

DIARY

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July 8, 1937  
10:04 a.m.

H.M.Jr: Hello.

Bell: Good morning.

H.M.Jr: Hello, Can.

B: I thought it was rather important that you get this dope. Ogden Mills called me this morning and I had quite a long talk with him over the telephone -

H.M.Jr: Yes.

B: About the sinking fund. He's maintaining that the Secretary has no discretion in the sinking fund and that it is mandatory.

H.M.Jr: Yes.

B: I argued quite a bit with him. He's gone out to see Parkson who drafted it originally and Gilbert and one or two others, who had a lot to do with it and they all take the view that it's mandatory, and apparently he'll come out with some statement shortly.

H.M.Jr: Yes.

B: I think that it is probably important that Oliphant look into it and maybe talk to the Attorney General about it and get some opinion.

H.M.Jr: Yeah, all right.

B: Don't you?

H.M.Jr: Yep.

B: Cause I have an idea that he's going to issue quite a blast.

H.M.Jr: I see. He says we're not maintaining the principal in fairness to the bondholders and all that business.

- 2 -

B: I tried to argue him out of it but -  
it is quite important that you have the  
flexibility and financing operations -

H.M.Jr.: Is he in town?

B: No, he's in New York -

H.M.Jr.: Oh, I see.

B: Called me from New York.

H.M.Jr.: I see.

B: But I do think we ought to have Oliphant  
look into it and -

H.M.Jr.: I'll do it right away.

B: All right. I'll do it if you want me to.  
I just thought that you ought to know about  
it.

H.M.Jr.: No, I'll call him and - have you heard any-  
thing <sup>definite</sup> from the White House?

B: Nothing more than two o'clock and all I  
can get out of it is that it is the inde-  
pendent agency.

H.M.Jr.: Well -

B: And not the Cabinet.

H.M.Jr.: All right. I'll -

B: Yeah, I understood he was going to have  
the Cabinet on Friday separately.

H.M.Jr.: Well, I'll get hold of Oliphant right away.

B: Thanks.

H.M.Jr.: All right.

ooOoo

July 8 ?

MEMORANDUM FOR THE SECRETARY

The Brazilian Problem

We have had a preliminary discussion of the Brazilian problem with the Brazilian Finance Minister, and have submitted to him a series of questions which he has promised to discuss with us Friday afternoon at 3:30 p.m. These fall into three groups:

- (a) The economic and financial situation of Brazil.
- (b) The advisability of establishing a new central bank as a substitute for the Bank of Brazil.
- (c) Questions relating to gold. The main questions are:
  1. Advisability of a commitment by us to supply gold to Brazil in some definite amount, the gold to be actually acquired by Brazil in installments over a period of time.
  2. Dollar credits to be furnished to Brazil against gold collateral, purposes of such credits, rate of interest, etc.
  3. The question of what is an adequate gold reserve for Brazil, having in mind the instability of her exports, etc.
  4. Annual Brazilian production of gold.

After our conference with the Brazilians, we conferred with Dr. Feis. We all believe that this Brazilian problem, taken in its

entirety, is too large and presents too many uncertainties to permit of speedy handling. There are, however, some points on which fairly prompt agreement could probably be reached. We suggest as a working program that we attempt to reach such an agreement now, and that we leave for continuing study, extending probably over a period of months, both in Brazil and here, the larger aspects of the problem.

By way of illustration, we could perhaps now reach an agreement to the following effect:

1. We are mutually interested in questions of trade development.
2. We are mutually interested in the question of debt service settlement. (We understand that these two questions have been handled by the State Department.)
3. We are also mutually interested in doing everything possible at this time to promote stability in our monetary relations.

To this end:

(a) The United States is prepared:

- (1') To sell gold to Brazil in exchange for the foreign currency balances Brazil now has, (which we understand amount to b\$8,000,000).
- (2') To accept Brazil's domestic gold supply (now 10 metric tons, approximately \$30,000,000).
- (3') To agree to sell gold to Brazil in the future in such amounts and at such times as Brazil may have exchange to pay for it.

- 3 -

(4') To supply, at a rate of interest, dollar balances to Brazil against earmarked gold as collateral, such dollar balances to be used exclusively for exchange stabilization.

(b) The United States is further prepared to undertake continuing collaboration with Brazil in the exploration of the larger questions raised:

(1') It will be glad to give technical assistance and advice if desired, in connection with the question of establishing a central bank in Brazil.

(2') It will be glad to explore further the desirability of a commitment to supply gold to Brazil in some definite amount.

1. The United States is prepared now:

- (a) To sell gold to Brazil in exchange for the foreign currency balances Brazil now has (which we understand amount to £8,000,000).
- (b) To accept Brazil's domestic gold supply (now 10 metric tons, about \$30,000,000) for earmark.
- (c) To agree to sell gold to Brazil in the future in such amounts and at such times as Brazil may have exchange to pay for it.
- (d) To supply, at a rate of interest, dollar balances to Brazil against earmarked gold as collateral, such dollar balances to be used exclusively for exchange stabilization.

2. The United States is further prepared to undertake continuing collaboration:

- (a) It will be glad to give technical assistance and advice if desired, in connection with the question of establishing a central bank in Brazil.
- (b) It will be glad to explore further the desirability of a commitment to supply gold to Brazil in some definite amount.

July 8, 1937

Mr. Magill

Mr. Egan, Oppen, Koffler, Fisher, White, Zucker

Subject: Proposal for taxing nonresident aliens and nonresident foreign corporations.

For purposes of instituting proper and equitable taxation, at this time, applicable to nonresident aliens and nonresident foreign corporations, the following tax proposal is recommended:

1. Increase the present 10 percent and 15 percent withholding rates on fixed and recurring items of income to 22 percent, for both nonresident aliens and nonresident foreign corporations; permit nonresident aliens only to file tax returns showing all income from American sources including net capital gains; allow earned income credit, \$1,000 personal exemption, and the regular credit for dependents to nonresident aliens from contiguous countries; subject the net income to the present rates (normal tax and surtax) applicable to American Nationals and grant refunds in those cases where the tax liability so determined is less than the withheld 22 percent, the refund, however, to be limited so that in all cases there shall be retained as final tax at least a sum equal to 10 percent of the net income.

2. Impose a 5 percent excise tax, denominated as a speculative profits tax, computed on profits from sales or other dispositions of equity securities by nonresident aliens and nonresident foreign corporations. The 5 percent tax is to be withheld by the selling broker, nominee, or purchaser, in cases of sales in the United States effected for foreign account.

The 5 percent tax is also to be withheld by transfer agents in cases where American equity securities held abroad are returned to the United States by nonresidents for transfer of record ownership and issuance of new certificates. The tax in this instance is on an amount measured by the difference between stamped purchase price when security was acquired or value as of basis date, as hereinafter provided, and last selling price or market value, in case of disposition other than by sale, at which security is being registered, irrespective of the number of intervening transactions.

All equity securities bought for foreign account, after the effective date of the act are to be stamped by the broker or foreigner's nominee the same purchase price. Stamped securities are to be delivered to the selling broker for foreign account who will then be enabled to compute the 5 percent

owing to Bu 918

Mr. Magill - 2

tax, on the difference between the calling price and the stamped purchase price shown on the face of the certificate. In the cases of securities acquired prior to the effective date of the act, market value as of a basis date (December 31, 1937), in lieu of purchase price, is to be used in determining profit on which to levy the 5 percent withholding tax. However, the foreign owner will be permitted to prove cost of such security and, if greater than value as of basis date, will be allowed a rebate accordingly.

In the case of a nonresident alien filing an income tax return, there will be allowed as a deduction so much of the 5 percent speculative profits tax as was actually paid by him through the withholding agents.

The 5 percent speculative profits tax is to apply also to short sales and to transactions consummated through margin account dealings.

RECEIVED

JUL 7 1937

Treasury Department  
Office of the Secretary  
Division of Research and Statistics

RECEIVED

JUL 10 1937

Treasury Department  
Office of the Under Secretary

JUL 15 1937

Noted  
A. Lochhead



DEPARTMENT OF STATE  
WASHINGTON

3121

In reply refer to  
Eu 861.51/2761

July 8, 1937

My dear Mr. Secretary:

With reference to my letter of June 24, 1937,  
forwarding for your information a copy of the  
telegram from the Embassy in Moscow concerning the  
Soviet gold industry, I am enclosing as of possible  
interest another telegram from the Embassy on the  
same subject.

Sincerely yours,

Enclosure:

Paraphrase of  
telegram as  
stated above.

The Honorable

RECEIVED Henry Morgenthau, Jr.,  
Secretary of the Treasury.

JUL 13 1937

RECEIVED  
JUL 13 1937  
U.S. DEPARTMENT OF STATE

Department of State

BUREAU  
DIVISION

Eu

ENCLOSURE

TO

Letter drafted July 7, 1937

ADDRESSED TO

Secretary of the  
Treasury

TELEGRAM RECEIVED

10

Moscow  
Dated July 7, 1937  
Rec'd 10:20 a.m.

Secretary of State,  
Washington.

153. July 7, 11 a.m.

Embassy's 127, June 22, 11 p.m.

From an additional unofficial source which is considered to be reliable the Embassy has been informed that for reasons which were outlined in the Embassy's telegram under reference in the past six months the production of gold in the Soviet Union has not equalled the planned increase and has in fact been decreasing in many regions.

Partial confirmation of this information obtained from private sources was afforded by an article published July 5, 1937, in the MOSCOW PRAVDA. This article takes the party organization, and particularly the director, of the Chief Administration of the Gold and Platinum Industry to task for sending Trotskyists to gold camps and for permitting the falsification of the 1936 report of the Orsk state trust for copper and gold mining. Regarding the work of the Chief Administration of the Gold and Platinum Industry, the article concludes with the following statement: "In such a stale atmosphere of undisguised opportunism and direct complicity with enemies of the people it is not surprising that the carrying out of the semi-annual production plan has been disrupted".

DAVIES

Congress of the United States  
House of Representatives  
Washington, D. C.

11

July 8, 1937.

Hon. Allen T. Treadway,  
House of Representatives,  
Washington, D. C.

Dear Allen:

I would appreciate it if you would ask the Joint Congressional Committee on Investigation of Tax Evasion and Avoidance for permission for me to appear before them tomorrow, Friday, July 9th, or any time next week, to present evidence in connection with the use of loopholes within the income tax law by members of the Roosevelt family in order to avoid payment of Federal Taxes.

In addition, I want to present evidence that these loopholes have been used by Henry Morgenthau, Jr., and Henry Morgenthau, Sr. and to ask that the income tax returns of some of the large Democratic contributors be investigated by the Committee, which names I will submit, in order to prove that there is no partisanship by the Treasury Department in the submission of names to the Committee. To date there have been only two prominent Democrats named, whereas there have been approximately forty Republican and anti-New Deal contributors who have been smeared in the public press.

I have no intention of making any charges against the President or asking for his income tax return, beyond placing before the Committee a statement made by the President himself a few years ago in which he admits taking advantage of existing tax avoidance loopholes.

I understood from Mr. Doughton's statement in the House of Representatives a few days ago that I would be permitted, as a Member of Congress, to appear before the Committee with the consent and approval of the Republican members. I, consequently, renew this request and would appreciate it if you would submit it for favorable action to your Committee.

Sincerely yours,

*Hamilton Fish*

## MEETING WITH CHINESE

July 8, 1937  
11:00 a.m.

Present: Dr. H. H. Kung  
Ambassador Wang  
Dr. P. W. Kuo  
Dr. Lee  
Mr. Oliphant  
Mr. Lochhead  
Mr. White  
Dr. Feis  
Dr. Viner  
Mr. Riefler  
Mr. Williams  
Mrs. Klotz

H.M.Jr: Listen, I see you fellows dropped off the part about the stabilization - tripartite agreement.

Oliphant: Isn't that your desire?

White: Herman was of the opinion that's what you wanted.

Oliphant: Going to use your hunch.

H.M.Jr: I'm not going to say a word about it. You're clairvoyant.

Oliphant: Clairvoyant.

H.M.Jr: No, I wasn't going to mention it.

White: There's one other change I want to call your attention to. We've got the two ways - you going to read it over now or want me to tell you about it?

H.M.Jr: Well, what's different?

White: There are two ways. One is "this arrangement to be terminable on 30 days' notice," the other.....

H.M.Jr: Just one second. - Go on, Harry.

White: The other was as you have it there, with a fixed date. That was Clarence's thought, and Herman thought it was preferable, for reasons of their own.

H.M.Jr: I want the 30 days' notice.

Oliphant: It's 30 days' notice, but with a fixed date and 30 days thereafter.

