepare a list of questions or do you want to go at it today? How would you men like to do this thing? It's up to you. Do you want to have today to get ready or how do you want to do this?
- Williams: I'd like to start today if possible.
- H.M.Jr: You would? You'd like to start today. Professor Williams says he'd like to start today.
- Inter.: (Explains to Costa)

-6-

Costa: Yes, we can. The reason I said tomorrow is because the Ambassador is tomorrow here, so we'll have - but if you prefer today - this afternoon....

Williams: I thought we might do something in a preliminary way.

Costa: All right.

H.M.Jr: You see, these gentlemen are all on vacation and they don't like Washington, so I have greatest difficulty in keeping them here.

Williams: That's the whole answer.

H.M.Jr: Has the Ambassador another appointment now?

Costa: The Ambassador went to the.....

Inter.: He's out of town.

H.M.Jr: Has the Minister another appointment now?

Costa: No.

H.M.Jr: Would he be willing to take some time right now?

Costa: All right.

Inter.: Yes.

H.M.Jr: Now, Williams, are you ready?

Williams: Always ready to ask questions.

H.M.Jr: Well, why don't you take an hour of the Minister's time now, and if he is willing - maybe he'd be willing to come back this afternoon. Would that be agreeable?

Costa: For me it's the same thing; can work now or in the afternoon. All right.

H.M.Jr: Well then, I tell you, I think if you'll all walk down to Wayne Taylor's room - I guess that's as good a place as any - and I'll walk down there with you.

(C O P Y)

BRAZILIAN EMBASSY  
Washington July 7, 1937

My dear Mr. Morgenthau,

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The following memorandum was presented to the Under Secretary of State, Sumner Welles, on the occasion of his passage through Rio de Janeiro on December 31, 1936, setting out the general ideas of the Government of Brazil as regards the establishment, with the help of a loan, of a stabilizing fund in the United States, in connection with the formation of a central bank in Brazil, and also to the participation by Brazil in the Tripartite Monetary Agreement:

"(1) Central Bank. The American Government will place at the disposal of the Brazilian Government the amount which shall be considered technically necessary as the gold reserve for the Brazilian currency in circulation, and this gold reserve is such as to allow for the increase or decrease in the volume of paper money without running the risk of falling below minimum reserve requirements.

"The studies entered into for the determination of the necessary amount will be carried out by the experts

-2-

of the Treasury Department of Brazil and submitted to the American experts during the discussions to be held in Washington.

"(2) The gold put at the disposal of the Brazilian Government by the American Government will be deposited in the Federal Reserve System.

"(3) The Brazilian Government will agree to remit annually a stipulated amount of foreign exchange currencies to the United States in amortization of this credit, and the amounts of gold corresponding to these remittances will be at the free disposal of the Brazilian Government for monetary purposes.

"(4) The interest rate on the loan will correspond to the technical cost of the operation (more or less one-eighth of one percent per annum).

"(5) The amortisation quota will be fixed annually by agreement between the two Governments in accordance with the possibilities of Brazil.

"The purpose of the American Government in this operation is to facilitate the plan of the Government of Brazil to effect the stabilization of its currency, which is mutually convenient and helpful not only to the interests of both Governments but likewise to the collective American interests."

Following the communication in question, the Government of Brazil proceeded with the necessary studies, arriving at the following conclusions, which are submitted to Your Excellency informally and personally, and with the sole purpose of providing a basis for study and explanation:

1.- The economy of Brazil shows at the present time a steady trend towards prosperity, the indices of which are apparent in its agricultural and industrial production and in its domestic and foreign commerce.

-3-

2.- This prosperity is set on solid bases and indicates a stable and growing development.

3.- The currency of Brazil is on the way to recovery, as indicated by the steady rise in its value comparatively to other currencies, even under the handicap imposed by the requirement of the purchase of 35% at the official rate, and the continuous issue through rediscount.

4.- The total monetary circulation (both the regular and the rediscount) is, today, 4,500,000 contos, or \$300,000,000, and the value of the mil reis is quoted in the free market at 15\$000 to the dollar.

5.- The Treasury possesses 24 tons of bar gold and the Bank of Brazil has 48,000,000 available abroad.

6.- It is beyond doubt, therefore, that the economy of the country is prepared for and, indeed, requires the creation of a co-ordinated agency, which

- (1) shall regulate domestic credit and control the circulating medium so as to
  - (a) assure the value of the currency and safeguard its stability;
  - (b) promote and assure its convertibility.

7.- The creation of this agency would be based on

- (1) the present foreign exchange and gold holdings of the Government, and the present availabilities in Brazil

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8.- Once the bases are agreed upon as to the procurement of the fund in this country - the amount and conditions of which depend upon your Government - the Government of Brazil would

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-4-

As you see, these are general ideas only, because the details depend upon the fund to be provided here, upon its amount and its effect on our domestic economy and on the convertibility of our currency in the international market.

With my regards, I am

Very sincerely yours,

(Signed) OSWALDO ARANHA

July 7, 1937

HM, Jr spoke to James Roosevelt over the telephone today at about noon and James Roosevelt told the Secretary that Congressman Crowther, of New York, and Congressman Treadway, of Massachusetts (both Republicans) were in the room with the President at that moment and were going over the President's income tax return. He said the President wants them to see it and if there are any questions he will answer them now.

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

-2-

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-4-

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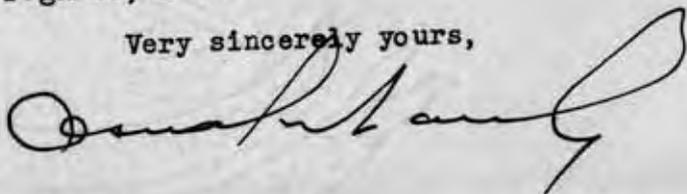
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## RE CHINESE SILVER PURCHASE

July 7, 1937  
10:10 A.M.

Present: Mr. Taylor ✓  
Mr. Lochhead ✓  
Mr. Viner ✓  
Mr. Riefler ✓  
Mr. White  
Mr. Oliphant ✓  
Mr. Opper ✓

H.M.Jr: Well, here's the thing. The only thing I can talk on intelligently is this Chinese thing. As I understand it, they've got 12 million ounces of silver here in one lot and 50 million ounces in another. I understand they want to increase their gold reserve to 15 percent and it's now 7. Is that what it is?

Taylor: Just about.

White: 7.4

H.M.Jr: If they bring it up to 15, how much in gold would they have to have?

Taylor: About 30 million more.

H.M.Jr: How much?

White: About 50 million, I think, altogether - 55 million.

H.M.Jr: Now wait, let's get our figures. How much gold do they own at home and here altogether?

Viner: Here's the.... (handing H.M.Jr sheet)

H.M.Jr: How much gold do they own now?

Taylor: 31.

H.M.Jr: (On phone) Tell Clarence Opper to come in.  
And where is it?

Taylor: 19 million 900 thousand is in the United States.

H.M.Jr: 20 million, all right.

Taylor: 11 million 200 thousand is in China.

H.M.Jr: They got how much gold then?

-2-

Taylor: 31 million.

H.M.Jr: Now, what I thought we could do is - if we take their whole 62 million ounces at 45 cents, that's 28 million dollars. And they got how much gold now?

Taylor: 31.

H.M.Jr: Well, 28 and 31 gives them more than 55 million.

(Lochhead comes in)

My thought would be this, to say to these fellows, "We'll take all your silver that you got in this country and give you gold, with the understanding that you earmark it and leave it here, just the way you've left your other gold, and then if you need some cash we'll lend you cash against this gold."

Now, here's the question I want to ask you. We say the price of gold is \$35. Now, if a fellow wants to borrow - he's got 59 million dollars worth of gold and he wants to borrow dollars, exchange - that's what it is - and we don't call it borrowing... Now, on the silver - if we could only lend him 40 cents on an ounce of silver - you can't say, for instance, "We'll lend you....." - you've got to lend him the full amount?

Lochhead: As a general rule, the loans in New York have been practically full, or 98 percent.

H.M.Jr: On gold you have to lend him the full amount.

Riefler: Full amount, except possibly for assay charges - but full amount essentially, yes.

H.M.Jr: That's what I was trying to get. Well now, if they want to borrow a million dollars on a million dollars worth of gold, we'd charge them 3 percent, wouldn't we?

Lochhead: (Nods yes)

H.M.Jr: And what I was thinking we'd do - might do what the country banks do, charge them 3 percent but deduct the 3 percent in advance. Somebody figure that out

-3-

mathematically, what that amounts to. But I was thinking we'd do it that way instead of charging them a quarter of one percent - say, "If you want a million dollars we'll charge you three percent, and if it is for a year we'll give you \$970,000."

Lochhead: Put on a bank discount.

H.M.Jr: Yes. Then if they keep the money we've got our interest. And I think just for fun figure it out mathematically - doing it that way, what that is - how much extra that is.

White: Very little - three percent of three percent.

H.M.Jr: For a year?

Viner: Be 3.09 percent instead of 3 percent.

Opper: The Secretary means the other way around. A flat 3 percent, how much would you deduct in advance?

Viner: He said what the rate would be.

H.M.Jr: If you take the 3 percent in advance, instead of loaning them a million dollars we'd loan them \$970,000.

White: Nine hundredths of a percent additional.

H.M.Jr: As against - well, I think that would be enough, don't you think so?

Lochhead: I think so - 3 percent.

White: With gold collateral, anything's too much.

Lochhead: If any bank in New York could have the legal right to the gold they'd be willing to lend at one percent.

Viner: I don't see how you can charge them on the one-year loan three percent with gold collateral. You'd have to charge them your nine months rate or a shade over it.

H.M.Jr: We did that with Mexico; they're glad to do it.

-4-

- Lochhead: You can do that, as long as you don't charge any commitment commission. If they'd go to a bank, they'd charge you a commitment commission for holding the loan available, charge a flat rate of half of one percent or one percent as a commitment commission. We won't charge them any commitment commission.
- H.M.Jr: They can't get any commercial bank....
- Viner: On gold as collateral?
- Oliphant: Guess they can get it at one percent with gold as collateral.
- White: They're practically using their own gold.
- H.M.Jr: Well listen, I wanted to give you how I was thinking. I asked the President if he wanted to be generous and he says, "Yes." Now, I think if we're going to do this thing I'd much rather make them a deal - "Now, Dr. Kung, I've talked this thing over with the President. We've got this over here, we don't want any more silver this year, don't want to talk about any more silver, and we'll take this off your hands, with the understanding that - this gentlemen's agreement - that you will leave this gold here unless you have some tremendous raid on you, and then you use your cash balance first." Which is 20 million dollars, isn't it?
- Lochhead: Yes, that's right.
- H.M.Jr: "You have 20 million. If you have some raid on your foreign exchange, use that first."
- White: And there will be a condition on the loan similar to the previous loan, that it will be used only for purposes of stabilizing exchange.
- Lochhead: You'll just extend the loan.
- H.M.Jr: "And this money you use here is for your bank reserve and it must not go into the purchase of war materials or any other such purpose." You might be looking up just what the other agreement is.
- Lochhead: The other agreement doesn't carry those things - kind of things. That was a gentlemen's agreement.