-2-

- White: Fixed date and 30 days. This other is 30 days without any fixed date.
- H.M.Jr: Where does it say 30? Oh - "To be terminated on a date mutually agreeable - on at least 30 days' notice."
- Oliphant: That's the way we did it in the pact.
- H.M.Jr: Well, get hold of that thing. The point is, if we can have a date, then he can have it. It's got to work both ways.
- These are different?
- White: One says "30 days terminable" and the other says "30 days fixed."
- H.M.Jr: Which do the lawyers prefer?
- White: The one in your right hand.
- H.M.Jr: "Definite date mutually agreeable, unless renewed from time to time." That's all right. Have you got another copy of that? Herbert Feis kind of chewed this up a little bit.
- Oliphant: Have you another copy of this one, White?
- White: Yes, I'm looking for it.
- (The Chinese come in)
- H.M.Jr: Have you met everybody here, Dr. Kung? You know everybody here.
- (Chinese are seated)
- H.M.Jr: Dr. Kung, when you were here the other day, you reminded me that I sent a message to you once that we could do business in two hours.
- Kung: Yes.
- H.M.Jr: So I thought I would go at this meeting this morning in that spirit, and try to make it in one hour.

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Kung: All right.

H.M.Jr: And furthermore, rather than - China and the United States have established such a wonderful friendship now that, rather than try to bargain with you, I think I'm going to make you a proposition which is even better than you think.

Kung: Well, thank you.

H.M.Jr: And instead of saying, "Now, I want to go so far," then go a little better, I'm going to give you the very best I've got.

Kung: That's very good.

H.M.Jr: And I'm doing this after talking with the President of the United States, and the President said that he wanted me to do everything possible for China to continue our very pleasant friendly relations. So with that in mind I have just written down so much, see? And this is what we think will be good for your government and good for us.

What I propose is this, that "The United States purchase from the Government of China the 62 million ounces of silver now held in the United States at 45 cents an ounce on terms similar to those applying to the earlier purchase from China." Be the same technical arrangements.

"2. That China use the dollar proceeds from the sale of silver for the purchase of gold from the United States at \$35 an ounce plus one-quarter of one percent, and agrees 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 the stability of the yuan exchange.

"3. For the purpose of stabilization of the yuan exchange, the United States Treasury, acting through its fiscal agent, the Federal Reserve Bank of New York, will be prepared to provide United States dollars up to 50 million dollars in exchange for an equivalent amount of the yuan contingent upon a repurchase agreement and upon the maintenance in the United States of collateral to the equivalent amount

-4-

of gold." In other words, we are prepared to loan you dollar exchange against the gold, just the way we did against the silver.

"This arrangement to be terminated on a definite date mutually agreeable unless renewed from time to time thereafter by an agreement on at least 30 days' notice." Both ways. "Interest on the amount of dollars to be given up in exchange for the yuan to be charged at the rate of one-half of one percent above the discount rate of the New York Federal Reserve Bank" - which is one and a half, so today it would be two percent, you see? That's the whole story.

Kung: Well, very well.

H.M.Jr: Would you like to look at it? There's the whole story. (Hands statement to Kung, who reads)

Kung: This is blank? - "Interest to be charged at a rate of ....."

H.M.Jr: I only decided that five minutes ago. We wanted to give you as favorable a rate as possible. That would be at one half of one percent above whatever the discount rate of the New York Federal Reserve Bank would be. Now, at present it is one and a half percent, so that makes two percent.

Kung: I see.

H.M.Jr: Now, if money should get dearer, there is a slight chance of that going up. The chances are, if anything, it might go down. But it would be a half of one percent above whatever the rate... Williams, how long has that rate been one and a half?

Williams: Oh, it's been there since '33 or '34 - '33, I think.

H.M.Jr: When, '33?

Williams: '33.

H.M.Jr: So for three years or four years the New York Federal Reserve has had the same discount rate, one and a half percent, so the chances of that changing are not very

-5-

great. I mean I wanted to make it as reasonable as possible and still at a rate which I could explain.

Kung: Yes.

H.M.Jr: And we felt - we put that in feeling that it is an advantage to you to be able to have that in case of an emergency. And again, it just doesn't let the outside world know - you know that some of these countries that have been so anxious - they have never yet found out what the arrangements have been between our governments. Ever so often they have come in and asked. I remember one Embassy sent somebody in here who said, "Oh, by the way, what is that arrangement you have with the Chinese Government?" I said, "Men have been shot for less than that." So he said, "All right, forget I asked the question."

(Hearty laughter)

Kung: I saw the President yesterday and he told me.....

H.M.Jr: He told you about this?

Kung: He said you had a conference with him, got everything fixed up satisfactorily. I thought he was very gracious.

H.M.Jr: Well, I spoke to him in the morning and asked him, and he said, "Go the limit."

Kung: He said he thought I was getting along with the Secretary of the Treasury, Mr. Morgenthau, very well. I said, "Oh yes, we're getting along famously."

H.M.Jr: Well, you see, this silver - of course, a lot of it isn't even melted down, you know, and we'll take how many - Archie?

Lochhead: Probably be six months before it's finally cleared up.

H.M.Jr: But if this is agreeable to you we may take the thing at once, and - I forget - they make certain allowances, whatever they are, for coins.

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Kung: Yes.

H.M.Jr: And we put the gold to your credit right away. And I should think it would be helpful.

Kung: Oh yes, and it's very good of you, really.

H.M.Jr: Pardon me?

Kung: Very good of you to give us such assistance and cooperation and further evidence to show American friendship for China.

H.M.Jr: Well, that's what we'd like to do. .

Kung: And, of course, the reforms we make are not only for the benefit of our country alone, but are also for the benefit of those who trade with China. And now the American trade, the foreign trade - in China's foreign trade America comes first; so I think any system which could make for the stabilization of our currency means also a good trade for America.

H.M.Jr: We want to see a strong China.

Kung: Yes, that's right.

H.M.Jr: That's what we want to see. And I've said to your representatives when they were here before that we were willing to take our chances with the Chinese people, that your memory would be long, and that has proved to be so.

And what we'd like to do, Dr. Kung, if you want - maybe you'd like to leave some of your people behind here and they can ask some - any technical questions they'd like to. And then, if this is agreeable, why, we thought you might like to join us and give out a statement tomorrow from the two Treasuries.

Kung: Yes.

H.M.Jr: And your people could stay behind; they could work on some sort of statement. Then if you care to come here tomorrow maybe we could give it out - see the newspapermen tomorrow.

-7-

Kung: That would be agreeable.

H.M.Jr: You going to be here tomorrow?

Kung: Yes.

Wang: In the morning he will be occupied.

Kung: Well, we can come early.

Wang: Very early, or, if possible, the afternoon - or noon, be all right?

H.M.Jr: Unfortunately, we have Cabinet once a week, but I'll make it any time you say, say, from sun-up; you couldn't make it the first thing in the morning?

Kung: Oh yes; 9 o'clock, 10 o'clock, 9:30.

H.M.Jr: 9:30?

Wang: (Nods yes)

H.M.Jr: Would that be all right?

Kung: Oh yes. We're going out to - we're going to honor soldiers.

H.M.Jr: What time?

Wang: Arrange to start from here 8:30.

H.M.Jr: In the morning?

Kung: To be at the.....

Wang: ....Arlington at 11.

H.M.Jr: Well then, you couldn't get here at 9:30. He couldn't be here at 9:30. When could you get here, Mr. Ambassador?

Wang: I think if 11:30 is convenient for you we can be here.

H.M.Jr: 11:30 would be fine.

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Wang: We can start earlier - start at 8 and get through.

Kung: Would that be convenient for you?

H.M.Jr: Be fine.

Wang: Make it 11:30.

H.M.Jr: I tell you, can you leave some of your people behind? Then they can ask the questions and work this out. Then we can get out a joint statement. We'll have the newspapermen come in and we'll say, "This is what we have agreed on."

Kung: Yes, sir.

H.M.Jr: Then we get our pictures taken.

Kung: (Laughs)

H.M.Jr: How's that?

Kung: All right. Mr. Secretary, I say you are not only an expert in finance, I say also you are expert in diplomatic.....

H.M.Jr: No, I'm afraid not.

Kung: You know why I said that. You say you want a strong China, and that is really a far-sighted statesman's view. If you have a strong China, you will have security and peace, and the peace of the Far East.

H.M.Jr: I know. .

Kung: And that's what you want, and we're interested.

H.M.Jr: That's what we want.

Wang: I think Dr. Kung meant to say he is not only the Secretary of the Treasury but he is a great statesman. See, that's what he had in mind.

Kung: That's it.

H.M.Jr: Listen, Dr. Kung, I bought all your silver; you don't have to give me anything more.

-9-

Kung: Well, I sold the silver to you cheap. I sold the silver to you cheap. I bought your surplus gold.

(Great laughter)

H.M.Jr: Well, I won't argue with you about that.

Wang: Well, it would be best for these gentlemen possibly to stay behind.

H.M.Jr: Well, it's - you know, things have come so fast, the improvement in China, that I don't think the people yet know what is happening. It has come so fast.

Kung: Yes.

H.M.Jr: Trade is going up, everything.

Kung: But we must attribute a large share to your government and to the President and to you.

H.M.Jr: Well, we have helped other people when they couldn't help themselves.

Kung: Well, we believe in that slogan, "God helps those that help themselves."

H.M.Jr: That's right. And we have tried to help some other countries, but it wasn't so successful as with China.

Kung: Well, I'm glad you're not disappointed in China.

H.M.Jr: I'm not.

Kung: I have reason to believe in the future, and probably you will look upon the days when these transactions were made with pride, because this is going to help not only the economic structure of China, which means benefit for American trade, but also going to help the security and the peace of the Far East.

H.M.Jr: I'm sure it will.

Well now, if you can leave whatever people - who you going to leave behind you?

Kung: Well, I can leave those two men (Kuo and Lee) here.

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H.M.Jr: All right. And then they can polish something up to get it to you this evening, and then you can make any corrections and I could get it back tomorrow morning, and so by the time you're here at 11:30 we'll have something which is agreeable to both of us.

Kung: Fine.

Well, Mr. Secretary, I wish to thank you.

H.M.Jr: Not at all; thank you.

Kung: I notice, Mr. Secretary, you cut it down to half an hour instead of an hour.

H.M.Jr: I told him we could.

Kung: We know how to do business all right.

H.M.Jr: And I'll see you at 11:30 tomorrow.

Kung: 11:30 tomorrow.

(The Chinese leave)

H.M.Jr: You (Feis) said.....

Feis: May I be excused?

H.M.Jr: You said you wanted to see me. All right.

Feis: I'll try to give some background during lunch period.

H.M.Jr: Fine; all right.

(Feis leaves)

H.M.Jr: Now I want to talk to you gentlemen a minute.

Oliphant: I think he's the most considerable personality that I've ever seen.

H.M.Jr: (On phone) Secretary of State, please.

I'm just getting Mr. Hull; want to tell him about this matter. He's (Kung) clever.

-11-

Viner: 20 minutes; you said an hour.

H.M.Jr: What more is there to say? I gave him the best he could expect; no use trading. And I honestly believe that when all this thing blows over - that ten years from now, maybe the most important thing that I did when I was here was to save China when we started a year and a half ago; that over a period of fifty years that may be the most important thing; that the French thing may just be insignificant, and that fifty years from now the fact that China was not gobbled up by Japan and again becomes a strong nation may be the most important thing we did here.

(On phone) Hello. - (Conversation with Hull follows:)

July 8, 1937  
11:21 a.m.

Cordell  
Hull; Hello.

H.M.Jr.: Hello, Cordell.

H: What's going on?

H.M.Jr.: Well, plenty.

H: I guess -

H.M.Jr.: Well -

H: I'm sorry to hear that.

H.M.Jr.: We had this meeting this morning with the Brazilians in which - Herbert Feis was here. He just left.

H: Yeah.

H.M.Jr.: And the way we looked at this thing - this is going to be a matter of weeks of study and we're prepared to give it, you know.

H: Yeah.

H.M.Jr.: This situ - I think it is too important and too complicated to try to get to Sousa Costa before he goes back.

H: Uh-huh.

H.M.Jr.: And I want to know whether you would be - I'd appreciate it if you would get Feis to tell you what happened here this morning.

Hull: Yuh. All right, I'll do that right away.

H.M.Jr.: And the other thing is. I tried to get you before I saw Dr. Kung. I went over it with the President yesterday. They've

- 2 -

had 60 million ounces of silver in this country for some time.

H: How -

H.M.Jr.: Now what we've agreed to do is to swap that silver for gold.

H: Uh-huh.

H.M.Jr.: And they could keep the gold ear-marked in America and to use it only for exchange stabilization purposes.

H: Yes.

H.M.Jr.: The way they have all the other money.

H: Yeah.

H.M.Jr.: Now they've kept their faith with us absolutely.

H: Well, that's fine.

H.M.Jr.: And they've never used a dollar of it except for exchange purposes.

H: Yeah.

H.M.Jr.: And that we would need also against this gold if they have to borrow temporarily for exchange purposes, we lend it to them.

H: Yes.

H.M.Jr.: And that's the whole agreement.

H: Well, that - that's good.

H.M.Jr.: And Kung was just tickled to death and we're going to work out a statement which we'll give out tomorrow and before we give it out, I'll submit it to you.

H: Yeah, sooner or later, when we get a little further out of the woods, we've got to talk a little more - some of us

- 3 -

have at least - about international financing because we have - can't ours get any more stable and if she keeps on improving -

H.M.Jr.:        Yep.

H:                The British and these - the Japs and others would take over all that situation if we don't keep any too little.

H.M.Jr.:        Well, we're in it now -

H:                Yeah.

H.M.Jr.:        And there's some way out here -

H:                Yeah.

H.M.Jr.:        That has to be considered - the best planned and that do the most business with us -

H:                Yeah, well that's good. That's just in line with what I'm trying to say.

H.M.Jr.:        And no one could ~~be~~ more friendly than he does.

H:                Well, that's fine.

H.M.Jr.:        And I wanted to tell you before but -

H:                Well, I -

H.M.Jr.:        None of us get time enough to -

H:                Yeah.

H.M.Jr.:        I mean I always feel that I never get time enough to consult -

H:                Yeah.

H.M.Jr.:        But my suspense through the whole thing -

- 4 -

H: Yes, I'll keep in touch with you.

H.M.Jr.: And before we give out anything tomorrow,  
why we'll send it over to you.

H: All right, and thank you so much, Henry.

H.M.Jr.: Thank you.

ooOoo

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- H.M.Jr: He's worrying that the English or somebody might get into China with their trade before we do. Well, my good heavens - I mean our position with China is such that - these fellows will never forget what we have done for them; I mean I've got great confidence in them. And I always feel that when we take a step like this, why not do it gracefully and do it with an air. And as he says, he's selling us - as a matter of fact, I'd rather today own silver at 45 cents, I think, than I would gold at \$35. I think it's a darn good swap. I don't know how you feel, but....
- Viner: Both of them are dear.
- H.M.Jr: Both of them are dear - do you really think so?
- White: Not comparatively, no. I still think silver at 45 cents is better than gold at \$35.
- H.M.Jr: You do. Well now, the reason I asked you gentlemen to stay - am I calling on too much of your time to stay here tomorrow and then with this thing - then I don't think that I'll need you people except on this. I don't know what thing the Brazilians will bring, but as far as I am personally concerned I won't need you people any more. What I'd like you people to do, if you would - if you could stay tomorrow and then the three of you work out some sort of arrangement as to how you think we should handle this Brazilian thing, which is going to be a matter of weeks. Now, Herbert Feis just caught me on the run and he says they expect to set up two joint committees, one in Brazil and one here, that are going to work continuously on this thing. And he says they may get out a statement covering the Treasury - I mean one communiqué covering the whole thing. But this thing may take several months. And I jumped on Feis and said, "How can you expect to do a job in two days that they're here?" and he said, "Frankly, we only saw yesterday where we were at." And so if you men could contact him and then see - I go to Cabinet tomorrow, and then before Cabinet if we could have some idea how we're going to work this thing out, you see - I mean with Brazil. I mean just how we're going to plan it, who should work on it.

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And I told George Harrison - it's all right to tell him - keep him posted on how this Brazilian thing develops. And in return anybody we want from his staff is available to us, see?

Williams: Sure.

H.M.Jr: So - I mean that anybody that is - that we should need in New York to help in the setting up of a federal reserve is available to us.

Williams: I should like to venture a little preliminary statement on this Brazilian thing. It might possibly clarify our minds, though it is dangerous because I haven't enough background. But it seems to me from listening to them this morning that there is really one main question for us.....

Lochhead: (Returning from outside) Excuse me. I have those four gentlemen - they waited. Dr. Kung and the Ambassador would like to speak a couple minutes about the statement.

H.M.Jr: Why don't you stop this and go into Taylor's office, and I'll give you a chance with me this afternoon.

Lochhead: I got them to agree to tack on another couple millions to make it an even fifty.

H.M.Jr: Is Kung waiting?

Lochhead: Yes.

H.M.Jr: Gentlemen, Kung is waiting outside. Go down to Taylor's room and I'll see you later on. I'll see you around - between three and four.

(Group adjourns to Mr. Taylor's office)  
(Chinese again present)

Lochhead: For your information, I will just run through the general idea. The technical angle of handling this we will take care of, and what they want to speak of now is the general form, probably, of a statement tomorrow.

Riefler: Technical arrangements are all right.

-14-

Lochhead: Technical arrangements are all right.

The silver coins that we have gotten from you - so far we have managed to make a fair recovery in overage. Have you noticed the figures on that?

Kung: I have not.

Lochhead: We have managed to get an overage on the silver coins, as a general rule. And very fortunately....

Viner: The coins are overweight?

Lochhead: It is a question of fineness, not weight. ....and very fortunately, we have managed - not just melting it down, but this way, by getting an absolute refining, we have gotten back something instead of.....

Kung: Yes, we give quality and quantity. The coins weigh more than they should and the quality is very good.

Lochhead: Well, unfortunately it is very difficult to handle a quantity like that for refining. Of course, there are no facilities in any other country to handle a quantity like that. We've got a very good contract. The usual charge is one and one-tenth cents an ounce, and we have managed to get a rate of seven-tenths of a cent an ounce, which makes quite a difference on a quantity like that.

White: Is Herman coming in?

Lochhead: I don't know. Maybe we better start discussing it.

White: What did you have in mind, Mr. Minister, with respect to a statement?

Kung: I'd rather leave that to the Secretary of the Treasury; I think he by training is a lawyer.

Lochhead: Well, may I say in general, to refer back to our previous operations, we have never made public the exact amount of any transaction; we have referred to a purchase of silver to help in the maintenance of the yuan exchange. We have said that there had not been a credit, but facilities given by which China

-15-

can obtain dollars in case of emergency. I think we ought to use that.

Viner: Could we get a copy of the last statement made about the last arrangement?

Lochhead: I'll try Mr. Gaston's office and see if we can get that.

Kung: Well, at this time you can say an exchange of silver and gold.

Viner: Well, we believe in this country those to be separate - two separate sales transactions. I don't think we are permitted - I'm not sure, but there is some doubt.

White: There is some doubt.

Viner: As to whether the Secretary has legally the power to make the swap.

Kung: Trade. He can sell and buy.

Viner: He can sell and buy, but he can't make an exchange.

Williams: Perhaps he can; there's just a doubt about the law.

Viner: No, we're not sure.

White: I presume you'd like the public statement to be as much help as possible to China, and that is why it would be helpful to us if you could - if you have some ideas on the subject that you would.....

Lochhead: I've asked Mr. Gaston to come down, because he handles that really, and also to bring the last statement.

Kung: Well, I suppose we could say, by way of introduction, that arrangements which have been made between the Chinese and the American governments during the past have been beneficial to the Chinese currency, also to the American trade. Huh? And that is taking both countries in. As a matter of fact, American trade has been increasing and now has the first place in China, so that your merchants are making more money.

Viner: Got good products to sell.

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Kung: Yes, got good products to sell.

And the American government has been satisfied that the reform has been successful and is beginning to extend further cooperation. And we have shipped the silver to America and are holding it here now, and some arrangements are being made for facilities for the Chinese government to get American dollars when we have the need, and for mutual assistance and help to each other. That the Chinese government, Chinese people, appreciate what the American government has done and I came in person to bring this appreciation to the government and to the people, and that some further steps are being taken to increase the facilities. Something of that sort?

Wang: Dr. Kung, I would imagine that in the general statement that is going to be made by both of you, you ought to be as general as possible, and then the expression of appreciation could be made by yourself separately when you leave here.

Viner: The way to do it would be to have first just a formal statement that the Government of the United States and the Chinese Government have agreed to - so and so - and just give whatever information we want. Then the Secretary, talking to the press, will say to them whatever nice things he wants to say and you, talking to the press, will say whatever nice things you want to say.

Kung: Yes, formally just say....

Wang: Just a general short statement.

Lochhead: General statement that you can elaborate orally.

Viner: This general statement could be handed to the press - be technical - be given to them; then there will be oral statements.

Lochhead: That's why I asked Mr. Gaston to bring down the previous statement. Mr. Gaston handles the press relationships. Number One - seems to me the first part of what Dr. Kung said can go in very well, that both governments have considered the

-17-

agreement made last year to be beneficial.

Viner: Oh yes. And so it's being extended further.

White: Extended and amplified.

Viner: Amplified, yes. Whether we want to say anything about the transaction or not providing further facilities.....

White: The terms with respect to the extension of dollars, I think, better be identical or very close to the last one, because we wrestled with the problem and it's the same transaction, in effect. The details are different, but the details didn't appear in the last statement in any case, so that that portion of it would be simplified. But I think we do want to bring out, do we not, the fact that you have acquired gold.

Kung: Yes. That's the point.

Lochhead: I think it may be necessary also to emphasize that anything additional was not because it is absolutely necessary at this time; don't want to cast any doubt that your currency needs the addition, but that it's just a broader development.

Kung: This is part of the completion of what was started last year.

Viner: Of a program.

Lochhead: In other words, the program has worked so successfully that we are able to take one more step forward.

White: "Further step." It was somewhat in that language that the previous one was couched also - steps in the formulation of a program toward - so that this could readily fall in line as a further step in that program, which would be particularly pertinent, because at the time you are now engaged in some changes in your central bank, so that the program is continuing.

Kung: Yes.

-18-

Lochhead: Mr. Gaston is to come in.

White: Did you get in touch with him personally?

Lochhead: I spoke to him personally. He's possibly just getting together the information - the press release - he needs before he comes down. I think it is very essential that Mr. Gaston sit in on this, because after all that's his province.

(Gaston comes in and is introduced)

Gaston: There's the statement.

(Kung reads statement of May 18, 1936  
re Chinese agreement)

Lochhead: I think you gentlemen (Viner, Riefler, etc.) better refresh your mind on that.

Kung: I think maybe they'd better read it out loud.

Viner: "The representatives of the Chinese Ministry of Finance who have been in the United States to make some studies of our monetary and banking system, and to exchange views on monetary problems of mutual interest, have completed their mission and are returning to China.

"Our conversations with them have been mutually instructive. I feel confident that the monetary program being pursued by the National Government of China is not only along sound lines, but constitutes an important step toward the desired goal of stability of world currencies.

"To supplement their efforts toward that objective and to cooperate with them in their program of monetary reform and currency stabilization, and in accordance with our silver purchase policy, we have definitely indicated our willingness, under conditions mutually acceptable, to make purchases from the Central Bank of China of substantial amounts of silver, and also to make available to the Central Bank of China, under conditions which safeguard the interests of both countries, dollar exchange for currency stabilization purposes.

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"The mission headed by Mr. Chen has been instrumental in bringing about a more complete understanding of our mutual monetary problems.

"I believe that only through full and frank exchange of views similar to that which has just taken place between the representatives of the Chinese Ministry of Finance and ourselves will it be possible to improve the internal stability of national currencies and with this achieve a greater international stability."

- White: Could it be suggested that we separately work on preliminary drafts and get together, say, about three o'clock? Let's say four o'clock. Perhaps the Minister can have his people work on a draft and we could work on one here.
- Viner: Would you (Kung) like a copy of this?
- Kung: Yes.
- Gaston: I'll get a - dig up an additional copy.
- White: If we get your ideas and ours, then we'll be able to combine them; I think we probably can work faster that way. And then if you....
- Viner: Probably there will be some things in yours we'd like to use and some things in ours we'd like to use.
- Kung: I think that's best.
- White: Bearing in mind Dr. Viner's suggestion that this would be supplemented by statements....
- Viner: Oral statements.
- White: ...for the press.
- Kung: If you have another copy, we can take this along. Well, I know you're busy, and.....
- Lochhead: We're going to start the machinery working now.
- Kung: Very glad to have met you, Mr. Gaston.

(Chinese leave)

July 8, 1937.  
11:21 a.m.

Cordell  
Hull:

Hello.

H.M.Jr:

Hello, Cordell.

H:

What's going on?

H.M.Jr:

Well, plenty.

H:

I guess -

H.M.Jr:

Well -

H:

I'm sorry to hear that.

H.M.Jr:

We had this meeting this morning with the Brazilians in which - Herbert Feis was here. He just left.

H:

Yeah.

H.M.Jr:

And the way we looked at this thing - this is going to be a matter of weeks of study and we're prepared to give it, you know.

H:

Yeah.

H.M.Jr:

This situ - I think it is too important and too complicated to try to get to Sousa Costa before he goes back.

H:

Uh-huh.

H.M.Jr:

And I want to know whether you would be - I'd appreciate it if you would get Feis to tell you what happened here this morning.

H:

Yes. All right, I'll do that right away.

H.M.Jr:

And the other thing is - I tried to get you before I saw Dr. Kung - I went over it with the President yesterday - they've

- 2 -

had 62 million ounces of silver in this country for some time.

H: How -

H.M.Jr: Now what we've agreed to do is to swap that silver for gold.

H: Uh-huh.

H.M.Jr: And they could keep the gold ear-marked in America and to use it only for exchange stabilization purposes.

H: Yes.

H.M.Jr: The way they have all the other money.

H: Yeah.

H.M.Jr: Now they've kept their faith with us absolutely.

H: Well, that's fine.

H.M.Jr: And they've never used a dollar of it except for exchange purposes.

H: Yeah.

H.M.Jr: And then we've agreed also against this gold if they have to borrow some money temporarily for exchange purposes, we'll send it to them.

H: Yes.

H.M.Jr: And that's the whole agreement.

H: Well, that - that's good.

H.M.Jr: And Kung was just tickled to death and we're going to work out a statement which we'll give out tomorrow and before we give it out, why, I'll submit it to you.