-5-

- H.M.Jr: Write it down, so I can read the stuff on what the agreement should be. If we - I was thinking it over during the night - if we're going to do this thing, why not do the whole thing? They're a pacific state and they've kept their agreement. If you're going to do it, why not do it....
- Viner: I thought of - if they're going to increase their gold reserve to 50 or 60 millions and they've stabilized their exchange, why not invite them into the tripartite agreement? If you want to do it big!
- H.M.Jr: Of course, that's what Brazil wants; that's what Sousa Costa wants.
- Viner: I think it would be all to the good; they're eligible.
- H.M.Jr: Not Brazil.
- Viner: No, I mean China.
- White: I endorse that very strongly.
- Viner: And if you want to do something for their face - prestige - it would be better than their going back and merely saying they got an extension of credit here.
- White: Not only that, but if we could prepare a public statement to accompany this I think we could - first, we could increase the prestige of gold, and secondly, increase the prestige of the whole currency stabilization, and third, help China a great deal.
- Viner: I have all those things in mind.
- H.M.Jr: Now, the first thing the State Department would say - "You've got to do it with Japan too."
- White: They're going in the opposite direction from China.
- Viner: They've got exchange control, they haven't got a gold....
- White: They just increased their exchange restrictions just recently; they're going in the.....

-6-

- H.M.Jr: Jake, that Westchester air is just wonderful.
- Viner: I wish I knew it. I'd like to get better acquainted with it.
- Taylor: I don't think you're going to be able to do that immediately, because you have to check with our friends the British, and the French, and so on.
- Viner: And they'd have to check with China at home too.
- Taylor: But I think it is certainly something to have under consideration.
- Oliphant: Looks to me like....
- H.M.Jr: Just one second. Market's up thirty-second of a point. Sterling is 95 and 11-16; franc is 86 and 11-16.
- Oliphant: It looks to me like it's a very real sense in which they're doing us a favor, taking part of that gold - dead and frozen gold which people are worried about.
- Lochhead: You're taking on silver, on the other side.
- H.M.Jr: If they use it....
- Viner: If they use a credit - there is no interest unless they borrow on it.
- Oliphant: I know it.
- White: You don't think it would be possible to move fast in regard to this including them in the stabilization.
- Viner: No, because he'd have to consult with his own government, we'd have to consult, certainly, on taking a new member; you'd have to consult with the others.
- H.M.Jr: Jake, who does he consult with? He goes into a corner with himself and says, "Now listen, Kung, old boy, do you think this is a good deal?" "Well, Kung, it looks all right to me." "All right, those in favor say 'Aye,' and those opposed the contrary." And Kung says, "Aye," and the "ayes" have it. Did you know that he's Vice-President of the....

-7-

Taylor: ....of the Executive Council.

White: And Chiang Kai-shek is sick.

H.M.Jr: "All Kungs in favor say 'Aye.' The Kungs have it."

Oliphant: It would take the State Department two weeks to get through that suggestion.

Taylor: Well, there's no immediate hurry about it.

Oliphant: What?

Taylor: No hurry about it.

H.M.Jr: What do you mean? The President is working - he's in the same frame of mind I'm in. He doesn't like anybody who cracks him over the head; he's just about the same frame of mind I'm in.

Well, would you fellows have something for me after lunch on how we do the thing - this deal with Dr. Kung, see?

Viner: Be fair to Mr. Haas, now. You've asked him to have something ready by 12. We're supposed to be working with him.

White: Interrupted a meeting.

Viner: Interrupted a meeting, you see. We'll do the best we can; but don't scold Haas if he isn't ready at 12.

H.M.Jr: Is Riefler in on the Haas thing?

Viner: Yes, we'll....

H.M.Jr: All right, do the tax thing.

White: Give us to two or three; then we can have the other.

Oliphant: When does he come in, at nine?

H.M.Jr: Who?

Oliphant: Kung - nine tomorrow?

H.M.Jr: No, at 11.

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Now, when you get this thing ready we'll have Feis take a look at it.

- Viner: Well then, China at three o'clock, not earlier, if the taxation is to be done by 12; that's an ultimatum.
- H.M.Jr: Well, I've got Emil Ludwig at 3:30, so I'd just as leave do China at three.
- Viner: Fine, at three o'clock.
- H.M.Jr: Any of you fellows going to sit in on this 11 o'clock meeting, - Open Market Committee.
- Viner: Today?
- H.M.Jr: Yes.
- Viner: I don't care.
- Taylor: Keep them on that tax bill.
- H.M.Jr: I tell you what I'm going to suggest - if you got time now, you two guys, anybody else - I'm simply going to suggest that we start, beginning next week, to sell 50 million a week of bills into December and continue the nine months. The old trick - we know where we're at, see? So I think you people better concentrate on the tax thing, and then be ready on the Chinese. Now, on the Brazilians, they're going to give us a memorandum at four of what they're going to talk about; and if we're going to sell them gold on the installment plan, we might as well sell them a little silver on installments, with the idea that they'd have a 25 percent reserve of silver and maybe a 75 percent reserve in gold - something like that. But what they're coming in about - two things. They want to get this idea of getting gold, buying on the installment plan, and then being able to borrow against it, see? Two, they want the Treasury to help them set up a federal reserve system. Now, when we get on that maybe we'll want Williams to come up, I don't know.

-9-

Taylor: You're not going to have that today - the second.

H.M.Jr: I think so.

Taylor: I don't think....

H.M.Jr: Well, we'll see.

Taylor: We're going to have this first step, which is only in terms of this gold credit.

H.M.Jr: All right.

Taylor: And I think it may be a little difficult to do One without Two.

H.M.Jr: (On phone) Mr. Bell.

Well, anyway, I think the Chinese thing ought to be finished, see?

(On phone) Hello. Dan, you read the President's statement today about the ten percent? Do you understand it fully now? - - Me too. You want to come down at sharp quarter of 11? Sharp. And I want to talk to you about that and then about our meeting at 11 - sharp quarter of 11, please.

Well, I think that I'd like to have something on paper, and I think we're going to do this thing with them. Then I think this idea of getting them into the tripartite is swell. And the Brazilian thing isn't such a rush, but the Chinese thing - I mean I - why not? They've kept their word.

MEETING WITH EXECUTIVE COMMITTEE OF  
FEDERAL RESERVE OPEN MARKET COMMITTEE

July 7, 1937  
11:00 a.m.

Present: Mr. Taylor  
Mr. Bell  
Mr. Seltzer  
Mr. Eccles  
Mr. Burgess  
Mr. Ransom  
Mr. Harrison  
Mr. Goldenweiser  
Mr. Williams  
Mr. Broderick  
Mr. Sinclair  
Mr. Edmonston

H.M.Jr: I don't know whether you gentlemen know it or not, but I think for the first time in three months gold is selling at a premium today in London.

Harrison: What's selling at a premium?

H.M.Jr: Gold at a premium.

Harrison: Oh, is it really?

Eccles: How do you account for that?

Taylor: Buying and selling.

Bell: Demand and supply.

Eccles: I know, but I was looking beyond that.

H.M.Jr: As a result of the President's ten percent cut announcement.

Bell: That's bound to have an effect on a lot of things.

H.M.Jr: Very exciting, I think - very interesting. Also, the Secretary of the Treasury's policy of three pairs of pants is pretty good.

Burgess: They holding out pretty well, are they?

H.M.Jr: Yes, I didn't even wear out the first pair.

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I've asked - they're trying to find out - they've asked Knoke - they don't know whether since the market opened the price of sterling has gone off a little bit. We don't know just what's happening to it, but the Chase, I know, tried to buy some gold and couldn't afford to pay the price.

Harrison: That's a very good sign.

H.M.Jr: Oh, I think it's the most exciting thing that's happened around this town in a long time.

Williams: Is France taking any?

H.M.Jr: Well, our figures as of yesterday were that France had gained since last Thursday 80 million dollars.

Golden.: Oh, it's a lot for them to gain.

H.M.Jr: They gained 80 million since Thursday. We got that yesterday; haven't heard anything since.

Eccles: How much short selling was there before that had to be turned over? Did anybody know?

H.M.Jr: No.

(Ransom comes in)

Eccles: Of course, that would account for some of it, I suppose.

H.M.Jr: Too early to say.

(To Ransom) We were saying, I thought that the most exciting thing that had happened - first time in three months gold is selling at a premium in London today, and that the French since Thursday had gained 80 million dollars - the French.

Ransom: Very good news.

Eccles: That certainly is. If that can keep up now for a week or so.....

H.M.Jr: Make a lot of difference. Well, it will take a lot of patience, some guts.

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- Williams: France could take an awful lot if it got going.
- H.M.Jr: The other thing we're working on - I mean if you want a little - this is very much in the family, but we're working on a deal with the Chinese, where we may take their 60-odd million ounces of silver that they have in this country and exchange it for gold, with the understanding they will leave the gold here on deposit to earmark; which will give them about 50 or 60 million dollars or about 15 percent of their money in gold; and I should think they'd jump at it.
- Eccles: We won't be much better off with silver, will we, than we are with gold?
- H.M.Jr: Well.....
- Bell: Don't sterilize silver.
- H.M.Jr: I happen to be under a mandate from Congress.
- Bell: That works both ways.
- Golden.: What did you say, 15 or 16 percent of their outstanding currency?
- H.M.Jr: Yes, would then be gold reserve. They'd keep it here and we'd also give them an agreement that they could borrow against that gold.
- Golden.: Must be they have very little currency.
- H.M.Jr: Well, I guess - you can figure it out.
- Golden.: Yes, I mean it must be that most of the money in China is still coin.
- H.M.Jr: Well, most of the - of course they've got 20 million dollars in cash here besides. And they've kept faith with us beautifully and they kept their word. And it helps them and it comes pretty near making them eligible as a member of the tripartite agreement.
- Harrison: Well, that's a better bargain for them than the one they proposed to you some time earlier in the game.
- H.M.Jr: They haven't heard this yet; they don't know this yet.

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Harrison: I see.

Eccles: I should think they'd jump at it.

H.M.Jr: What?

Eccles: They ought to jump at it.

Harrison: Will you have to issue silver certificates against that silver?

Eccles: Sure.

H.M.Jr: Yes.

Harrison: You can keep them in cash in the Treasury.

Taylor: Not much, but steady, George.