H: Yeah, sooner or later, when we get a little further out of the woods, we've got to talk just a little more - some of us

- 3 -

have at least - about international financing because we have - China is getting more stable and if she keeps on improving -

H.M.Jr: Yep.

H: The British and these - the Japs and others would take over all that situation if we don't keep in it a little.

H.M.Jr: Well, we're in it now -

H: Yeah.

H.M.Jr: And wit Kung way out here -

H: Yeah.

H.M.Jr: He says he considers it the best plan and he does business with us -

H: Yeah, well that's good. That's just in line with what I'm trying to say.

H.M.Jr: And no one could feel more friendly than he does.

H: Well, that's fine.

H.M.Jr: And I wanted to tell you before but -

H: Well, I -

H.M.Jr: None of us get time enough to -

H: Yeah.

H.M.Jr: I mean I always feel that I never get time enough to consult -

H: Yeah.

H.M.Jr: But Feis has been through the whole thing -

July 8, 1937  
11:48 a.m.

H.M.Jr.: Hello.

Representative Doughton: Hello, Mr. Secretary.

H.M.Jr.: How are you, Bob?

D: I'm all right, thank you. How are you?

H.M.Jr.: Oh, pretty well.

D: You told me that we had called for the President's tax returns?

H.M.Jr.: Who had told me?

D: Yeah.

H.M.Jr.: Why, it came through Magill.

D: Why, Magill - he says there's a mistake about that. Well, we never called for the President's tax returns. We never thought about calling for them. We had a little conference up here of the Democratic members to discuss what - all this discussion that's been coming up but we wouldn't think about calling for the President's tax returns without conferring with him.

H.M.Jr.: Well, my informant is Magill.

D: Well he said you misunderstood him.

H.M.Jr.: Was he there with you?

D: He was a while - he's gone now. Why we never thought about calling for the President's - I might of thought about it but if it ever got to doing it, why I wouldn't think about - I wouldn't attempt to do, you know. I'd love to talk

- 2 -

to the President about it - I've been awaiting till he gets back to have a conference with him about the situation. There's so much in the papers one way and another to bring it to our attention so it is a matter that we will have to deal with in some way.

H.M.Jr.: Well I -

D: We want to discuss with him - I -

H.M.Jr.: I -

D: Some of them said down here the other morning I think - maybe I didn't say that even. There's no official action taken - maybe they better be looking over it and see if it's ready for anything that comes up so that they'd know the situation.

H.M.Jr.: Well, that's where I got it from.

D: Yeah, but we never called for 'em or thought about 'em.

H.M.Jr.: Well, then he must have misunderstood it but that's the word that I got.

D: Well, he'll tell you that the President's as mad as a wet hen about it.

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

D: I say the President's mad about it. He says surely he couldn't see why we'd call for his tax returns without giving the President of the United States the courtesy to discuss the matter with him - of course, I wouldn't attempt to -

H.M.Jr.: The President is mad about it?

- 3 -

D: That's the way he talked over the phone to me - like he was pretty hot.

H.M.Jr.: Did he call you?

D: No, I was calling this morning - I was calling him and then he brought the matter up. See when we could see him. But we talked about the whole situation. And we can't go on down here until we see his viewpoint apaying about how we should handle the matter.

H.M.Jr.: Well -

D: Till we discuss the matter with him.

H.M.Jr.: Magill just came in the room. As I say -

D: How's that?

H.M.Jr.: Magill - he's in the room now.

D: I didn't get that?

H.M.Jr.: Magill has just come into my room now.

D: Well, I think he'll tell you very plain that we never called for the President's tax returns.

H.M.Jr.: Well - there must be a misunderstanding and -

D: Well, you call me back here after you talk with him.

H.M.Jr.: I'll do that.

H.M.Jr.:i D All right, thanks, Mr. Secretary.

H.M.Jr.: I'll do that.

D: Goodbye.

ooOoo

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.

July 8, 1937

HM, Jr and Bell conferred with the President at  
12:30 today on the attached memorandum.

6 - 10/14/37 - 13000 - 1-43  
over to 1/12/30  
July 8.

MEMORANDUM RELATIVE TO RECENT ACTION TAKEN TOWARD  
EFFECTING SAVINGS IN THE FISCAL YEAR 1938.

1. General Reserve. On June 23, 1937, a circular letter was addressed to the heads of all departments, establishments and agencies by the President requesting reserves be set up of not less than 10% of the total amount of all funds properly susceptible to the establishment of reserves. Such items as the services of the public debt, payment of compensation, pensions and retirement annuities, social security grants, investments in the old-age reserve account, refunds of taxes and a number of smaller items are in the nature of fixed charges and are not subject to administrative control. These fixed charges, in their aggregate amount to almost \$3,000,000,000 and necessarily must be eliminated from any estimate of savings which might be affected by the circular letter. In addition, letters were sent to certain agencies where the nature of the problem demanded special treatment, such as those agencies administering relief, the postal service and several others which are set forth below. Eliminating these special items and fixed charges, the amount susceptible to the establishment of reserves of 10% is about \$2,800,000,000. Assuming that the actual saving under this reserve will be approximately 25%, it is believed that the amount of the reduction in deficit can be estimated at .....\$70,000,000
2. Postal Deficiency. The Postmaster General was advised on June 29, 1937, by the President, that it was his desire that the Post Office Department should eliminate or defer all expenditures not absolutely necessary in order to hold the total expenditures of the Post Office Department within the amount of the postal revenues. This would result in a saving of .....\$30,000,000
3. Agricultural Adjustment Program. The Secretary of Agriculture was advised on June 29, by the President, that he should make every effort to reduce the Soil Conservation and Domestic Allotment program to \$440,000,000 or \$60,000,000 less than the available appropriation of \$500,000,000. In the budget, it was estimated that \$470,000,000 would be spent for this program and thus the saving accomplished by this additional reserve will be.....\$30,000,000

The Secretary was also requested to hold the cost of this program for the future to this sum.

- 2 -

4. Rivers and Harbors. On the same date, the President addressed to the Secretary of War a request that he set up in reserve \$30,000,000 of the appropriation of \$90,000,000 for improvement of rivers and harbors. Since the estimated expenditure in the Budget was approximately the same amount as the appropriation, this entire reserve will reflect a saving which will thus be.....\$30,000,000

The Secretary was also requested to hold all future annual expenditures (including maintenance) for rivers and harbors to \$65,000,000, in order that an increase may be allowed for flood control.

5. Reconstruction Finance Corporation. This corporation was requested, by the President, to make every effort to facilitate the liquidation of loans and to so arrange the program for the fiscal year 1938 as to deposit in the Treasury excess credits of \$300,000,000 during the year. Since the Budget estimates anticipated an excess of repayments of \$150,000,000, the accomplishment of the objective set by the President would result in decreasing the estimated deficit by.....\$150,000,000

6. Commodity Credit Corporation. At the same time, the President has requested the Commodity Credit Corporation to make every effort to liquidate their current loans as speedily as possible without unduly affecting commodity markets and use the proceeds to retire the notes due to the Reconstruction Finance Corporation. The Budget estimates contemplated an excess of repayments by the Commodity Credit Corporation of \$30,000,000 in 1938, but due to the President's request, it is anticipated that there will be additional repayments in the amount of .....\$20,000,000

7. Federal Housing Administration. The President advised the Administrator, on June 29, of his desire that the additional appropriation made by Congress over and above the Budget estimate be placed in reserve together with 10% of the amount originally approved by the Budget. This excess in appropriation was \$1,500,000 and the 10% of the original Budget estimate is \$850,000. Thus, the saving expected to be accomplished will be .....\$2,350,000

8. Relief. The President has informed the heads of the principal agencies administering work relief that no additional funds will be provided for 1938 beyond the \$1,500,000,000 appropriation plus unobligated balances of about \$110,000,000 made available by the Emergency Relief Appropriation Act of 1937.

- 3 -

He has informed the Administrator of the Works Progress Administration that he may apportion not to exceed \$1,200,000,000 for current operations and that there will be a reserve established of \$100,000,000 to meet emergencies. Thus, the total limit on funds for the Works Progress Administration for 1938 will be \$1,300,000,000.

The Resettlement Administration has been advised that the total amount which will be made available during 1938 for that administration for all purposes is \$118,000,000, of which \$13,000,000 has been put in reserve.

Of the remaining \$192,000,000 available for relief, \$112,000,000 (including reserves of \$17,000,000) has been set aside for administrative expenses, other than those of the Works Progress Administration and the Resettlement Administration, and work projects under the various Government departments and agencies, and \$80,000,000 has been set aside as a general reserve.

Thus, of the total sum of \$1,610,000,000 available for relief, the apportionment of \$1,400,000,000 has been authorized, and \$210,000,000 has been set aside in reserve.

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Total estimated savings.....\$332,350,000

MEMORANDUM FOR THE PRESIDENT:

Subject: Conference with chief administrative officers of Independent Establishments and other Agencies relative to your letter of June 23, 1937, in which you express the desire that, where possible, savings of not less than 10 percent be made in the 1938 appropriations.

Attached is a table showing by agencies the amounts appropriated for the fiscal year 1938 and anticipated expenditures.

Briefly, it is anticipated that the heads of the agencies attending the conference will be informed that the Budget must be balanced in 1938. Therefore, it would probably be desirable to refer to your message to Congress of April 20, 1937, in which you stated that the prospective deficit for 1938 would be \$419,000,000 and that you proposed to eliminate this by (1) withholding from appropriation for expenditure a substantial percentage of funds available for that year, and (2) by increasing the receipts of the Treasury through the liquidation of assets of certain emergency agencies.

In order to eliminate the deficit each agency, regardless of size, must make every effort to comply with the request contained in your letter of June 23, 1937 in order to, if possible, save more than 10 percent. In some cases it probably would be extremely difficult to save the full 10 percent, particularly in the cases where estimates which you approved were reduced by the Congress. However, in every case savings may and should be accomplished by refraining from filling vacancies, from making administrative promotions and by eliminating all unnecessary travel and other expenses incidental to the operations of the respective agencies.

In some agencies expenditures may be substantially curtailed by reducing or entirely eliminating expenditures now being made on educational and promotional programs which though no longer needed were very necessary at the time these agencies were originally established. This would refer to Federal Housing Administration, Savings and Loan Division, and probably Federal Savings and Loan Insurance Corporation under the control of the Home Loan Bank Board, Rural Electrification Administration, Electric Home and Power Authority and possibly a few other agencies.

It might be desirable also to make a general reference to the failure of certain agencies to comply with Budget Circular No. 336 under the terms of which the departments, establishments, and agencies are required to clear through the Bureau of the Budget all reports and recommendations on proposed or pending legislation. This comment would be of value as certain agencies, even though their estimates of appropriations must be approved by the President, have taken the attitude that they are responsible to the Legislative rather than the Executive Branch and fail to comply with the Circular. In particular this refers to the Interstate Commerce Commission which has always contended that they are not required to comply with this Circular, and the Railroad Retirement Board which recently reported directly to the Senate Committee on S. 2700, informing the Bureau of the Budget that they could not clear this report through the Bureau without first obtaining the consent of Senator Robinson. In addition, other agencies occasionally try to get away from the procedure of making such reports, but as a result of a telephone conversation or a letter these agencies again start submitting the required reports. In this connection, it might be well to emphasize the fact that the President can not exercise control over expenditures if agencies fail to clear their reports in order that they may be informed whether or not the proposed or prospective legislation is in accord with the President's program.

You may also wish to comment on supplemental estimates now under consideration and indicate that even in the case of these every effort should be made to save a portion of the amount finally appropriated. Further, it might be desirable to state that where new legislation is passed expenditures relative thereto should not be incurred until an appropriation has been made.

Acting Director.

BUREAU OF THE BUDGET

Office of the Acting Director 48

To The Secretary

Here are copies  
of letters referred to  
yesterday in conversation  
with President.

svb  
7-10

MR. BELL

THE WHITE HOUSE  
WASHINGTON

July 8, 1937

My dear Mr. Secretary:

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. To accomplish this, activities of the Resettlement Administration must be curtailed sufficiently to bring the total obligations incurred by that Administration during the fiscal year 1938 under \$118,300,000, exclusive of expenditures on land utilization projects which, as heretofore, will be financed from funds reserved for the Works Progress Administration.

I wish you to direct the Resettlement Administration to limit its obligations for 1938 for the following purposes to the amounts indicated:

	<u>First</u> <u>Quarter</u>	<u>Second</u> <u>Quarter</u>	<u>Third</u> <u>Quarter</u>	<u>Fourth</u> <u>Quarter</u>	<u>Total</u>
Administration	\$ 8.0 M	\$ 5.1 M	\$ 4.2 M	\$ 3.0 M	\$ 18.3 M
Relief	7.0	1.0	-	-	8.0
Loans	11.0	14.5	19.2	12.3	57.0
Projects	<u>11.8</u>	<u>9.2</u>	<u>1.0</u>	<u>-</u>	<u>22.0</u>
	\$35.8 M	\$29.8 M	\$24.4 M	\$15.3 M	\$105.3 M

This will leave a reserve of \$13,000,000 which will be available for any additional work I may subsequently authorize or to meet any emergency.

I wish it clearly understood, however, that none of the foregoing funds for projects are to be used to start any new unit not now under actual construction. In the case of units where the foundations are already in, the unit may be finished. In the case of units where the foundations are not already in, no further work is to be undertaken except necessary regrading. Furthermore, I desire to have the work so planned that there will be no incomplete units on April 1, 1938.

- 2 -

I fully realize the program I have outlined will mean a drastic curtailment in certain activities of the Resettlement Administration. However, I believe that sufficient funds have been made available so that this can be accomplished gradually without causing any undue hardship.

Sincerely yours,

(signed) Franklin D. Roosevelt

The Honorable,

The Secretary of Agriculture.

C  
O  
P  
YTHE WHITE HOUSE  
WASHINGTON

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 and no portion of the funds may be used for any purpose except to provide relief or work relief for persons in need, it will be necessary to curtail all activities being carried on with relief funds in order to comply with the foregoing requirements.

I have allotted \$7,000,000 for obligation by the National Youth Administration during the first quarter of the fiscal year 1938. Of this sum \$1,000,000 is for student aid projects and the balance, \$6,000,000, for other work relief projects of that Administration. Will you please see that no obligations in excess of those amounts are incurred prior to October 1, 1938. For the balance of the fiscal year obligations should be held to the following amounts:

	<u>Student Aid Projects</u>	<u>Other Work Relief Projects</u>	<u>Total</u>
Second Quarter	\$ 7,000,000	\$ 5,000,000	\$12,000,000
Third Quarter	7,000,000	5,000,000	12,000,000
Fourth Quarter	<u>5,000,000</u>	<u>4,000,000</u>	<u>9,000,000</u>
Total	\$19,000,000	\$14,000,000	\$33,000,000
Add First Quarter as stated above	<u>1,000,000</u>	<u>6,000,000</u>	<u>7,000,000</u>
Total for N.Y.A. -1938	\$20,000,000	\$20,000,000	\$40,000,000

As no portion of the foregoing funds can be used for any purpose except to provide relief or work relief for persons in need, you are requested to limit payments under student aid projects to young persons who come from families certified as in need of relief.

Sincerely yours,

Harry L. Hopkins, Administrator  
Works Progress Administration  
Washington, D. C.

JUL 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	\$ 8,000,000
" " " " " 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>
<b>Total allocated .....</b>	<b>\$319,400,000</b>

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.

June 29, 1937

Honorable Jesse H. Jones,  
Chairman, Reconstruction Finance  
Corporation,  
Washington, D. C.

My dear Mr. Jones:

In my message to Congress of April 20, 1937, I stated that I proposed to use every means at my command to eliminate the prospective deficit in the coming fiscal year and that this would be accomplished in part by an increase in the receipts of the Treasury through the liquidation of assets of certain of the emergency agencies.

Accordingly, you are instructed to have the Board of Directors of the Corporation make every effort to facilitate the liquidation of loans in order to arrange your program for 1938 so as to deposit with the Treasury excess credits of at least \$300,000,000 rather than \$150,000,000 as originally estimated.

In order to assist in accomplishing this objective, no new loans should be made or old loans extended or renewed unless the Board is convinced that such action is absolutely necessary. In this connection, it is my desire that the Board carefully review all outstanding authorizations and cancel those which are not likely to be utilized, or where the necessary financing may be arranged between borrowers and commercial institutions. The Board should also take advantage of any repayments prior to the maturity which borrowers may desire to make.

The attention of the Board is directed to the Corporation's portfolio of securities purchased from the Federal Emergency Administration of Public Works and unless there is some very vital objection, these securities should be disposed of as rapidly as possible and the proceeds transferred to the Treasury in exchange for a like amount of the Corporation's notes. Furthermore, any additional marketable securities which the Corporation may purchase under the authority contained in the Act of June 19, 1934, as amended by Sec. 202 of H. J. Res. 361, approved June 29, 1937, should likewise be disposed of as rapidly as possible.

It is assumed that in executing the program outlined above, the Board will soon be in a position to make substantial reductions

- 2 -

in personnel and other expenses. Accordingly, it is not expected that you will have any difficulty in maintaining the reserve of at least ten per cent on this item as requested in my letter of June 23, 1937 to the heads of the executive departments, establishments and agencies.

In order that I may be kept informed of the action taken to carry out the proposed program, progress reports should be prepared monthly and transmitted to the Acting Director of the Budget. I would also like to have a report from the Board as to whether credit is available, under the conditions specified in the Act of January 26, 1937, for any class or classes of borrowers to whom the Corporation is authorized to make loans.

Sincerely yours,

(Signed) Franklin D. Roosevelt

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June 29, 1937

Mr. Lynn P. Talley,  
President, Commodity Credit Corporation,  
Washington, D. C.

My dear Mr. Talley:

In my message of April 20, 1937 to Congress, I stated that it was my purpose to use every means possible to eliminate the apparent deficit for the fiscal year 1938, and that I proposed to accomplish this, in part, by increasing the receipts of the Treasury through the liquidation of assets of certain of the emergency agencies.

Accordingly, it is my desire that you make every effort to liquidate current loans on all commodities as expeditiously as may be possible without unduly affecting the commodity markets. The proceeds obtained from the liquidation of assets should be used in the retirement of your outstanding notes due the Reconstruction Finance Corporation.

With regard to administrative expenses, the Corporation should establish and maintain a reserve of not less than ten percent of the amount appropriated for this purpose in accordance with my letter of June 23, 1937 to the heads of all executive departments, establishments and agencies.

In order that I may be adequately informed of the progress made in liquidating the assets of the Corporation, it is requested that you prepare appropriate progress reports and transmit such reports to the Acting Director of the Bureau of the Budget at the end of each month.

Sincerely yours,

(Signed) Franklin D. Roosevelt

JJL/ot

C  
O  
P  
Y

June 29, 1937

My dear Mr. McDonald:

In my letter of June 23, 1937, to the heads of the executive departments, establishments and agencies, I expressed the desire that, in preparing apportionments of funds available for the fiscal year 1938, there be set up reserves of not less than ten percent. In reviewing the Independent Offices Appropriation Bill for 1938, I noted that the amount appropriated for the Federal Housing Administration was \$10,000,000 or \$1,500,000 more than I had recommended. Under the circumstances, it is my desire that you place this additional amount in reserve, together with ten percent of the \$8,500,000 which I originally approved.

In order to accomplish the above, it may probably be necessary to make unequal apportionments. If, after every reasonable effort is made, you find that you cannot keep your obligations within such apportionments, I will consider such modifications as may be justified. It is hoped, however, that you will endeavor to discourage the incurring of all obligations which are not essential to your insurance program.

I also wish to call your attention at this time to the estimates, which are to be submitted for the fiscal year 1939, and to ask whether it would be practicable to charge all field costs in 1939 against the Mutual Mortgage Insurance Fund, thus limiting the direct appropriation in that year to central office costs.

Sincerely yours,

(Signed) Franklin D. Roosevelt

Honorable Stewart McDonald,  
Administrator, Federal Housing Administration,  
Washington, D. C.

FORM 1-37

FEDERAL RESERVE BANK  
OF NEW YORK

*W. Lockhead*

58

OFFICE CORRESPONDENCE

DATE July 8, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knobe

WITH BANK OF ENGLAND.

I called Mr. Bolton at 10:02 today. It was rather difficult to try and give an indication of the markets, he said; nothing had settled down yet; there had been some bear covering in francs, not very extensive nor strong. After succeeding in selling some 2,000,000,000 francs up to Tuesday noon, the French Fund had been able to do little more. This afternoon the market had turned around the other way, with the fund doing some buying of francs. The reason for this reversal probably was threefold: (1) New decrees were expected tonight or tomorrow; (2) There were rumors of a strike among bank employees protesting against the high cost of living, and (3) There were rumors of dissension in the cabinet over the decrees to be issued.

I asked Bolton whether he still felt as depressed about the French situation as early in the week. He replied that it was difficult to find any real reason for optimism, that so far in the course of one week very little had really been accomplished and nobody knew how the whole thing would pan out. Chautemps had such a mixed stable to run, with the socialists all the time tending to pull away.

As regards the London gold market, yesterday's fixed price at a premium over shipping parity was due to technical conditions primarily, to the small amount on offer. The London market was practically cleaned up, barring, of course, another gold scare; according to their calculations the gold hoarded in London could not be very much more than 220,000,000 at the outside, a large amount of

OFFICE CORRESPONDENCE

DATE July 8, 1937.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATIONL. W. KnuckeWITH BANK OF ENGLAND.

- 2 -

which was in the hands of trust companies, lawyers, etc. and in all probability would never come out. Under the circumstances, it looked as though the only gold that hereafter would be available in London would be newly mined gold. The Russians were no factor; they had nothing done in the London market in months; they had not approached the British on gold nor had the British approached them. The London stock exchange had brightened up considerably due to a number of factors: the disappearance of the gold scare, some very good employment figures for England and a feeling (although it was difficult to put one's finger on any particular spot) that the political situation in Europe was a little bit better.

I asked how he explained the extravagant action of the pound sterling-dollar rate in the last few days and Bolton suggested that it might well, in part at least, be due to the continuation of rumors from New York and in the Paris press that Bonnet had fixed up some arrangement with Mr. Morgenthau enabling the two treasuries to trace amounts held by their nationals in the other country, as a result of which Frenchmen had preferred to go out of the dollar into sterling. I reminded Bolton that we had discussed this before and that, although I knew nothing definite, I continued to take <sup>no</sup> stock in these rumors. Bolton suggested that it might also be due to continued Japanese buying. I suggested that the latter reason was more convincing, particularly since we knew that the Japanese were continuing their gold shipments to this country on a very substantial scale. (The total shipped since the beginning of the year, or going

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 8, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION

L. W. Knobe

WITH BANK OF ENGLAND.

- 3 -

to be shipped in the next few days, being 305,000,000 yen according to information just furnished us by the representative of the Bank of Japan in New York.) I also mentioned that the Japanese continued to emphasize their previous statement that all these gold shipments were made entirely and solely for the purpose of straightening out a very unfavorable trade balance. Bolton replied that there was plenty of evidence in London that the Japanese were in a very tight way for money. There was a lot of Japanese paper in London which, however, was not particularly welcome.

Bolton stated that he was going away on his holiday tonight and would be gone until early August and suggested that, if I wanted to call them on the telephone, I talk to Mr. Hawker, his deputy, who would attend to everything while Bolton was away. Bolton wanted to know whom he could speak to when I was away in August and I suggested that he call Mr. Sproul.

LWK:KNC

RB

GRAY

London

Dated July 8, 1937

Rec'd 2:25 p. m.

Secretary of State  
Washington.

452, July 8, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

At the meeting of the British Treasury today Sir Frederick Phillips said that he was glad to see that the French Parliament had been dismissed this morning and that Rowe--Dutton, British Financial Attache at Paris, believed that the French Government would be safe until the autumn if it weathered the period of the Socialist Party meeting.

I referred to the unfavorable Bank of France statement and the fact that it had produced such a bad impression on the market as to reverse the exchange trend and that the French authorities had since midday been forced to buy francs and sell dollars and sterling. Phillips said that he hoped this might prove a transient flurry and that due to covering operations and the shortage of funds in Paris that the French fund might (\*) although gaining some thirty or forty million pounds.

Phillips

RB

-2-#452, July 8, 6 p. m. from London

Phillips said that the only new development was that Bonnet had now indicated that he wished to pay a visit to London if possible in the near future. To my query as to the purpose of such a visit Phillips wryly replied that Bonnet had stated to them that he wished to "salute the Chancellor". At the same time Bonnet had indicated that he welcomed the pressure which the British Treasury had brought to bear on him in the matter of a balanced budget for he maintained that that enabled him in turn to represent its desirability to his colleagues. Phillips intimated that he did not welcome such a visit from Bonnet at this time but that since they saw no way of appropriately preventing it they had acquiesced in the idea. Phillips also referred to the "rude note" which had been sent Bonnet (that based on the draft contained in my 424, June 30, 11 p. m.) and implied that that in itself compelled them to agree to seeing Bonnet if he wished to discuss the position.

In the course of the conversation Phillips also (\*) that he had heard that Bonnet's "American visit had been good for him and that he had improved since the World Economic Conference".

I took this occasion to pass on the substance of  
Sproul's



JR

GRAY

Paris

Dated July 8, 1937

Rec'd 2:45 p.m.

Secretary of State,  
Washington.

939. July 8, 4 p.m.

FROM COCHRAN.

Early this morning Parliament adjourned until perhaps November. Today cabinet is discussing Bonnet's financial decree laws and the Counsel of Ministers is examining them at 9 o'clock tonight with hope that they may be promulgated Friday morning. The fact that Rist conferred with Chautemps last night is giving rise to gossip that he and Baudoin may again act in some advisory capacity. Speculation as to a successor for Governor Laboyrie at the Bank of France continues with Fournier, Baudoin, Quesnay and Boisanger mentioned as the most likely prospects.

Bank of France statement as of July 1 was bad. It showed a loss of six billion francs gold (which went to the stabilization fund); discounts up 758 million francs; advances against securities up 450 millions; 30 day advances up six million millions; advances to State under Article three up 800 millions (which completed the  
(END SECTION ONE)

BULLITT

LJV:VWC

MJP

GRAY

Paris

Dated July 8, 1937

Rec'd 2:40 p. m.