H.M.Jr: Listen, after what we went through the last 15th, nip and tuck, believe me, those little few extra silver certificates came in might handy. I never sailed so close to wind in my life. Did we go below a hundred million any day?

Bell: No.

H.M.Jr: What? Came awful close, didn't we?

Bell: 130.

Burgess: What gold would you sell them? Out of inactive, or out of free gold in the Treasury, or would you sell them....

H.M.Jr: Well, we hadn't crossed that bridge. I suppose that - what would you suggest?

Burgess: I don't know. I just thought about it. It does make a little difference in the effect on excess reserves which gold you use to sell them.

Eccles: Of course, if you got some...

Williams: How does it?

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- Burgess: If they release inactive gold and issue silver certificates, it puts money in the market.
- Williams: Sure, it's the same thing then.
- Burgess: I don't know - if they buy it from the Federal Reserve and the gold is earmarked....
- Williams: You mean use your gold...
- Eccles: ...in exchange for silver, and issue silver certificates.
- H.M.Jr: I don't know. I think we could sell them the sterilized gold and then issue the silver certificates.
- Eccles: It makes no difference.
- Taylor: It does make a difference.
- Burgess: Yes, that increases excess reserves.
- Taylor: That would make some difference.
- H.M.Jr: If we sold it from the sterilized, wouldn't you just as leave see the thing go up about 30 million dollars?
- Eccles.: I don't think 30 million makes any difference.
- Golden.: I can't see how it would make any difference.
- H.M.Jr: I mean as long as you raised - I really hadn't thought - I think the public reaction would be a little bit better from the Treasury standpoint.
- Eccles: To take it out of the sterilized.
- H.M.Jr: To take it out of the sterilized.
- Eccles: I think so.
- Golden.: I don't think it would make the slightest bit of difference to excess reserves, whichever way.
- Williams: You mean not enough.

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- Golden.: It wouldn't make the slightest bit of difference, unless you just increased your balances with the Federal Reserve by that amount, which is not what you contemplate doing. So I don't think it makes the least bit of difference.
- Eccles: Listen, if you sell gold out of your sterilized gold....
- Golden.: That's right.
- Eccles: ...that's releasing that gold, because you take for that silver, and then you put these silver certificates into circulation.
- Williams: And then they come back and make excess reserves.
- Golden.: Makes excess reserves whichever way you do it.
- Eccles: No - oh no, makes no difference which fund - not a particle.
- Golden.: Not the slightest.
- H.M.Jr: That isn't the way - we first have to buy this silver, don't we, and with that, say, we issue 30 million dollars worth of silver certificates.
- Golden.: Yes.
- H.M.Jr: Now, they get those silver certificates, don't they....
- Golden.: . That's right.
- H.M.Jr: ....and with that they buy 30 million dollars worth of gold.
- Golden.: Whichever way you do it, it's going to increase excess reserves by that amount, unless you just allow it to lie idle. That you could do anyway; it has no connection.
- Eccles: You'd sell the gold and use the money to replenish your general account, I suppose, to that extent.
- Bell: If you bought it from the Treasury, you'd use the silver certificates eventually and thereby increase your excess reserves. If you kept entirely within the

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Stabilization Fund and kept the silver, then it would not appear any place in the market.

Eccles: That's right.

H.M.Jr: The big broad thing we had in mind - we really hadn't thought of the effect on the 30 million, but the big broad thing we thought was if we could announce in the first place that China was going to have a gold reserve, and, second place, that she would then become eligible to become a - to get a club membership.

Harrison: But she'd have to agree to buy and sell gold at quoted rates, would she not?

H.M.Jr: Yes, she'd - we'd have to work that out.

Harrison: I think they'd be silly to do that.

H.M.Jr: What?

Harrison: I should think that would be risky for them to do.

H.M.Jr: But at least, George, at this time getting a country buying gold is all to the good, isn't it?

Harrison: Oh, I agree with you.

Broderick: The psychological effect would be very fine.

Eccles: These silver Senators that....

H.M.Jr: I want to tell you, they'll like it.

Eccles: Well, I know they possibly will, but they don't like - know what they'll like, because what you're doing is getting the best customer in the world for silver under the gold standard.

Golden.: But they are off the silver standard already.

H.M.Jr: You'd be surprised - Pittman - that whole thing is washed up. Pittman's only interest today is, are we going to continue to pay 78½ cents for domestic silver? That's his only interest.

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Eccles: Substantive.

H.M.Jr: That's his only interest. Does anybody in this room see anything the matter with this thing? I mean I'd like to have, very confidential - I mean whether we do it before we - which fund we take it out of.....

Eccles: Doesn't make any difference, if you use the money. If you used the Stabilization Fund and then held the cash in there instead of the - that is, the silver certificates, instead of using them, of course it would make a difference.

H.M.Jr: No, we'll use them.

Eccles: To the extent you use the money, that is, the silver certificates that you get in payment of your gold, it doesn't make a particle of difference which fund. It would certainly seem to me the best fund to use would be your sterilized fund. It would look a lot better.

Taylor: Where it will do the most good.

Bell: You have started in that fund.

Broderick: Be a good psychological effect.

H.M.Jr: I should think so.

Broderick: As far as the gold is concerned, simply a case of transferring from one earmark account to another.

Golden.: I think it is a very constructive development.

H.M.Jr: Anybody not like it?

Harrison: The only question I have at all, Mr. Secretary - I think the first part of it is all right and very helpful; I'm not so sure that I would try to get them into the tripartite agreement.

H.M.Jr: Well, that - we - in the first place, we have to consult our other people. When I give it to them, they'll have to think it over. This particular deal I'm talking about - I mean most likely be consummated this week. The other thing - we throw that out as a

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suggestion to think about, you see.

Harrison: Yes.

H.M.Jr: What?

Harrison: I just think it might belittle the tripartite arrangement in the eyes of the world if you bring in a country like China today on the theory they're buying and selling gold, because it wouldn't be realistic.

H.M.Jr: Believe me, it would be more realistic than some of the things that have happened the last couple months.

Eccles: Is China - how is her trade? Is she creditor or debtor on...

H.M.Jr: She's still debtor, but she's gaining awfully fast. She still has an unfavorable balance.

Eccles: That's the visible along with the invisible.

Taylor: That's what you don't know - her invisible items. Nobody's ever....

Eccles: But on a visible basis...

H.M.Jr: Unfavorable.

Taylor: Visible unfavorable, but much less so than she has been for a long time.

H.M.Jr: That's the purpose of this thing (statistics chart-book). We'll give to you the last anybody's got.

Golden.: China doesn't have very much invisible, relatively.

Taylor: Well, of course, the Chinese laundrymen have sent home quite a bit; that's the biggest item there.

Golden.: Just a little dirty wash, that's about all; clean wash, maybe.

Bell: (Looking at chart-book with H.M.Jr) There it is.

Eccles: China's right here.

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- H.M.Jr: The black is the exports - the heavy line.
- Eccles: Getting pretty - they were a long way apart. They were right together the first of the year.
- H.M.Jr: But she's much better, you see.
- Eccles: Yes.
- Bell: They have a seasonal thing right in there every year; apparently they have the same thing.
- Eccles: Well, that helps a great deal.
- H.M.Jr: Well - and the other thing that we're thinking about doing - that's why I said I was going to ask Williams if he couldn't stay - we haven't got this; this isn't as easy and clear; but the Brazilians have got some idea that they may want to buy some gold on the installment plan, leave the gold here, and then pay for it on the installment basis; and then as they pay for it they will use what they have paid for as a basis to get foreign exchange.
- Eccles: They've got a big favorable trade balance.
- H.M.Jr: Yes.
- Eccles: And visible.
- H.M.Jr: They'll give us a memorandum this evening at four o'clock; then they're coming in tomorrow morning. I thought if you (Williams) would stay....
- Eccles: Will you do anything with them unless they get their debts - their debt arrangement fixed up? Is there any likelihood?
- H.M.Jr: Well, they - we don't get in on that at all.
- Eccles: It's private debts, but at the same time....
- H.M.Jr: Well, what they're doing is this - I haven't seen their memorandum, but they're going to come here and want to know whether we'll sell them gold on the installment plan basis, leave it here with the Federal Reserve and as they pay for it they want to get foreign exchange. Then the other thing that they

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want - also they want the advice of the combined organizations to help them set up a federal reserve system. Now, I thought if Williams - it's agreeable to you gentlemen, let him stay here; he could find out what we're doing and keep you people posted.

- Eccles: The Ambassador asked me if we had something on the Federal Reserve, so I gave him Randolph's book on the Federal Reserve.
- Burgess: (Takes a bow)
- H.M.Jr: I think it's all to the good. Don't you (Broderick)?
- Broderick: Surely. What would they do, paying on the installment basis? You'd sell them the gold, then they'd borrow on that gold?
- H.M.Jr: On that which they paid for.
- Taylor: Wouldn't deliver it until they paid for it.
- H.M.Jr: No, we're Scotch.
- Broderick: I think you're wise to be.
- Eccles: Hold it as security and then sell it; then, as they pay for it, release it.
- Broderick: In other words, you'll give them a call on the gold.
- Sinclair: At least that commodity would not wear out.
- Eccles: But they are obligated to buy it.
- Sinclair: That's a forward contract.
- Eccles: That would tend to show that the Brazilians have confidence in the price of gold; it would have a good effect.
- H.M.Jr: How much would you charge the Chinese if they wanted to borrow a million dollars against their own gold? How much interest would you charge them for 12 months if they wanted to borrow a million dollars against a million dollars worth of gold?

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- Eccles: George, you're the....
- H.M.Jr: How much would you charge them for one year?
- Broderick: That's up to the Bank there.
- H.M.Jr: How much would you charge them?
- Harrison: When we loan on gold in transit - it's a short loan - we charge them our discount rate.
- H.M.Jr: What's that?
- Harrison: One and a half. I think that's too low. I would charge them, I think, your average yield on your - at least the average rate you pay on your Treasury obligations.
- H.M.Jr: I said three percent this morning. The boys thought I was crazy.
- Eccles: Too high or too low?
- H.M.Jr: Too high.
- Harrison: You could charge them the average cost of your money.
- H.M.Jr: Well, that's about two and a half. But this is for the one-year basis.
- Eccles: But if you said, "Well now, the average cost of our money is two and a half," that would be all right.
- Harrison: I think that's fair.
- H.M.Jr: Got to make a little profit.
- Harrison: You're giving them some of your money....
- Broderick: You're still Scotch then.
- Burgess: This arrangement by which they earmark gold - that isn't a permanent commitment always to leave it under earmark.
- H.M.Jr: No, it's just a moral.... No, we have this arrangement with them which they have lived up to under the

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most trying circumstances; we bought this silver and they agreed that they'd put the money here, that they would not use it for any purposes except for exchange stabilization purposes, and they have lived up to it beautifully.

Burgess: They treat it as part of their reserves, I suppose.

H.M.Jr: Part of their reserves. And there is nothing in writing; it is purely in a verbal agreement. There is not a thing in writing.

Eccles: That would increase reserves to the extent that gold is sold and they paid for it; it then becomes a deposit. Now, if you carry that in the Federal Reserve Bank, it wouldn't. To the extent that they carried that reserve in some private bank, it would.

H.M.Jr: No, no, no, no. This has - it's all done in the Federal now. They've got 20 million dollars with the Federal in New York. About 20 million in gold, haven't they?

Harrison: Yes, little more.

Eccles: Yes, but if you sell them gold now and then as they pay for that gold, if they - if they held that gold subject to earmark, of course, it wouldn't go out, and you'd be all right. Only to the extent that they later took dollar balances would it become.....

Burgess: Or borrowed against it.

Eccles: What is it?

Burgess: Or borrowed against it.

Eccles: That's right. Only to that extent would it add to the reserves. But as I understand, it would be their intention to hold this gold under earmark.

H.M.Jr: Hold the gold under earmark as part of their monetary reserve.

Broderick: As a basis for their currency.

H.M.Jr: And they've done it under the most trying circumstances. And they're so much better off today than they were a

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year and a half ago - just like a different people, different nation.

- Harrison: Mr. Secretary, couldn't you consider with the Brazilians doing substantially what you are doing with the Chinese? Instead of giving them a call on your gold, with no interest - that's what it amounts to - sell it to them, then let them borrow from you the difference and charge them interest.
- H.M.Jr: We haven't worked it out, but we were planning to sell them this gold, George...
- Harrison: Yes.
- H.M.Jr: Say we sell them fifty million dollars worth of gold, see?
- Harrison: Yes.
- H.M.Jr: Then they agree to pay for it in so many years.
- Harrison: Well, that's all right.
- H.M.Jr: And then with the right to borrow against the gold that they paid for. How else could you do it?
- Harrison: I'd sell them fifty million dollars worth of gold, let them pay five millions down, and give you a note for 45 millions on which they pay interest.
- Eccles: Installment sale.
- Taylor: Not Scotch enough.
- Harrison: Well, I know, but you're really giving them the rest of the gold without interest. That's what it amounts to.
- Broderick: You're giving them a call for gold.
- Harrison: Well, all right, whatever you call it.
- H.M.Jr: He wants to charge them interest on.....
- Eccles: ...on the unpaid balance.

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Taylor: Yes, but he gives them 45 million dollars worth of gold and takes a note for it.

Eccles: But you hold the gold.

H.M.Jr: What's the matter with that?

Eccles: It is only released as it is paid for.

Taylor: I didn't understand that. I thought that he wanted....

H.M.Jr: No, he'd take a 45 million dollar note and X interest.

Taylor: With the gold as security.

Harrison: With the gold as security.

Taylor: Well, that works it out the same way.

Harrison: Except in one case, as I understood, the first case, there would be no interest payment at all.

Taylor: Oh yes.

Harrison: Well, that's all right.

Taylor: It works out exactly the same.

Harrison: I would not give anybody a call on my gold without a charge.

H.M.Jr: No, don't worry.

Taylor: It's exactly the same thing.

H.M.Jr: The great trouble is that when President Roosevelt was in Brazil - I mean he hatched this thing with the President of Brazil, and he said, "Practically no charge - about one-eighth of one percent."

Harrison: I am wondering, Mr. Secretary, seriously whether if you do that with the Brazilians you aren't soaking the Chinese if you do it on the two and a half percent basis.

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- H.M.Jr: Oh, I've got to do - what I had in mind was the three percent. That was the arrangement we had with Mexico, if you remember. Mexico had five million dollars worth of silver and we agreed to loan them four and a half, which we did; we charged them three percent interest on an annual basis, and they were tickled to death. Remember? And they paid it off.
- Harrison: Well, I won't squabble whether you charge two and a half or three. I think the two and a half you can easily enough explain; say that's the average rate of.....
- Broderick: That's a low rate for a call.
- Harrison: Two and a half.
- Broderick: Sure.
- Harrison: I think it is.
- Broderick: No kick on it.
- H.M.Jr: But whatever we do for any of these countries, we've got to treat them all the same.
- Harrison: That's what I was thinking about the Brazilians.
- H.M.Jr: But the President talked to me about one-eighth of one percent. When I see him I'm going to ask him what happened to his Dutch ancestors when he made that statement.
- Well, that gives you a little idea - as we go along, I keep you posted. I'd like to get the advice of the Federal Reserve System, and their help and cooperation on this, because....
- Williams: The Brazilians will show a fifty million dollar gold reserve the day after this contract is signed?
- H.M.Jr: Pardon me?
- Williams: The Brazilians will show a fifty million dollar gold reserve the day after this contract is signed in their statement?

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H.M.Jr: Brazil, sure.

Harrison: That's the reason I'd make them give you a note, which they also have to show.

H.M.Jr: And in the meantime the State Department's got it cooked - I haven't had a chance to talk - that the minute they do this, they break off their relations with Germany on their bloc marks and do business with us; and the State Department's got that all cooked. Then they begin to do business on the dollar basis instead of having this whole complicated arrangement they've got with Germany.

Eccles: If they can get their billion and a quarter foreign debts, which they are also working on - of course they're not paying any interest - paying no interest, no principal; they're practically in default - but if they could get them refunded, they'd be in pretty good shape.

H.M.Jr: The other thing I should have said, so that you can get the whole picture - we expect to suggest to them that they have a 25 percent reserve in silver, and we expect to sell them a little silver as well as a little gold.

Eccles: Follow our example on silver. Well, that's all right; buy silver from China and sell it to Brazil; that's all right.

H.M.Jr: We're going to suggest to them that they have a 25 percent reserve in silver.

Burgess: Maybe the eighth would come in there. Make an eighth on that - that's what the President meant maybe.

H.M.Jr: Well, those are the ideas we've been working on.

Harrison: I think it sounds very progressive and very constructive.

Eccles: It's getting the rest of these countries to use gold and silver as a basis of their money instead of giving it all to us.

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H.M.Jr: Well, it's all got to be cleaned up before the 19th, because I'm going away for my holiday on the 19th. So we're going to move awful fast.

Now, Mr. Bell, will you tell your story please?

Bell: Well, our balances are estimated at 592 million for July, 492 million for August, 777 million for September.

Burgess: That's the end of the month, or the first?

Bell: End of the months. And in those balances it is contemplated to raise 150 million dollars in Treasury bills during the month of July - that would be commencing next week, 200 million dollars of Treasury bills in August; 350 million maturing in December; and 600 million of new money in September, of which 350 million would be used to take up the maturing Treasury bills. Now, that can be done either by issuing Treasury bills to the extent of 250 million into June, and 350 million of notes, or the 600 million all in notes. And this includes in the form of expenditures 175 million dollars for gold in July, 150 million in August, and 125 million in September.

Eccles: One hundred and what in July?

Bell: 175, 150, and 125.

Eccles: That's 450.

Bell: That's right.

Eccles: How much new money you say in September - 600?

Bell: 600 million, but.....

Eccles: 300 million would be to pay....

Bell: 350 million would be to pay off bills.

Eccles: 250 million real new money.

Bell: That's right.

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- H.M.Jr: We might decide to pick up in new bills in September the 250.
- Eccles: Sell that many more bills into December and March.
- H.M.Jr: And then the 300.....
- Eccles: Selling December - you mean just continue....
- H.M.Jr: Just continue - I mean selling into December so, say, we have five hundred million in December, and throw the rest into March.
- Eccles: Well, if we reach a situation where you don't continue to buy gold, which we've got to reach one way or another, either through the sterilization or through a stoppage of its coming here, whichever way it is met, after September, why, your income will certainly very likely begin to exceed your outgo, won't it?
- H.M.Jr: You and I will have to find something new to worry about.
- Eccles: That's what will happen, it seems to me, so it would seem advisable to borrow bills, because it's a - you're going into a surplus revenue, so that you can then reduce your bills and adjust them next year.
- Bell: Beginning in March.
- Eccles: Yes. So it would be a temporary increase in your short-term...
- Bell: Within the year.
- Eccles: ...very temporary increase in your short-term debt.
- Burgess: Or you could raise it through a one-year certificate or something like that. That would appeal more broadly to the banks throughout the country.
- Eccles: Might do that.
- H.M.Jr: But for the immediate thing - the reason I asked you gentlemen to meet with me today was that if you agree and approve, we'd like to set the die to go through July and August selling 50 million a week of 9-months and 50 million a week of bills due on December 15.

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That's what we'd like to do.

Eccles: We talked this over yesterday a little.

H.M.Jr: I mean that's what we'd like to have unless somebody's got some better idea, see?

Harrison: I think that's perfectly satisfactory for July and August. And I wouldn't change from your 9-months bill, no matter how strongly I feel about it, during these summer months.

H.M.Jr: You talked it over with George Harrison.

Harrison: I've talked it over with him. I've been talking it over with him for some months.

Eccles: Kung's got a pretty smart group of fellows around him.

H.M.Jr: Very smart.

Well, George, I didn't mean to be - to talk down. But you feel that you'd go along cheerfully on this program for July and August as far as anybody can see it in advance? Put it that way.

Harrison: Yes, I think so, Mr. Secretary. And I believe this - that however I would continue to pursue studies as to what should be the ultimate bill program and what you should do ultimately about maturities.

H.M.Jr: Well, it's like so many of these things; you sit here and here out of a perfectly clear sky it looks as though we had a fifty-fifty chance that this gold thing may clear up. Now, ten days ago some people in the Street were, I guess, more blue than they had been any time in years, and if this thing continues for another ten days they'll forget they ever worried about gold. I mean they change so rapidly.

Harrison: Yes.

H.M.Jr: What?

Harrison: Especially if the flow is checked.

Eccles: But isn't this true, that the flow may be checked

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temporarily on account of gold flowing back to France over a period of time, yet unless the foreigner ceases to have interest in our markets and is willing to stay - put his capital in other markets, we will still get gold from other sources, due purely to, not lack of any confidence in gold or the price of gold, but merely due to a desire to invest money in this country.

- H.M.Jr: Yes, but don't forget, Marriner, we've got an awful lot of gold that's here - I mean money, cash....
- Eccles: Lots of capital.
- H.M.Jr: ...which has no place to go. And there is an awful accumulation here which, if the Spanish situation should settle down, and everything else - there's a lot of places for it to go to work in the rest of the world, not inside the United States - a lot of places.
- Well, to get back. Let me go around. How do you (Broderick) feel about this?
- Broderick: I think it's a good program, Mr. Secretary,
- Sinclair: I feel the same way, Mr. Secretary.
- Seltzer: (Nods approval)
- Taylor: " "
- Ransom: " "
- Edmonston: " "
- H.M.Jr: Dr. Goldenweiser?
- Golden.: I haven't anything to suggest. Seems all right to me.
- Williams: O.K.
- Burgess: All right.
- Harrison: Well, I've already expressed my opinion. I think it's the only thing for you to do right now.