Secretary of State,  
Washington.

939, July 8, 4 p. m. (SECTION TWO)

utilization of the old ten billion credit); advancement of 1,760,000,000 to the state under a new item envisaged by convention of June 30; circulation up 2,700,000,000; deposits down 3,800,000,000; coverage 47.53 versus 52.80.

This statement revealing how serious the situation of the Treasury and of the stabilization fund had become before the new finance law was passed shocked the market severely today. There was also rumor that ministers are in disagreement over Bonnet's proposals; furthermore, hotel strikes still threaten. All of this had depressing effect on market. Control offered at opening a price for sterling which was below that which market itself was willing to pay. Later, with above developments and disclosure of bank statement, control had to sell sterling importantly to check serious decline in franc. For the day the control undoubtedly lost quite an amount of foreign exchange on balance and the franc, both spot and forward, weakened in a discouraging manner.

MJP -2- No. 939, July 8, 4 p. m. from Paris

manner. Rentes unchanged to a little up.

BULLITT

WVC

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

JUL 8 1937

*M* *8.20*  
BANK OF FRANCE STATEMENT

PARIS - STATEMENT AS OF JULY 2 SHOWS GOLD  
48 859 000 000 FRANCS VS 54 859 000 000 JUNE  
25 - CIRCULATION 88 686 000 000 FRANCS VS 85  
985 000 000 - RATIO 47 53 PC VS 52 80 PC

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JUL 8 1937

BANK OF FRANCE

*1244*  
PARIS - CURRENT STATEMENT OF CONDITION  
OF BANK OF FRANCE SHOWS FRENCH STABILIZATION  
FUND TOOK 8 500 000 000 FRANCS OF GOLD FROM  
THE BANK BETWEEN JUNE 17 AND JULY 1 AND THAT  
THE TREASURY BORROWED 2 500 000 000 FRANCS  
FROM THE BANK

THUS THE JUNE FINANCIAL PANIC REDUCED THE  
RESERVE OF THE BANK BY 11 PC AND INCREASED  
THE STATE-S TEMPORARY DEBT TO THE BANK BY  
20 PC - DESPITE THIS INCREASE THE TREASURY-S  
BALANCE AT THE BANK WAS DOWN TO ONLY 6 000 000  
FRANCS AT THE MONTH END

TOTAL SIGHT LIABILITIES WERE BELOW THOSE  
OF PRECEDING WEEK OWING TO SHARP SHRINKAGE  
IN PRIVATE DEPOSITS INCLUDING THOSE OF THE  
STABILIZATION FUND - OWING HOWEVER TO THE  
GOLD LOSSES THE GOLD COVER DROPPED TO 47 53  
PC WHICH COMPARES WITH OVER 60 PC AFTER THE  
AURIOL DEVALUATION AND 52 80 PC THE PRECEDING

WEEK- THUS IT IS LOWER THAN AT ANY TIME SINCE THE AURIOL DEVALUATION

UNDER THE POINCARE FRANC REGIME THE COVER STARTED AT 40 PC AND THE LOWEST WAS 38 PC- IT REACHED ITS HIGHEST FIGURE AT 81 PC AT THE END OF 1934- WHEN THE BLUM GOVERNMENT TOOK OVER 13 MONTHS AGO IT STOOD AT 61 PC

THE PRESENT COVER HOWEVER IS RECKONED ON BASIS OF A FRANC AT 49 MILLIGRAMS OF GOLD WHEREAS ON THE BASIS OF THE FRANC- DOLLAR RATE THE FRANC NOW IS EQUIVALENT TO ABOUT 34 MILLIGRAMS OF GOLD- COVER PERCENTAGES THEREFORE ARE ON A FICTITIOUS BASIS AND MUST REMAIN SO UNTIL THE FRANC AGAIN IS ANCHORED TO GOLD

IT IS TRUE HOWEVER THAT THE GOLD RESERVE WHICH WAS OVER 5 000 TONS IN 1934 HAD SUNK TO 3 600 TONS A YEAR AGO AND IS NOW 2 500 TONS APART FROM WHAT GOLD IS HELD BY THE STABILIZATION FUND BUT ALSO EXCLUDING PROSPECTIVE REPAYMENT OF THE 40 000 000 PDS STERLING CREDIT WHICH IS EQUIVALENT OF ABOUT 200 TONS

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July 8, 1937.  
4:08 p.m.

H.M.Jr: Hello.

Operator: Congressman Doughton.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello.

Rep. Robert Doughton: All right.

H.M.Jr: Henry Morgenthau, Jr., talking..

D: All right Mr. Secretary.

H.M.Jr: I have read on the news ticker that Mr. Fish expects to bring certain charges against my father and myself tomorrow, before your committee. I would like to ask you as Secretary of the Treasury that before the Committee adjourns tomorrow I have an opportunity to answer any charges that Congressman Fish may make.

D: That's what I thought you would want to do. That's what I - as far as I was concerned, I thought that if you would want to make them it would be just as well as you could on the floor of the House where you could make them. I'm sure if you will sit there tomorrow you'll have a chance to answer any charges he makes.

H.M.Jr: I'll be sitting on the front row.

D: You'll be right there.

H.M.Jr: I'll be right there.

D: That's where I thought you'd want to be.

H.M.Jr: And I just want to make sure that you won't let that committee adjourn without giving me a chance to answer them.

D: I won't if my vote will prevent it. I'm sure they won't.

H.M.Jr: Uh-Muh.

D: I'll do all I can to keep both by  
my influence and vote.

H.M.Jr: All right.

D: glad that you asked me.

H.M.Jr: All right, that's all that I want.

D: Well, that's quite all right. Thank you very  
much.

H.M.Jr: What's that.

D: I say I'll be right with you.

H.M.Jr: Thank you.

D: All right.

H.M.Jr: Goodbye.

D: Goodbye.

July 8, 1937.  
4:10 p.m.

H.M.Jr: Connect me with Cooper.  
Operator: Of where?  
H.M.Jr: Congressman Cooper of Tennessee.  
Operator: Right.  
H.M.Jr: And Congressman Cullen of New York.  
Operator: All right.  
H.M.Jr: If you can't get one, get the other and then  
Senator Walsh of Massachusetts.  
Operator: Right.  
H.M.Jr: Senator LaFollette of Wisconsin.  
Operator: Right.  
H.M.Jr: Senator Arthur Capper of Kansas.  
Operator: Right.

July 8, 1937.  
4:12 p.m.

H.M.Jr: Hello.

Operator: Congressman Vinson of Kentucky.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello.

V: Hello.

H.M.Jr: Henry Morgenthau Jr.

V: This is Vinson, Kentucky.

H.M.Jr: Yes, sir. The reason I am calling up, I read on the news ticker that Congressman Fish was going to make certain charges against my father and myself tomorrow.

V: Yes, sir.

H.M.Jr: And I thought I'd like to tell you that as Secretary of the Treasury that I am going to be up there tomorrow.

V: Well, that's fine.

H.M.Jr: Sitting in the front row, and I'd like to have the opportunity to answer any charges that Mr. Fish makes personally.

V: Well, that's fine.

H.M.Jr: And I just want to make sure that they don't adjourn the committee on me, before I have a chance to answer Congressman Fish.

V: Well, I don't think there'll be any trouble about that, if we have to keep the committee there until midnight.

H.M.Jr: Well -

V: And I think - I think that's splendid and I think the reaction is going to be wonderfully fine.

H.M.Jr: Well, thank you very much.

V: And my understanding was that every precaution, not only your own inherent integrity, but that you had taken every precaution at all in regard to the matter. My idea of it was and is that it will be a boomerang that will be of real benefit to the Administrative program.

H.M.Jr: I am sure it will, because I am sure Mr. Fish is just on a fishing expedition.

V: That's right.

H.M.Jr: And I think he is just going to make a sucker out of himself.

V: Well, I certainly will do everything I can to see that you get the chance to follow him.

H.M.Jr: Well, that's - I'd appreciate that very much.

V: Have you talked to Mr. Doughton.

H.M.Jr: I called him first.

V: I see.

H.M.Jr: Mr. Doughton said that he was delighted, that he would do everything he could as a chairman and an individual, but -

V: I don't think there will be any trouble about that, it's just fair playing you know.

H.M.Jr: Well I was just fearful. Someone told me that Freadway was going to get that 12 o'clock train.

V: Well, he can leave. He can leave whenever he gets ready, as far as I'm concerned.

H.M.Jr: Thank you very much.

V: All right.

July 8, 1937.  
4:19 p.m.

H.M.Jr: Hello.

Operator: Senator Capper of Kansas.

H.M.Jr: Thank you.

Operator: Go ahead.

Sen. Arthur Capper: Hello.

H.M.Jr: How's Arthur Capper?

C: All right. All right Henry.

H.M.Jr: How are you?

C: Fine.

H.M.Jr: Now, you sit on this committee on tax evasion and tax avoidance.

C: Yes, I am sorry to say I do. Yes sir, in fact that's one of the most embarrassing jobs I have had.

H.M.Jr: Well, you've had a lot of them, so it must be terribly embarrassing.

C: Yeah.

H.M.Jr: Now I tell you, I read on the news ticker that Congressman Fish is going to make certain charges against my father and myself, and as Secretary of the Treasury I am going to be sitting up in that front row tomorrow.

C: Yeah.

H.M.Jr: And all I want is just a chance to answer Congressman Fish before the committee adjourns.

C: Yeah.

H.M.Jr: That's all I'm asking.

C: Well, you're entitled to that and nobody else can convince me that you'd do anything or done anything that isn't absolutely straight and what you thought you were entitled to do under the law.

H.M.Jr: Well, if you'll just give me a chance to answer them, Arthur, that's all I want.

C: All right, I'll be for that.

H.M.Jr: Thank you.

C: I'll welcome any suggestions from you.

H.M.Jr: Well all I want is just a chance to answer.

C: Well, you sure<sup>are</sup>/entitled to that, and you'll get that from me.

H.M.Jr: O. K.

C: All right. Goodbye.

July 8, 1937.  
4:19 p.m.

H.M.Jr: Hello.

Operator: Senator La Follette.

H.M.Jr: All right. Hello.

L: Hello Henry.

H.M.Jr: How are you?

L: Fine.

H.M.Jr: Bob, I read on the news ticker that Congressman Fish tomorrow is going to make certain charges against my father and myself.

L: That's right.

H.M.Jr: And I just want to let you know that as Secretary of the Treasury I am going to be sitting there in the front row.

L: Well, I am glad of that.

H.M.Jr: And I want a chance to answer Mr. Fish before that Committee of yours adjourns.

L: O.K.

H.M.Jr: All I am asking for, that I have a chance to answer him in person.

L: That's fine, Henry. I'm glad your coming up.

H.M.Jr: I'll be there.

L: I just felt this way about it Henry, that if we didn't let that fellow come in there he would be talking on the floor from now until the end of three years, making charges that he had been denied his opportunity, and that he had certain facts and the Committee wouldn't consider them. I think the best myself, along with some of the other House members like Doughton and the rest, the thing to do is to get that fellow in there and make him put up or shut up.

H.M.Jr: Well, it's all right with me because my personal

financial affairs and the affairs of my wife  
can be examined by anybody.

L: You don't have to tell me that, I knew it.

H.M.Jr: But I'll be there to answer in person.

L: Fine, Henry.

H.M.Jr: Thank you Bob.

L: Thank's for calling.

H.M.Jr: Thank you.

L: Goodbye.

July 8, 1937.  
4:29 p.m.

H.M.Jr: Hello.

Operator: Mr. Bulkley, Ohio.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Henry Morgenthau, Jr.

B: Hello Mr. Secretary.

H.M.Jr: How's Ohio?

B: Oh, Ohio's getting along pretty fair.

H.M.Jr: That's good.

B: And I think making some progress.

H.M.Jr: Yes.

B: Now about the interesting thing that I think will be good news for you.

H.M.Jr: I can take a little good news.

B: Your friend Moore is resigning.

H.M.Jr: Well, I don't know that that's good news.

B: I thought you would be glad to have him out.

H.M.Jr: No, he's a friend of yours.

B: We are working on another thing for him.

H.M.Jr: I see. No, I wouldn't - I don't. After the last letter he wrote me. - In the letter I got from him, why, pretty much closed book as far as I was concerned. But if he's out ...

B: Well, I tell you what we are working on, the Coal Commission wants him to be manager of their Cleveland office.

H.M.Jr: I see.

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B: And he has got a wide acquaintance among coal people, and is outstandingly able to do that job, but at the same time he has no interest in the coal business.

H.M.Jr: I see.

B: So it makes a particularly good appointment.

H.M.Jr: And you are going to make darned sure that he doesn't get into the coal business.

B: Oh yes, he won't get in the coal business.

H.M.Jr: You're going to take care of that.

B: He won't get in the coal business.

H.M.Jr: Well, it's darned nice of you to call me and I appreciate it very much. It will make the thing easier for me, and all of that.

B: Yes, I think maybe it will. Now, I have talked to Senator Donahey, and he is quite in accord with that switch, and we are both very much in accord on the man that we want to recommend to you next.