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- H.M.Jr: Marriner?
- Eccles: I feel the same way about it. I don't think we can look beyond, however, August.
- H.M.Jr: No.
- Eccles: Be just too many factors. But after all, all you're doing at this time is deciding to continue the 9-months bill and put out 50 million notes until further notice with the December maturity.
- H.M.Jr: And you know I never commit myself more than one week in advance on bills - I mean to the public. To the public.
- Eccles: The bill market looks pretty good.
- Broderick: Good price.
- Burgess: Last issue was a little deceptive.
- Eccles: The Federal Reserve was pretty heavy in that.
- Burgess: No, we weren't.
- Eccles: 73 million.
- Burgess: They bid it down because of what they thought was going to be a heavy buying of those bills in Chicago, which didn't materialize; so they were left hung up a little.
- H.M.Jr: Could I have a sort of gentlemen's agreement with you people during July and August as to your portfolio?
- Eccles: What do you mean? What kind of agreement would you like?
- H.M.Jr: Well, I'd like to know what you gentlemen have in mind in regard to your portfolio for July and August. Are you going to let it run off, are you going to increase it? What are you going to do?
- Eccles: Well, I can....

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- H.M.Jr: I mean without....
- Eccles: I can tell you.....
- H.M.Jr: I mean I'd like to know, if you don't mind.
- Eccles: To say what is going to be done in the future, of course, is a rather indefinite way - it's pretty difficult to make a commitment beyond a certain.....
- H.M.Jr: But seeing as far as you can and always subject to change.
- Eccles: Well, I could - the general thought and discussion has been that so long as the Treasury was borrowing money, until they had gotten - as long as they were borrowing money and were likely to continue for some little time, we should do nothing that would disturb their market by reducing the portfolio, continue to make such shifts as seem to be advisable to stabilize the market. Now, that.....
- H.M.Jr: I mean you people would keep your portfolio - I mean the volume as it is - is that the idea?
- Eccles: Keep the volume as it is.
- H.M.Jr: As I understand...
- Eccles: Unless somebody else has some other view.
- Broderick: No, I don't think there would be a change in policy without letting the Secretary know in advance about it.
- Eccles: Of course we'd let him know, but as I understand it, he wonders what the concensus of opinion is now.
- H.M.Jr: Yes, whether you people.....
- Eccles: Whether we have in mind something.
- H.M.Jr: Do you have anything in mind?
- Broderick: I haven't heard anybody express the view that the policy should change at the present time, so as long as Mr. Eccles and Mr. Harrison explain that the Treasury is still borrowing, I think the thing to do is go along. And if we have a change of any kind,

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we'll talk it over with you, the same as you talk it over with us.

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

Eccles: As long as you have to accommodate the general financing situation that we have, it would certainly be a mistake, from my point of view, to do anything by way of reducing your portfolio and reducing excess reserves. At this time there is certainly no evidence or indication of any inflationary trend in any of the markets, and there would seem to be no call or justification to reduce the portfolio, which would reduce reserves and tend to certainly increase, to some extent, at any rate, the short-term interest rates.

H.M.Jr: Well, that's all I want to know. I mean I just want to know, perfectly informally, if in talking it over amongst yourselves....

Eccles: I don't know how George feels about it.

H.M.Jr: Huh?

Eccles: I'd like George to express himself on.....

Harrison: Well, as I see it, there is no - certainly there is no present occasion for increasing the portfolio today. I see no immediate opportunity to decrease the portfolio today. Furthermore - I go further than that - even if we should try to liquidate some of the portfolio this week, I am confident that the market as it is, even as strong as it is today - we'd buy more back the following week than we sold this week.

Broderick: I feel the same way.

Ransom: As much a question of opportunity, George, as reason for decreasing it, isn't it?

Broderick: There is a psychological effect of the increase in that portfolio - much different market now; and there'd have to be a much better reason for doing it before taking the chance. Of course, the only way we'd reduce it, as I see it, is to let the maturities run off.

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- Eccles: The way to reduce that portfolio is when the Treasury is reducing their debt, rather than increasing their debt.
- H.M.Jr: When that time may come, I understand that you can sell to us, although you can't buy from us.
- Bell: Pay them off when they mature.
- Harrison: I have felt, Mr. Secretary, for two years or more, that regardless of the necessity we have had for buying Government bonds, that with the possible exception of slight fluctuations that could be explained by some particular circumstance, there is no likelihood and probably little opportunity for the Reserve System to liquidate its portfolio during a period when the Treasury is in the market for new money. I mean no matter how much we might want to do it, if we should substantially liquidate our portfolio during that period we'd run the risk of creating a situation where you could not borrow new money without our having to go back in the New York market to support it in some fashion.
- H.M.Jr: Well, you understand I'm not trying to put anybody on the spot. But as I say, I'm going to be away; it will be a little difficult to reach me at Waikiki Beach - I hope.
- Sinclair: We hope the wires will be closed for you.
- H.M.Jr: I hope so. I just think that anything like that - I feel I'm leaving my desk clean, nothing undone. And I think I'm going to go away the best - the only time that most likely would have been possible for me to go away. And if anybody's got any ideas as far as - Wayne will be here when I leave and....
- Bell: Where will he be when you get back?
- H.M.Jr: Well, he'll be here when I leave anyway.
- (Hearty laughter)
- Well, Wayne's going home - he's going to go home for the first time in four years tonight, and we're all - I mean you fellows saw us work here last time; everybody works; but this last week was just something nip

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and tuck. We got George out of bed and he even got 13 bank presidents out of bed, and they all cooperated beautifully.

Harrison: I think they did. I must say I don't think they could have done anything else but.

H.M.Jr: No, but it was all right.

Broderick: Righteous self-interest, wasn't it, George?

H.M.Jr: But it all worked out.

Eccles: It certainly looks like from Bonnet's program might....

H.M.Jr: You sat here most of the time and saw us spark.

Eccles: Yes, I said - you invited me to be here part of the time, but I had enough of it so I decided to go back to my own shop.

H.M.Jr: Well, you had the chance - I mean to see as much of it as you wanted.

Harrison: I'd like to conclude my little philosophical statement about the Federal open market operations by one supplementary remark, and that is this, that I don't think that the System can be in a position to control inflationary tendencies through the open market until after the Treasury gets a balanced budget. That was one reason I was afraid during the spring that if the inflationary tendencies got away from us and we were put to the necessity of trying to use our powers of control through the open market, we would then run afoul of the circumstances that the Treasury was still in the market for new money and we'd have to stop.

H.M.Jr: Well, the balanced budget for this fiscal year is so near to realization that you might say it's a fact. Now, we may miss it by a hundred million dollars, we may not miss it at all. Right, Dan? What?

Bell: Hundred million dollars is a balanced budget.

Eccles: So far as - when you think of your Social Security funds and your baby bonds sales - I mean so far as the market is concerned, you're going to put a lot of money back in the market.

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Bell: Every possibility.

Eccles: Every possibility. Now, the only thing to prevent that, of course, would be a continuation of the buying of gold to that extent, which just doesn't seem realistic.

H.M.Jr: Well, if I may be a little philosophical, I think that both the Federal Reserve and the Treasury went through the most difficult period we most likely will have had to go through for years to come, and I think the fact that we were able to iron out our difficulties, put up a united front to the public, was the best thing that could have happened as far as the country was concerned. And the fact that we all - when we had our differences, they were always within four walls, and the results speak louder than any words. And I am personally most pleased and happy that we could work out our honest differences of opinion, and I think the results are speaking for themselves. I mean I kept that one night - I kept saying that the most important thing was that there should not be a public split between the two institutions, and there wasn't and I think we all were motivated by the same common interest, the welfare of our country. And I think maybe now we're going to reap the benefit of it and I want to thank all of you for your cooperation and patience with me, and maybe in a couple of months we'll begin to crow about it.

Harrison: We'll begin to do what?

H.M.Jr: Couple months we'll begin to crow about it.

Eccles: Well, things certainly look better than they did. I hope you're right. If we went through it - I'd hate to be around for a tougher period than I went through for a couple months, I'll tell you that.

H.M.Jr: Well, I think it's all going to wash up a bit.

Eccles: Well, when you consider the difficult problems and the difficult period we went through and look back, it is difficult to imagine how we did what we did under all of the circumstances that existed - the gold problem, the excess reserve problem, and the tax - Government income falling off, and all the rest of the

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troubles combined here. I think we did pretty darn well; as you say, the fact that we did work out and we are all good friends and can smile again is a pretty good evidence that we came through.

H.M.Jr: And no bitterness.

Ransom: Very definitely been a constructive year.

H.M.Jr: Very.

Harrison: Mr. Secretary, may I ask a personal question? When are you planning to be back again?

H.M.Jr: I expect to land on the second of September, and I'll fly back. I'll get back about the fourth. I was asking Burgess to think it over, and I should think that - Monday is the sixth, isn't it - we might be able to do our financing maybe on the eighth. I mean I'll have to ask Burgess to consult with me on Labor Day, if he won't mind.

Eccles: You expect to get back when do you say?

H.M.Jr: The boat lands on the second of September, which ought to bring me back here about the fourth. So I'll ruin maybe Burgess's and a couple of other people's Labor Day and we could, say, be together on Monday, Labor Day, here or some place convenient, and then take one day after Labor Day to check, which would be Tuesday, and then maybe announce the financing on Wednesday, you see. Would that be all right?

Burgess: If it's cash, that's awful close.

H.M.Jr: Well, I tell you what I'd like to - I was thinking after - I'd want a day after Labor Day to get the feel of the market - one day anyway.

Eccles: How much - you've got 800 million maturing of notes, haven't you?

Bell: Yes.

Eccles: So that would mean an issue of a billion-odd, with the refunding and the new money.

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- Bell: Have to announce it on Thursday.
- H.M.Jr: Well, you'll give me more time - I thought we'd announce it Wednesday.
- Bell: You haven't got time. If you don't make up your mind until the close of business Tuesday night, you've got to give the Federal Reserve banks about a day to get the printing and everything done, haven't we?
- H.M.Jr: Think it over.
- Bell: Have to mail them out in advance so they reach these outlying banks.
- H.M.Jr: Before you leave town, talk that over with Bell; give me all the time when I come back that you can, will you? Give me all the time you can.

July 7, 1937.

11:57 a.m.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Knoke.

K: Yes, Sir.

H.M.Jr: You're on the loudspeaker and a lot of your people are here. I wanted you to tell us about this gold market if you would.

K: Well, the gold, the outstanding feature of the gold market is the, its small size, with only thirty-five bars a day of the net fixing, and according to one bank - no business at all after fixing, and according to another bank - very small business after fixing. The price, as you know, was - established at a penny premium figuring thirty-four, seventy-nine. Subsequent to fixing evidently low, or at least very small business was done, and I should say the price after fixing varied, stood between thirty-four, seventy-three and a half, and thirty-four, seventy-seven and a half.

H.M.Jr: Yes.

K: Altogether, it was very encouraging. Great advantage - great step forward from what prevailed a month ago in London.

H.M.Jr: Yes. All right I'll, do you have . . . (To the men in the room with him).

All right, now - what is the sterling rate?

K: Sterling at the moment is four ninety-five and seven-eighths, about, but that seems to have petered out after a very active market - a very active market in London and Paris during the morning.

H.M.Jr: I see. All right, Knoke.

K: Yes, Sir.

H.M.Jr: Thank you.

July 7, 1937,  
2:36 p.m.

H.M.Jr: Hello.

H. Merle Cochran: Hello, Mr. Morgenthau.

H.M.Jr: Hello, Cochran.

C: Yes.

H.M.Jr: I'm just calling up to see whether there's anything particularly new that you'd want to tell me.

C: No. You, you got the message I sent you last night?

H.M.Jr: Yes, I got that.

C: About the British.

H.M.Jr: Yeah.

C: But today I sent you a message at four o'clock.

H.M.Jr: Yeah.

C: Just about the day's operations.

H.M.Jr: Uh-Huh.

C: There's nothing very exciting in it.

H.M.Jr: Uh-Huh.. Well, I, they're still gaining, aren't they?

C: Yes, yes they gained today. I haven't the exact figures, but it's probably around . . .

H.M.Jr: . . . Yes.

C: . . . . another half billion.

H.M.Jr: Uh-Huh.

C: except for a little while this afternoon they had to sell some sterling.

H.M.Jr: Well now when does Bonnet put up his tax program?

C: Between now and Sunday.

H.M.Jr: Between now and Sunday.

C: Parliament is expected to adjourn tonight.

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H.M.Jr: Yes.

C: And the Radical, I mean the Socialist Party will have a convention down at Marseille (?) . . .

H.M.Jr: Uh-Huh

C: . . . beginning Sunday.

H.M.Jr: Yeah.

C: And so the idea is for Bonnet to make known his tax program after Parliament is adjourned . . .

H.M.Jr: Yeah . . .

C: . . . and before the convention at Marseille.

H.M.Jr: I see. What's the significance of the convention?

C: published in the official journal on Saturday.

H.M.Jr: Well, when will Parliament meet again?

C: Oh, this fall sometime.

H.M.Jr: Do you mean to say they're going to quit now?

C: Yes, yes, they're going to get them out definitely.

H.M.Jr: When?

C: Tonight.

H.M.Jr: And they're not going to meet until when?

C: Until in the autumn.

H.M.Jr: Well how is he going to get his tax program through?

C: What's that?

H.M.Jr: How is he going to get his tax program through?

C: By decree.

H.M.Jr: Oh, by decree.

C: Yes.

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- H.M.Jr: And when will they meet again?
- C: Not until in the, in the autumn - at special session then.
- H.M.Jr: Oh, grand!
- C: There, there's no date fixed, you see, for that.
- H.M.Jr: Well, now don't they have to get a vote of confidence before they adjourn?
- C: No, no, they've had the only vote of confidence they need, you see.
- H.M.Jr: I see.
- C: When that financial measure . . .
- H.M.Jr: . . . Oh, I see.
- C: The vote of confidence was posed then.
- H.M.Jr: Uh-Huh.
- C: So now you get your special decrees, and you can only use this authority up through August - August 31st,
- H.M.Jr: Yeah.
- C: Authority for doing financial measures by decree expires.
- H.M.Jr: Uh-Huh.
- C: Then you must submit these decrees for approval at the first session of Parliament.
- H.M.Jr: I - well, in the meantime do they collect any taxes?
- C: Well, yes, yes, the things'll be effective.
- H.M.Jr: I see.
- C: That, that's the way they usually want it - to, to become operative and then get the approval later.
- H.M.Jr: Fine. All right. Well that sounds good.
- C: . . . a few days ago . . . , but it looks now as if they will.

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- H.M.Jr: Good.
- C: Then there shouldn't be anything through the summer.
- H.M.Jr: All right.
- C: He, he's waiting yet to see how heavy the taxes may be on profits from devaluation, and on securities, and so on.
- H.M.Jr: I see.
- C: But by the end of the week we ought to have a pretty good idea of the situation.
- H.M.Jr: Uh-Huh.
- C: And certainly by the middle of next - after the Marseille convention is over.
- H.M.Jr: Yeah.
- C: The first fear was that the Socialists would pull away from the Radical Socialists.
- H.M.Jr: Uh-Huh.
- C: And break up adjournment. And they're going to be pretty some of these tax measures, they think.
- H.M.Jr: Ah, how does the Spanish thing look?
- C: It, it looks a little better, I think.
- H.M.Jr: You do.
- C: I can't get very excited over that.
- H.M.Jr: You can't.
- C: That is just because I don't think either one of those powers is ready to cause trouble.
- H.M.Jr: I see.
- C: I mean, they'll go as far as they can - maybe take a pot-shot at them once in a while, but . . .
- H.M.Jr: Uh-Huh.
- C: . . . don't expect any war.

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H.M.Jr: All right. Thank you.

C: I, I'll get out those decrees as soon as they're made known.

H.M.Jr: Good.

C: And I go to Basel Saturday night.

H.M.Jr: Good.

C: But I can get them out Saturday before I go.

H.M.Jr: Thank you.

C: All right, Sir.

H.M.Jr: Good-bye.

C: Good-bye.

July 7, 1937.  
2:50 p.m.

H.M.Jr: Hello.

Operator: Mr. Butterworth.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello. Hello.

Butterworth: Good evening, Sir.

H.M.Jr: Hello Butterworth.

B: Speaking.

H.M.Jr: Good evening - good afternoon.

B: Yes.

H.M.Jr: I'm just calling up to ask how things are going.

B: Pretty well, I think, Sir.

H.M.Jr: Uh-Huh.

B: And I'm meeting with our friends in the Treasury tomorrow.

H.M.Jr: Yes.

B: I arranged that today.

H.M.Jr: Uh-Huh.

B: And I think things <sup>are</sup> going pretty well. There's been, there's been much discussion here, and I think in Paris, but among foreign exchange dealers about the weakness in the dollar.

H.M.Jr: Yeah.

B: You know the guarantee operated for the French Government for the first couple of days, and then I gather that the Bank of France ceased buying dollars.

H.M.Jr: Uh-Huh.

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B: And that effected the corporate and pushed the corporate up from four ninety-four to four ninety-six.

H.M.Jr: Yes. Well, I . . . .

B: . . . . I, I think things are pretty good today. The security market still has turned up and I believe there has been some new money come in from the investment market.

H.M.Jr: Good.

B: So on the whole the atmosphere is pretty . . .

H.M.Jr: . . . Well that's . . .

B: . . . pretty good.

H.M.Jr: Well that's all I wanted to know. I thought that you'd like to know that I am increasing your allowance by fifty per cent.

B: Well, that's very kind of you.

H.M.Jr: In appreciation of what you've done.

B: Well, that's very kind of you. I appreciate that very much.

H.M.Jr: I, I have nothing else.

B: Good, Sir.

H.M.Jr: All right.

B: Thank you very much.

H.M.Jr: Good luck.

B: Good-bye.

## RE CHINESE SILVER PURCHASE

July 7, 1937  
3:00 P.M.

Present: Mr. Taylor  
Mr. Lochhead  
Mr. Viner  
Mr. Riefler  
Mr. White  
Mr. Williams

H.M.Jr: What do we do, just sort of play pinochle until Harry White comes in?

Taylor: You (Lochhead) have the same thing.

Lochhead: I imagine I've got about the same thing written down. "First, U. S. to purchase 62 million ounces"- that's approximately the amount -"of silver held in U. S. by China at 45 cents per ounce on usual terms." I'm not going into the details; the Federal arranges that.

Taylor: A question on that point. How about doing it on the same basis that you did it before? In other words, the average price paid for it.

Lochhead: First of all, if you're going to purchase the whole 62 million at one time, there's no question of average.

Taylor: There is in connection with your other purchases.

Lochhead: Everything we have purchased from China from the first has been 45 cents; the average price has been 45 cents.

(White comes in)

Lochhead: Maybe Harry has got more complete.....

H.M.Jr: You got a better memorandum than this yellow paper?

White: It's on white paper but it's no better.

Lochhead: "China to purchase gold from the United States with the proceeds at \$35 an ounce....."

H.M.Jr: Pardon?

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Lochhead: "China to purchase gold from the U. S. with the proceeds at \$35 per ounce, plus a quarter of one percent, and agree to hold such gold under earmark at Federal Reserve Bank. Gold only to be used if necessary to support the yuan.

"Three. Authorization of May 25, 1936 - that's our own authorization - to be renewed to October 1, and quarterly hereafter, if agreeable to both China and U. S."

H.M.Jr: A loan on what?

Lochhead: Now wait a minute, I'll come to that.

"China to request renewal 15 days before maturity each time.

"Four. In agreement of May 25, 1936, gold to be substituted for silver."

That's all you need to do on the agreement, put in silver - that they want to hold gold instead of silver. The agreement is absolutely all right.

H.M.Jr: These boys weren't in - I explained this thing to the Executive Committee, this whole question of what we're going to charge them and all that. Taylor, did you tell them?

Taylor: Yes, I told them at lunch. I didn't tell Archie, but I told the others. There's one point....

Viner: Mr. White gave us a very nice lunch today.

H.M.Jr: Did he?

Taylor: Yes.

H.M.Jr: Did he really? What's the joke? You matched for it?

Viner: Yes.

H.M.Jr: You son of a gun.

Taylor: When you were talking about October, you were talking in terms of silver, weren't you?

H.M.Jr: Yes.

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Taylor: Well, now that you're doing all that at one time, does January look any better to you than it did?

H.M.Jr: Oh, I would do it something like this on this question of making them a foreign exchange loan, if that's what you call it - advance against their gold. I would say that that was available - good until cancelled on a 30-day notice. That's the way I'd let it be; I'd make it good until cancelled, and cancellation would be served in 30 days.

Taylor: I'd give them a definite arrangement for a period in terms of, say, six months.

(Williams comes in)

H.M.Jr: If you don't mind, I'd rather do it with mine. Let these fellows argue about it. I'd rather say "Good until cancelled, or on 30 days." What's the harm in that?

Lochhead: Well, the only thing is - about the same that we have on the Mexican agreement - it will mean you've got something on your books that you really have to take definite action to break off; if you want to break it, it's up to you.