H.M.Jr: All right.

B: And I think that you will of course want to investigate him and that'll take a little time, especially because he is off on a fishing trip now and can't be reached right away.

H.M.Jr: Is he a good fisherman?

B: I think so.

H.M.Jr: All right.

B: Now, Helvering says that it will be no embarrassment to leave the office in charge of the chief Campbell, an experienced man.

H.M.Jr: Fine.

B: Until we have time to turn around on the new appointment.

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H.M.Jr: Give you all the time you want.

B: Well, we know what we want and Senator Donahey and I are addressing a letter to the President, which I think is correct form and sending a copy to you recommending Frank Gatz, who is a lawyer there that both of us have known for a great many years.

H.M.Jr: Well, we'll be glad to look him up when we get the name.

B: Fine, thank you ever so much. I am certainly delighted to have your cooperation.

H.M.Jr: Thank you.

B: Good luck.

July 8, 1937.  
4:32 p.m.

H.M.Jr: Hello.

Operator: Congressman Doughton calling you.

H.M.Jr: All right.

Operator: Go ahead.

H.M.Jr: Hello.

Rep. Robert Doughton: Secretary?

H.M.Jr: Talking.

D: Bob Doughton.

H.M.Jr: Yes suh.

D: What I want to ask you is this, if you are going to give to the press the fact that you'll be there tomorrow and that if your name is brought out you'll make a statement about if we should do it or should not do it?

H.M.Jr: Well I wasn't going to say anything. What do you think?

D: Well Frank and I were talking. Frank thought it all right to give a statement at this time, but I told him I wouldn't do it. The statement that you were going to be there may concern me but I won't do it without your consent unless you think it's the proper thing to do, I don't have any preference about it.

H.M.Jr: Well, I think it might tip Ham Fish off.

D: Well ....

H.M.Jr: Don't you think it would be just better to let me walk in there without his knowing I'm coming.

D: I wouldn't be surprised that's the better way to do it.

H.M.Jr: I think so, he might change his statement if he thought I was coming.

D: He might change his statement if .. better to take him unawares.

H.M.Jr: I think I'll just walk in there without him knowing it.

D: All right. Are you going to say why you thought better - whether you are going to give it out or what you thought it best for him?

H.M.Jr: Oh no, I never give out any statements.

D: Well, I wouldn't give it out that you thought it the wise thing to do.

H.M.Jr: Well if you don't mind, I think if I can walk up there without his knowing it I think it would be the best thing.

D: Well - all right, that's/<sup>exactly</sup>what we'll do and we'll see that you get in here.

H.M.Jr: Thank you.

D: I think it's a fine thing to do.

H.M.Jr: I'll be there.

D: All right, thanks.

July 8, 1937.  
4:35 p.m.

H.M.Jr: Hello.

Operator: Congressman Cooper, Tennessee.

H.M.Jr: Thank you. Hello.

Rep. Jere Cooper: Hello, Mr. Secretary, how are you?

H.M.Jr: How's Jere Cooper?

C: Fine, thank you. How are you?

H.M.Jr: Oh, I'm never better.

C: Fine.

H.M.Jr: I read on the tape that this fellow Congressman of yours Hamilton Fish is going to make certain charges against me and my pappy.

C: Yes, I voted against that.

H.M.Jr: I know.

C: I didn't believe in letting him use our committee as a sounding board to get a lot of publicity and come along with a lot of insinuations and get a lot of stuff off his chest so to speak. I just don't believe in recognizing him that much.

H.M.Jr: Well, what I'm going to do as Secretary of the Treasury, I'm going to be sitting in the front row tomorrow.

C: Fine.

H.M.Jr: And all I'd like to ask of you is that I get a chance to answer Hamilton Fish before the committee adjourns.

C: You can sure do that with my vote and all the help I can give you.

H.M.Jr: Well, that's all I want.

C: Fine. Then listen any - if you have anything you want him asked or anything else you get it to me and I will help any way I can.

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H.M.Jr: Well, you'll have to use your imagination.

C: Well, I'll be glad to help you any way I can.  
Sure will.

H.M.Jr: All right. Fine. Thank you.

C: You're welcome.

July 8, 1937.  
4:37 p.m.

H.M.Jr: Hello.

Operator: Senator Walsh of Massachusetts has gone for the day.

H.M.Jr: Yes.

Operator: And Congressman Cullen is in committee meeting, he is going to call you.

H.M.Jr: All right.

Operator: That's everybody.

H.M.Jr: Well I think you've done enough. If you can get Cullen, all right and send me up Harrison's telephone number at his home, I want to call him.

Operator: Governor Harris.

H.M.Jr: No, Pat Harrison.

Operator: Pat Harrison, all right.

H.M.Jr: And I think that's all.

Operator: All right.

H.M.Jr: Hello - Hello.  
Rep. Thomas H. Cullen Hello.

H.M.Jr: Henry Morgenthau, Jr.

C: Hello Mr. Secretary.

H.M.Jr: Congressman Cullen.

C: Right.

H.M.Jr: Congressman Cullen I've read about Congressman Fish going to make certain charges against my father and myself tomorrow.

C: Yes.

H.M.Jr: And I've decided as Secretary of the Treasury I am going to come up there and sit in the front row tomorrow.

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C: That's fine.

H.M.Jr: Now, what I'd like to ask and all I ask is that I have an opportunity to answer Congressman Fish before the committee adjourns tomorrow.

C: Of course, you are entitled to that.

H.M.Jr: That's all I want to ask.

C: You're entitled to that - no fireworks. You wouldn't announce that to the press, would you?

H.M.Jr: No. I think - I talked to Mr. Doughton on that.

C: Yes.

H.M.Jr: I think it much better than I walk in without giving him advance notice.

C: That's fine.

H.M.Jr: Because otherwise he might change his statement.

C: I think you're right about that.

H.M.Jr: I just want to walk in there hoping that he won't know about it and then when he makes his statements, well, I'll be there to answer them.

C: Yes. Well that's fine. You walk in there without any fireworks. You'll be there.

H.M.Jr: I'll be there.

C: And you'll have the opportunity.

H.M.Jr: And all I am asking for is a chance to answer them.

C: O.K. Thank you Secretary.

H.M.Jr: Thank you.

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

H.M.Jr: Hello.

Operator: Secretary Hull coming on.

Secy. Hull: Hello.

H.M.Jr: Hello.

H: All right Henry.

H.M.Jr: How are you.

H: All right.. What's going on?

H.M.Jr: Well I just came down from the Hill listening to Ham Fish for an hour and a half.

H: Well he ought to be thrown off the Hill.

H.M.Jr: Attacking Mrs. Roosevelt, the Roosevelt family and my wife and myself.

H: Yes, he is the worst radical I know of anywhere.

H.M.Jr: I know he is. He had nothing but hearsay, he had no evidence.

H: Well of course, that's all he wants.

H.M.Jr: Yes. Cordell, if you could help me out and send over this morning a proposed communique between the and myself.

H: Yes.

H.M.Jr: I'd like to know very much if it meets with your approval.

H: Well, I'll take it up and Feis or one or the others will call you back in two minutes.

H.M.Jr: I'd appreciate that.

H: Yes, sir. Be glad to do it Henry.

H.M.Jr: Thank you.

July 9, 1937.  
11:11 a.m.

H.M.Jr: Hello.  
Herbert  
Fies: This is Herbert Fies.

H.M.Jr: Yes.

F: The Secretary has a delegation and asked me to call and say -

H.M.Jr: Talk a little louder.

F: That's O. K.

H.M.Jr: O.K.

F: He's got a delegation, that's why he's not -

H.M.Jr: But he's satisfied.

F: Yes. O.K.

H.M.Jr: Are you going to be over here later or not?

F: You mean, the Brazilians?

H.M.Jr: Well, I haven't seen our boys, I don't know what is happening. I'll call you back later.

F: All right, I'm ready to - and one or two aspects to that, perhaps, give me a minute on it this afternoon.

H.M.Jr: Well I won't have any chance this afternoon. If you want to see me, the only time I can see you would be at quarter to twelve.

F: Quarter of twelve.

H.M.Jr: Yes.

F: Gosh, I am shelled in here by the  
Want me to give them to you now over the phone?

H.M.Jr: No, I can't do it now, I'm -

F: All right, I'll be there at quarter to twelve.

H.M.Jr: Thank you.

RE CHINESE AND BRAZILIAN MONETARY  
AGREEMENTS

July 9, 1937  
11:45 a.m.

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Present: Mr. Lochhead  
Mr. White  
Mr. Riefler  
Dr. Viner  
Dr. Williams  
Mr. Gaston  
Dr. Feis

H.M.Jr: Now, Mr. Feis called me up to say that Mr. Hull approves the joint statement for this afternoon. The President has seen it and said he approved it, subject to Mr. Hull's approval. So that's all cleared. So, Herbert, if you'll go ahead and have a press conference at 3:30 - and I happen to know that Mr. Kung likes to have a picture taken.

Lochhead: That was apparently their own man he had with them yesterday. He went out with the Chinese. He spoke - Kung said, "No pictures today."

H.M.Jr: When I had him at dinner at the Metropolitan Club, he had this man with him. He said, "Is it all right to have our pictures taken?" I said, "If you don't mind, let's wait." So these Chinese - they travel in style, but we're just a little behind; we haven't yet got to have a personal photographer as an aide.

Now, what about the statement that we give just as a working memorandum, as to how we buy - we gave one before - unsigned, just on a piece of paper?

White: Well, that would be the legal one.

Lochhead: That's the legal document.

H.M.Jr: Now, just like we said, we're going to - you going to give them something?

White: Well, you gave them 1, 2, 3.

Viner: You gave them that memorandum.

H.M.Jr: Did you keep it?

Viner: I think he kept it.

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Lochhead: He had that, because they checked that up with me.

H.M.Jr: Well, is there anything else on that?

Lochhead: No, there's nothing further. I don't want to send the bid out for the silver until the thing is entirely cleared and you have had your meeting.

H.M.Jr: Now, heretofore I've always told Pittman in advance of these things. I think I better tell him. I told Pittman and McNary - they've always gone along. Are we announcing how much silver we buy?

Lochhead: No.

White: No, just an extension.

H.M.Jr: Suppose Pittman said, "No." Then what?

Lochhead: Just thinking.

White: Pittman object?

H.M.Jr: Would he?

White: (Nods no)

Lochhead: Might not. Of course, Pittman is not interested in buying anybody's foreign silver.

White: If he has any objection....

Feis: It's all right to tell him at this time.

H.M.Jr: He never has objected. I've always told him; it's always worked all right. But the thing I - we buy the silver, then sell them some gold; I don't think he's going to like it.

White: Why tell him about the gold part?

H.M.Jr: I think I'll let it ride.

Lochhead: Mr. Morgenthau, you understand we're buying silver and selling gold. Technically, to the silver people, we issue - we're buying silver and not paying for it with gold, but with silver certificates, which is proper.

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H.M.Jr: Now, what else does anybody want?

Lochhead: You have this question about Brazil.

H.M.Jr: Well, I'll take it en masse. Who's going to talk?

White: (Handing papers to Secretary) This is a very brief outline. This is a little bit broader outline. Williams would like to preface that.

H.M.Jr: All right, preface, Williams.

Williams: It's all written out in that other one. We saw them yesterday and we asked them certain questions, which they took down, and Sousa Costa's assistant, whoever he is, went over the questions with me and they're going to bring in answers this afternoon.

Now, the questions we asked them are put down on this other one here. They all relate to three topics. One is the general situation in Brazil. The second is the question of central bank. And the third is the question of gold. And they said they'd bring in answers.

Then we sat down and talked it over among ourselves and we talked it over with Herbert, and we came to the conclusion that the problem as a whole is too difficult, presents too many uncertainties for immediate handling, but that there are certain things we might be able to agree on fairly promptly. So that we thought that as a working program we might see what we can agree to now and what we would undertake to study with them over a longer period, perhaps a period of months, and you have there the summary of things we might be able to agree on now and things that we'd study. If you want me to go over that....

H.M.Jr: I couldn't assimilate it today. I mean I've been through a terrific nervous strain the last 18 hours. I couldn't assimilate it. I can't do it. There's a limit to what any human body can do.

White: There's no need to assimilate it.

Williams: No, there's no need really. All we have to do now, as I see it, is to see these Brazilians this afternoon and get the answers, thank them, and suggest a date

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next week, about Wednesday, for another meeting.

H.M.Jr: Is that fast enough to suit the State Department?

Feis: Oh, we have no independent feeling about that, provided it doesn't put the Brazilians off more than they like to be put off.

Williams: Oh yes, if they want to meet sooner, all right.

White: We want time to study their answers.

H.M.Jr: He wants a couple days in New York, he said. That gives us.....

Feis: Later he said he'd postpone the New York trip.

Viner: If necessary, I suppose.

Williams: I think we could work out an agreement with them now that would give them something to take home, be of some value to them, and probably wouldn't raise any very important questions for us. Then as to the other things, which are really two, the central bank and this question of a gold commitment - that we'd study those. We'd say, "On the central bank question, that's your affair, but we'd be glad to give any technical assistance and advice that you want and arrange for study over a period of months." And then the question of gold commitment, which is the most bothersome question of all - we'd take that under advisement also for a period of months. But we can do certain pretty concrete things right now, if you're willing.