H.M.Jr: Listen, these fellows are shrewd traders. They'll say, "All right, Mr. Morgenthau, then at those periods we're going to take up the question whether we're going to leave the gold earmarked too." They'd have a perfect right to say that.

Just take a minute and go back for Williams.

Williams: I'm sorry that we were delayed. I was over at the Federal Reserve.

H.M.Jr: We're not the Federal Reserve, we're the Treasury. We're on time over here.

Williams: I admit I'm culpable.

H.M.Jr: You're so meek and so modest, what can we do? Just bring him up-to-date, would you mind? Just one or two.....

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- White: China has 12 million ounces of silver which is now in warehouses in the United States. She also has 50 million ounces of silver here which is held as potential collateral against a loan - extension of credit which might take place. The proposal is to purchase from China the 12 million ounces of silver at - I take it, for 45 cents an ounce?
- H.M.Jr: That's right.
- White: And the proceeds of the sale to be kept in gold on earmark with the Federal Reserve Bank of the United States to the account of the Bank of China, and the proceeds to be used only for purposes of stabilization of the yuan, and, I take it - though that wasn't mentioned - to be used only after the 20 million dollars now held on earmark is used up and a portion of the 23 million dollars' dollar balances - a reasonable balance is to be used for the loan. Then the 50 million ounces of silver is to be purchased under similar conditions - identical conditions. Third, an extension of a loan of 22 million dollars approximately, to be made with a 30-day clause, I take it.
- H.M.Jr: 22?
- Lochhead: It was 20 million.
- White: It's a little more than 20.
- Lochhead: Just 20 million. That brings silver down to 40 cents an ounce.
- White: You see, since it's gold they're leaving as collateral, you don't have the same justification for having a gold margin. I thought we decided to make it \$35.
- H.M.Jr: Yes.
- White: That would bring it up to 22 plus.
- Taylor: 28 plus.
- H.M.Jr: More than that. They'd have more than 50 million dollars earmarked.
- White: They now have 20 million dollars earmarked.

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H.M.Jr: And this will give them another 28.

White: And they have 23 million in dollars.

H.M.Jr: They have 20 and this will give them another 28.

White: This will give them.... There's 12 and the 50; that will be 62 million ounces at 45 cents an ounce.

H.M.Jr: I figure it's 28 million dollars.

White: (After figuring) Yes, just about. And 28 plus 20 will be 48 million dollars which they'll have here on earmark which will be used to stabilize the yuan.

H.M.Jr: What I was getting at - that I would call that one fund and let the people borrow against that.

White: Against the whole 48, up to as much as they want?

H.M.Jr: Sure.

White: That's daylight. Yes, there's no risk involved.

H.M.Jr: No risk.

Lochhead: The original credit called for 20 million or a proportion of it.

H.M.Jr: I'd take all the gold, let them borrow against - let them use 48 million dollars.

Lochhead: You could make it a 50 million dollar credit if you want, because they only borrow against the amount of gold. They could buy another couple million dollars of gold. Just give them the 50 million credit; then it's up to them.

H.M.Jr: Then what I thought was we'd say, "This arrangement is good until cancelled on 30-day notice" - from us, or 30 days by them.

White: Then there's a Number.....

H.M.Jr: I mean you've got to give them the same privilege we want, huh?

Riefler: (Nods yes)

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- White: Four is a suggestion that the Secretary is considering the possibility of looking with favor upon a request from China to be included among those nations who adhere to the tripartite statement.
- H.M.Jr: I'd put that a little bit differently. I would say that if agreeable to them we would be glad to sound out our partners in the tripartite to find out whether they would be welcome. If agreeable to them.
- Viner: We'd like them to think about whether they'd like to belong, and if so we'd be happy to sound out the others on their behalf.
- H.M.Jr: Let me just go over this. We agree to buy 62 million ounces of silver at 45 cents, which gives them roughly 50 million dollars. We agree to loan against that 50 million dollars any amount of money that they want to borrow, and that arrangement is open-ended, subject to 30 days' cancellation.
- Viner: By either party.
- White: You going to mention a rate of interest?
- H.M.Jr: I want to come to that in a minute.
- Lochhead: Up to date, the reason why you're extending them a credit and letting them borrow against this, is that they can simply say they still have credit arrangements here.
- White: That's a....
- Viner: And also a gold reserve.
- Williams: A gold reserve for their currency.
- White: Even though they borrow against it.
- Viner: Which is bad practice.
- H.M.Jr: Now, as to the rate of interest, you fellows are going to argue. I say 3 percent; Taylor jumped on me. George Harrison seemed to think 2½.
- White: Our average interest paid on all our outstanding obligations is 2.58, so 2½ might be a reasonable figure that you could support; 3 would be kind of

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high. Since there is absolutely no risk - they're leaving the gold here - it seems to me to be a little bit - ought to be generous there. And I want to raise the point about charging them a quarter of a percent. If you buy the silver, they get dollar balances. They could sell those dollar balances, get gold, and then ship it back here, and all that - but you still want to charge them a quarter of a percent.

- Lochhead: That's our regular formula. We have to; that's the regulations laid down by the President - if you sell them gold.
- H.M.Jr: You mean this gold you're going to sell them - you're going to charge them the one-quarter?
- Lochhead: Sure, you can't do it otherwise, unless you get a permit.
- H.M.Jr: I'm getting nervous about you (Taylor) leaving. You get your hat. You said 3:15.
- Taylor: I'm all right.
- H.M.Jr: You said 3:15. Do you want to go now?
- Taylor: Couple minutes.
- H.M.Jr: I'll go out and say good-bye to you.
- (H.M.Jr and Taylor go out)
- Lochhead: Harry, I think that question you bring up - the obvious answer to that is that if they were to buy gold in the London market they couldn't sell their silver.
- Viner: If they want to do....
- Lochhead: If they want to take advantage of the cheaper price of gold in the London market, they can also take....
- White: Would you object to their taking the dollar balances, selling the dollar balances, then buying gold, as they probably would come out - they wouldn't come out

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ahead of the game.

- Lochhead: We would object to that, because after all the only reason we're buying the silver, you might say, is in order to set up this - set up a sale of gold and do it at a time which suits our purpose to set it up.
- White: You want to divorce the transactions. You buy the silver and they buy the gold, rather than exchanging the silver for gold.
- Viner: Rather than swap.
- Lochhead: It's two separate things. As I say, the way I had it there, that we buy the silver - One - at 45 cents an ounce. Two, China to purchase gold from U. S. at \$35 an ounce, plus a quarter of a cent, with the proceeds.
- Williams: How much gold do you get rid of?
- White: 28 million.
- Lochhead: Figure it would be a good idea to show a drop in that sterilized gold.
- White: "Do you get rid of" - did you hear that?
- Viner: Get rid of gold, acquire silver.

(Secretary returns)

- H.M. Jr: Say, I wanted to - which we discussed, and I wish you'd get Danny Bell in on this thing - and that is this particular mechanism, which he knows more about than anybody else, and that is this question of when we buy the silver, issue the silver certificates, then you take the silver certificates and - we've discussed it here this morning; I was telling him - and buy gold out of the sterilized gold with the silver certificates, and then the question of - I don't know the next move. I want the whole thing - I'd like to have it like a diagram so I can explain it - explain it to me; I mean what happens to the gold certificates, the whole operation, 1, 2, 3, 4, starting right down. And we

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all agreed, Eccles and Harrison and everybody, that we realized that that would increase excess reserves by 30 million dollars, but they're all agreed that it should be increased, and everybody agreed that it would be advantageous - very advantageous - to take it out of the sterilized gold rather than out of any other fund. But I'd like it 1, 2, 3, 4.

White: It would increase the reserves more than 30 million dollars.

Lochhead: I followed it all the way down; it doesn't increase the reserves just as fast as you think.

H.M.Jr: Archie, if you don't mind, don't argue with me; nobody agrees on this thing; most everybody has a different opinion. Therefore, I'd like to have it, if you don't mind - put down each step, 1, 2, 3, 4, 5, 6; and if you don't mind, let Bell do it, and then you fellows can jump on Bell. But it's like that time, you remember, we all went through the argument as to the over- or under-sterilization, and you fellows came within 60 million dollars of agreeing, and I said, "All right, that's enough; I'll take that." But it's amusing when you get into it - I mean how many different things are that way. I think if we could do the thing - and I think that's the whole story.

Now, I was surprised....

Viner: But the interest rate - have you come to a decision on the interest rate?

H.M.Jr: Oh no, no. Oh, the interest rate - I wanted to discount it - I mean deduct it. I mean if there's a million dollars and three percent, I'd give them \$970,000; I want my interest first.

White: Except the trouble is if this is going to be done on 30-day notice they won't know how long they should pay interest for, unless you want to deduct the interest for months in advance; you'd have a little difficulty, because you're letting the loan be a month-to-month affair.

Williams: Why don't you say the average prevailing rate on our government securities?

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- Lochhead: Or one percent above the Federal Reserve rate - and then, though, you couldn't deduct the interest in advance. But that's generally the way those kind of loans are fixed up.
- Williams: Of course, that would come out the same.
- Lochhead: Yes, one percent above the Federal Reserve discount rate would.
- H.M.Jr: Listen, gentlemen, now look; now wait a minute. I still think I know these people up on the Hill and if we charge them  $2\frac{1}{2}$  and my rate is 2.508, let's say - it's just 8 mills above - they'll say, "You let the foreigners have it for less than you can get it yourself." Now, I don't think 3 percent is too high.
- Williams: Why don't you say at the prevailing rate, whatever that may be, on government securities?
- H.M.Jr: But it gets down to - I don't think 3 percent is too high.
- White: It's too high considering what you're giving them. Remember, the gold remains here.
- Viner: Short-term loan, 30 days. I'll loan you all you want on that basis at 2 percent. But there is this thing to be said; this is a credit, and you could charge them one percent for the credit, and then two percent, because on the credit.....
- Riefler: Why not Archie's suggestion of one percent above the discount rate?
- H.M.Jr: Does the discount rate change?
- Riefler: That would mean it'd still be outstanding three years from now - discount rates in effect at the time the credit was given.
- H.M.Jr: Do they only have one?
- Lochhead: Federal Reserve in New York, yes.
- H.M.Jr: One percent above the discount rate. It's now two percent, so that would make it three percent. What's the one percent for?

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- Riefler: Simply as a margin above.
- Lochhead: That's very often used.
- H.M.Jr: Well, talk it over. I think it's the least important. If it should be one percent above the Federal Reserve rediscount rate....
- Viner: I'd postpone talking about the interest rate until the last minute, so it shouldn't sound like a deal in which we're really interested in what interest we get.
- H.M.Jr: But I think this thing - in the first place, I spoke to the President - "How generous do you want to be?" And he says, "I think this is the answer." Now, do you suppose I could have this the first thing - well, I don't need it until.....
- White: Do you want to have your public statement prepared beforehand?
- H.M.Jr: Oh no. Kung's just going to read this....
- White: I mean we'd like to make a public statement either simultaneously or before they started so as to get the full effect of it.
- H.M.Jr: Well, we could do that on Friday or Thursday afternoon.
- Riefler: That's very simple.
- H.M.Jr: But you could be thinking - now, the other thing, this Brazilian thing - can we think about that until....
- White: We've been talking that over at lunch.
- H.M.Jr: Harrison made a - he gave me just what was the missing link in my brain, and I want to give you the thought which he gave me, which you most likely have thought of but I hadn't. That is, if we should sell them 50 million dollars worth of gold, we'd take their note back. Then on that note they'd pay us interest. Now then, the advantage to them is that this 50 million dollars worth of gold shows up in

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their statement.

Viner: Same as China.

White: It also has another advantage.

Williams: I mentioned that this morning.

White: It also has another advantage.

H.M.Jr: Except that they own it outright.

Viner: But if they, the Chinese, should borrow, why don't we get the same arrangement with them? They can still show the gold on their statement.

H.M.Jr: Well now, whatever - the interest rate should be the same for both of them.

Viner: I must say, it's a nice how-do-you-do when a bank pays three percent on its reserves.

White: I don't see how they can do that. I thought they were going to buy the gold on the installment plan.

H.M.Jr: Well, you fellows think that thing through. The other thing, I want to sell Brazil both gold and silver. I mean I want to sell them three parts of gold and one part of silver.

White: Before we can do that, we'd have to go over their whole banking, reserves, etc.

H.M.Jr: Have you done it?

White: We have done some of it. But they haven't come to us.

Lochhead: By law you can only sell them at \$1.29 an ounce.

Viner: You haven't sold any silver yet.

Lochhead: You can only sell it at \$1.29 an ounce.

Williams: If you can do that, I'm in favor of it.

White: I thought you said you could sell some silver from the Stabilization Fund.

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- Viner: They don't have to buy it from you. And they can send the silver here and earmark it.
- Lochhead: If you're thinking of that, Mr. Morgenthau, I think I would....
- H.M.Jr: We sell them 50 million dollars worth of gold; they then borrow 25 million dollars from us, with which they go and buy silver; if that isn't a....
- White: How do they pay for the silver if you require them to keep gold on collateral for the loan?
- Lochhead: It may be that I'll have to buy this silver in the Stabilization Fund so I'll have something to sell them.
- H.M.Jr: All right, Archie's got the answer. We'll sell the Brazilians the Chinese silver.
- Viner: Before it reaches here?
- White: It's here.
- Lochhead: Before it's taken into the Treasury. Once you take it under the Silver Purchase Act you can only sell it at \$1.29.
- Viner: I'd look up the Act and see whether.....
- Williams: Stabilization Fund isn't in the Treasury.
- Viner: No, it's in the Federal Reserve Bank of New York.
- H.M.Jr: Right in my top drawer.
- Incidentally, I talked to Cochran a little while ago. You people may have known it, but I didn't - tonight - did he say tonight?
- Lochhead: Tonight.
- H.M.Jr: - they dissolve Parliament. I didn't realize that, did you?
- Viner: I heard it at noon.
- H.M.Jr: They're going to dissolve, so that makes life that

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much sweeter.

Viner: When do they dissolve, tonight?

H.M.Jr: Tonight.

Viner: Riefler, we can go back tonight.

Riefler: Fine.

H.M.Jr: Listen, you fellows see me through this. The Chinese thing is easy, and the Brazilian thing... Talking seriously about you two fellows - this is why you ought to get on board this Hawaiian thing - this week and next week, unless there is some emergency that Taylor wants you for - that ought to clean the thing up until I get back, unless something goes wrong. Then I'd like to have Taylor to be able to call on you two men. I want you next week - this week and next to clean up the Chinese and the Brazilian thing and be free.

Riefler: Leaving over the weekend?

H.M.Jr: You mean will you get the weekend? Oh yes. What I'd like to do - I'd like to get Kung, if I could, finished tomorrow. We have this meeting at the White House at two. Now, I don't know whether you can get away Thursday; you can surely get away Friday. And then - but I want this - we have to see what the Brazilians give us and then take the Brazilian thing and clean that up next week, and he's going to be in New York and he'll come back. But I understand Kung is going to stay. The Kung thing is much easier anyway, because when you get into the Brazilian thing it's the whole question of their wanting to set up a federal reserve system and everything else.

Williams: Who has the background on the Brazilians? Why do they want a federal reserve, and why do they want gold reserves?

H.M.Jr: Williams, you're starting from zero with us at four o'clock this afternoon. The whole thing was, when President Roosevelt was down he got riding up and down the boulevards with the President of Brazil, and they got this idea that they would do this gold

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thing this way, see? Then they were supposed to come up here and see me, which was - they've been here for two weeks, and the State Department's kept them closeted for two weeks. Now that they're about ready to go, they turn this over to me - we should give Brazil a new financial system in two days; they give us Thursday and Friday to do a new financial system. I think what will happen - they'll give us this thing and Sousa Costa will have to leave his people behind, whatever financial experts he has, and let us work this thing out. But personally my hunch is that they oughtn't to do the gold thing until they know what kind of a banking system they're going to have. Is that right? We haven't the foggiest notion what they've got.

White: Did Wayne speak to you about the answer to Switzerland?

H.M.Jr: No.

White: Well, we talked over an answer to Switzerland. Are you interested in that now, or do you want to see the draft of the answer?

H.M.Jr: I want to see the draft of the answer, because at 3:30 I said I'd see Emil Ludwig for half an hour. When you gentlemen going to see me again?

White: Well, China - do you want something a little - this 1, 2, 3, 4, 5?

H.M.Jr: Well, how that thing works - inside, I mean - I mean I can get that thing. And this thing to show Kung - I would like to have it to read tonight, so that I could have it retypewritten tomorrow morning if there are any changes I want to make. I would like to have it at the hotel tonight.

Viner: We'll draft a Swiss reply for you; like to talk it over with Williams because it's a question of policy.

H.M.Jr: Williams is here in his capacity as Dean of the School of Administration.

Williams: Fine.

H.M.Jr: Is that right?

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Williams: I don't know just what you mean.

H.M.Jr: I didn't know either, but I thought it sounded good.  
Well, anyway, he's here to help us for the next day or so.

Viner: We missed him today at lunch very badly.

Williams: I was going to go around and see if you fellows didn't want to have lunch.

H.M.Jr: Before I go home tonight, I'll check with you people. Where will you be working?

Viner: 296.

H.M.Jr: Down this way?

Lochhead: It's the lunch room.

White: And then there's a Yugoslavian purchase of gold. That's the only other....

Viner: No use bothering him with that now. We'll talk that over with Williams too, because that's a small transaction raising some big questions.

H.M.Jr: And you know about the Russian gold coming in?

Viner: Oh yes; I think there the answer ought to be "No."

H.M.Jr: We told them that we paid \$35 less Archie's one quarter, f.o.b. New York.

Viner: And we can quote the Act; that's the only basis we can work on.

H.M.Jr: You (Lochhead) told the Federal?

Lochhead: It's the Federal's answer, so we just advised them.

H.M.Jr: And if there's any night work, we'll make Williams do it, because he didn't have to.....

Viner: Is there any way in which we could make him stay over the weekend here?

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H.M.Jr: Very easily.

Williams: Don't think up any naughty ones. I love my weekends.

H.M.Jr: You're unique.

All right.

Revised.

7-8-37

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1. The United States to purchase from the Government of China 62,000,000 ounces of silver now held in the United States at 45¢ an ounce, on terms similar to those applying to the earlier purchases from China.

2. China to use the dollar proceeds from the sale of silver for the purchase of gold from the United States at \$35 an ounce, plus  $\frac{1}{4}$  of one percent, and agree to hold such gold under earmark at the Federal Reserve Bank of New York, and to use that gold only for the purpose of maintaining stability of yuan exchange.

3. For the purpose of stabilization of yuan exchange the United States Treasury, acting through its fiscal agent, the Federal Reserve Bank of New York, will be prepared to provide U. S. dollars up to \$50 million in exchange for an equivalent amount of yuan contingent upon a repurchase agreement, and upon the maintenance in the U. S. of collateral to an equivalent amount in gold. This arrangement to be terminated on a definite date mutually agreeable unless renewed from time to time thereafter by agreement on at least 30 days' notice. Interest on the amount of dollars given up in exchange for yuan to be charged at the rate of \_\_\_\_\_ percent per annum.

draft

July 7, 1933

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4. In the event of a request from China to be included among those nations adhering to the tripartite statement, the Secretary would be glad to sound out England and France to obtain their views on the matter.

July 7, 1937

Excerpt from Memo of Mr. Magill to The Secretary

1. Tax investigation

Mr. Doughton informed me this afternoon that Colonel McIntyre had advised him that the President had a very satisfactory conference with Messrs. Treadway and Crowther. Colonel McIntyre suggested that Mr. Doughton discuss the situation further with the two Congressmen. Mr. Doughton was apparently in the dark as to the precise results of the conference with the President.

I am to see Mr. Doughton tomorrow morning at ten and he expects to call an executive session of the Committee for some hour later in the morning. Presumably the Committee will then decide the later course of the investigation and the topics on which legislation has to be drawn.

Messrs Beaman, Kent, Tarleau, and various other men are now working together on the proposed legislation every afternoon. It ought to be ready in about a week.

July 7, 1937

Excerpt from Memo of Mr. Magill to The Secretary.

2. Non-resident aliens

Mr. Haas' group presented a joint proposal for legislation to me this noon. It is my understanding that everyone agreed. Dr. Viner has agreed upon the recommendations but would prefer that legislation should be postponed until the next session of Congress. I told him that this was out of the question in view of your letter to the President and in view of the fact that our economic experts had been working on the subject from six to nine months and, hence, would be expected to have formulated a well-rounded program.

The recommendation is that the withholding rate on individuals and corporations be increased to 22 percent, with the provision that individuals may, by filing returns, secure refunds of taxes they have paid on their American incomes in excess of the amounts that would be payable by American citizens with similar incomes; provided, however, that the rate of tax payable shall never be less than 10 percent. In the second place, they proposed an excise tax of 5 percent on capital gains from the sale of stocks in this country. This tax will be collectible by the brokers, and will be enforced by stamping the purchase price upon every certificate of stock bought by a non-resident alien. When a certificate so stamped is presented for transfer in this country, the excise tax will fall due on the difference between the then sale price and price stamped on the certificate. It is my understanding that this proposal has been informally cleared with the State Department, the SEC, and the Federal Reserve Board.