H.M.Jr: Well, what you people have got to do is let me read this thing. I don't want to - I'm out. I mean I've been on my feet....

White: When you (Williams) say "now" you don't mean today, you mean within the next week or two.

Williams: Within the next week or two.

H.M.Jr: I'll be back here Monday. By that time I will have read this memorandum. Now, it suits me and I think it suits everybody much better if you people are working on - and then is it the idea that you people be

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back here Wednesday? Is that the thought? I'm just - I don't know.

Viner: Mr. Williams will be back.

H.M.Jr: Well, I'm asking....

White: It will only be necessary for Mr. Williams to be back on Wednesday, probably, and then later the others, after the preliminary memorandum is prepared.

H.M.Jr: All right.

Feis: I don't want to interfere with anyone's vacation, Mr. Secretary, but I would like to remind you that this fellow is up here following conversations between the Presidents of two governments. He was invited up here primarily to discuss this gold arrangement - other matters supplementary. I think it is highly desirable that we do nothing that would seem to defer discussion unduly, and that we do not come out with too trivial an outcome for immediate action. Otherwise....

Williams: Better show him.....

Feis: ....they will regard themselves as having been misled.

White: I don't think you'll.....

Feis: Secondly, I would remind everyone that one aspect of the discussions between President Roosevelt and President Vargas had to do with the question of stabilization and entry into the tripartite monetary agreement, and you'd have to know whether you were going to default all of this or give it immediate consideration. By "immediate" I mean in the course of this visit.

Williams: We see it just the same way you do. Now, the real question is whether you think we've got enough there that we can agree on immediately.

Viner: That was the fall of 1936; it's a long time ago.

Feis: Surely.

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Viner: If the thing is important, it requires careful study.

H.M.Jr: The only point - I want to say that these men have been here for two weeks and the State Department tied them up for ten days, never let us take a look at them. Why can't we get a look at them for ten days?

White: I don't see how either of those two questions could be answered.....

H.M.Jr: Now look, you people, may I leave it this way. Let me read this thing and let me talk this thing over with Herbert Feis Monday afternoon, when I'm a little bit nearer normal; I'm zero now. If I feel I need you, I'd like to be able to call each of you up on the telephone and talk to you; because I'm definitely leaving Monday a week for Hawaii, so what we do we've got to do next week.

Viner: You're leaving about what time on that Monday?

H.M.Jr: On the train for Chicago, 4:17.

Viner: 4:17. I just want to see - if this Brazilian thing shouldn't require my presence here next week, I think I would like to be here before you leave, in case....

H.M.Jr: Jake, you....

Viner: If I come in on Monday, assuming this Brazilian thing...

H.M.Jr: This Monday?

Viner: No, no, next Monday, a week from Monday - the day you're leaving; is there any use in that?

H.M.Jr: Then go out to Chicago?

Viner: No, no, no.

H.M.Jr: I don't know. Unless there's something that you men know - you know what this thing is; you're just as much interested in this thing as I am, and you know whether we need it or not. Now let me read this thing. And I'll call you up on the telephone if....

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Viner: May we also leave with you two other memoranda to take home with you over the weekend?

H.M.Jr: Please.

Viner: One is the Yugoslavian letter.

H.M.Jr: Archie, you see that I get it.

Viner: And the other one is the Swiss thing. We're working out a suggestion for you on both.

White: The Swiss is particularly important.

Viner: Important because we.....

White: Matter of policy.

Viner: We have some ideas on that.

H.M.Jr: And as I say, I don't know what's in here, Herbert Feis doesn't know; I'll be back here Monday.

Viner: Also, Mr. Secretary, I see in one of the newspapers this morning that there is a Nicaraguan mission on the way to see you.

H.M.Jr: They'll have to come to Waikiki.

Viner: Do you (Feis) know about that?

Feis: No.

Viner: They mentioned Secretary Hull and Secretary Morgenthau. They're coming up to see Secretaries Hull and Morgenthau.

Lochhead: Incidentally, Export-Import Bank.....

H.M.Jr: Was Mr. Hull - what was his reaction to that memorandum - the Chinese?

Feis: Oh, completely all right. It wasn't Mr. Hull at all; it was Far East that fussed around with it for a while.

H.M.Jr: But he personally.....

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Feis: Oh yes.

H.M.Jr: And you?

Feis: No observation.

H.M.Jr: And evidently the President's all right on it. How long did he take?

Lochhead: Oh, it only took five minutes of his time. I went in and came out.

H.M.Jr: Now, as I see it - I hate to keep saying I'm so tired, but I can't help it; I am - everything else, and then to have this thing go up and be attacked by Hamilton Fish, and everything else; it's a.... The thing came out beautifully though.

Viner: Yes.

H.M.Jr: So if you men will let me call you up some time Monday... I'll read this thing by then. And will I see you (Viner) before you go or not? When do you leave?

Viner: Late this afternoon - 4:35.

H.M.Jr: And you don't fly, do you?

Viner: No.

H.M.Jr: So I can't help you. You (Riefler) do, so you be available from 3:30 on with your satchel.

Riefler: Yes.

H.M.Jr: We'll leave about a quarter of four.

Riefler: And what time do you think we'll be there, about?

H.M.Jr: I would say four or five hours. I can just run you in about 8 o'clock daylight saving; take about three hours.

Riefler: I'll telegraph them to be there.

H.M.Jr: We'll just about make it in around three hours. Huh?

Riefler: Thanks.

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H.M.Jr: Well, that's about all, I guess.

Feis: I take it the idea then is to suggest to the Brazilians when they return their replies that this is a weekend and then there will be some necessity for further discussion, and suggest to them Wednesday as the date for resuming discussions, with the idea that that will give them time to continue their conversations.

H.M.Jr: And if you can check and find out if that will be the time that the President sees them, you can put it, "As long as you are coming down to see the President, we'll make it that time." Huh? So that will make it kind of sound a little better, won't it?

Feis: Yes.

White: Will you let us know?

Feis: I think I'll come over here and defend my Portuguese friends against this lustful vacation.

July 9, 1937.  
12:57 p.m.

H.M.Jr: Connect Congressman Vinson of Kentucky, please.  
Operator: Right.  
H.M.Jr: Hello.  
Operator: Congressman Vinson.  
H.M.Jr: Thank you.  
Operator: Go ahead.  
H.M.Jr: Hello.  
Rep. Fred M. Vinson: Hello.  
H.M.Jr: Morgenthau talking.  
V: This is Fred Vinson.  
H.M.Jr: Well, I just wanted to say thank you.  
V: Well.  
H.M.Jr: I thought you put up a beautiful job today.  
V: Thank you, sir.  
H.M.Jr: And if I'd be Ham Fish, I think I'd go soak my head in the coldest tub of water I could find.  
V: Well, he was in a very ridiculous position, wasn't he.  
H.M.Jr: And the thing that interested me particularly was the way the Republican members jumped on him at the end.  
V: Yes.  
H.M.Jr: Eh.  
V: Yes, they were alright.  
H.M.Jr: Yes.  
V: We've been - in fact we've been prepared for this sort of thing for some time keep them in a good humor.  
H.M.Jr: Well you've given him a chance now to complete

-2-

V: Yes, and it looks to me like that there wasn't anything to it whatever. The man couldn't even substantiate from whom he got the information.

H.M.Jr: No.

V: It's really a pathetic situation.

H.M.Jr: Yes, the fact that he wouldn't name the man.

V: That's right. Well that's a cowardly thing, it seems to me, when you get right down to it.

H.M.Jr: Well, I admired you the way you went at him and I just wanted to tell.

V: Well, I appreciate that  
It's a right difficult thing because you're in enemy country and you've just got to kind of feel your way and I really felt like we got a lot of admissions out of him.

H.M.Jr: Oh, it was marvelous.

V: I felt -

H.M.Jr: Oh, it was wonderful.

V: Well, thank you sir, I am glad that you appreciate it.

H.M.Jr: Goodbye.

V: Goodbye.

July 9, 1937  
12:59 p.m.

H.M.Jr: Hello.

Operator: Congressman Doughton is not in his office, they are trying to locate him for you.

H.M.Jr: Well, I'll be back up at ten minutes of two, I can talk to him then, tell him.

Operator: All right.

H.M.Jr: Anything else?

Operator: No, that's all. Mr. Farley has gone to lunch.

H.M.Jr: Oh. Well I'll see him again.

Operator: No other calls.

H.M.Jr: Thank you.

Operator: Right.

July 9, 1937

The proposed joint statement of the Secretary of the United States Treasury and the Minister of Finance of China to be issued at 3:30 this afternoon was returned by Secretary Morgenthau to Mr. Lochhead this morning. The Secretary said in general this met with his approval; that he did not have time this morning to handle it himself, and that he wished Lochhead to clear it with the State Department, the Chinese Minister of Finance and the President and to have it ready for 3:30 this afternoon.

Lochhead got in touch with Dr. Kuo who stated that the message as it stood met with the approval of Dr. Kung. Dr. Feis of the State Department stated he was doing his best to have it cleared through his Department, but owing to the situation in the Far East he wanted it clearly understood that we would not release the statement until it had received the approval of the State Department. Mr. Lochhead assured him on this point, but drew his attention to the fact that it had already been approved by the Secretary of the Treasury and the Chinese Minister of Finance and it would not be possible to wait for the State Department's approval before it was submitted to the President. Dr. Feis promised that he would use every effort to expedite its clearance.

At 9:30 a. m., Mr. McReynolds, Dr. White and Mr. Lochhead went to the White House with the statement and Mr. McReynolds explained to Secretary McIntyre the reason for bringing this statement to the President's attention. McIntyre took the statement to the President. He returned with the information that the President approved of the statement in its present form and that it was all right to release it, provided we secured the State Department's approval.

The monetary cooperation which resulted from the conference of the Secretary of the Treasury of the United States of America with representatives of the Chinese Ministry of Finance in May, 1936, has contributed to the very successful functioning of the new Chinese monetary system with benefits both to the internal economy of China and to American trade.

We are now able to announce further progress in monetary cooperation between the two countries in pursuit of the understanding reached a year ago. At that time the Secretary of the Treasury, in a public statement, said:

"I feel confident that the monetary program being pursued by the National Government of China is not only along sound lines, but constitutes an important step toward the desired goal of stability of world currencies.

"To supplement their efforts toward that objective and to cooperate with them in their program of monetary reform and currency stabilization, and in accordance with our silver purchase policy, we have definitely indicated our willingness, under conditions mutually acceptable, to make purchases from the Central Bank of China of substantial amounts of silver, and also to make available to the Central Bank of China, under conditions which safeguard the interests of both countries, dollar exchange for currency stabilization purposes."

At the same time, the Minister of Finance of China in a public statement expressed the firm belief that the new measures of monetary reform which were then being adopted by the Chinese Government, and the arrangements made with the United States would insure the stability of the Chinese currency,

- 2 -

and this would inevitably lead to greater economic improvement and prosperity of the Chinese people.

Arrangements have now been made through which the Government of China will purchase from the United States Treasury a substantial amount of gold. To aid the Chinese Government thus to augment its gold reserves, and in accordance with the terms of the United States Silver Purchase Act of 1934, the United States Treasury will purchase an additional amount of silver from the Chinese Government.

The United States Treasury will also broaden the scope of the arrangements under which the Central Bank of China has been enabled, under conditions which safeguard the interests of both countries, to obtain dollar exchange for currency stabilization purposes.

Both the Secretary of the Treasury and the Finance Minister of China are greatly gratified by the beneficial results to both countries which have been the consequence of their understanding reached last year, and they are equally gratified to be able to announce further progress in their cooperation. It is a source of satisfaction to them that the program of monetary reforms and currency stabilization in China has been carried out with great success and has been accompanied by an increase of trade between China and other nations, particularly the United States, which occupies the first place in China's foreign trade.

Because of his desire to express the appreciation of the Chinese Government and the people of China, the Chinese Minister of Finance came in person to the United States to conduct the negotiations which have just been concluded.

The Secretary of the Treasury greatly appreciates having had this opportunity for personal contact with the Finance Minister of China and of undertaking in conference with him to further the welfare of both countries.

-oOo-

REPORT OF SECRETARY MORGENTHAU'S  
PRESS CONFERENCE, JULY 9, 1937:

Present: Dr. H. H. Kung, Vice-President of the Executive Yuan and Minister of Finance of the Republic of China.

Dr. Chengting T. Wang, Ambassador of the Republic of China.

Mr. P. W. Kuo, Director of the Bureau of Foreign Trade, Ministry of Industry, Republic of China.

H.M.Jr.: You gentlemen all know Dr. Kung and the Chinese Ambassador, and Dr. Kung and myself asked you people to come in today so we could give out this joint statement. Would you like me to read it out loud or would you people like to read it?

Q. I'd like to have a moment to read it or someone to read it to us. (Dr. Kung poses next to the Secretary for photographers).

A. I'd be glad to read it if you want me to. It would just take a minute to run through it. (Reads mimeograph statement 10-71). We'll shake hands on that (shakes hands with Dr. Kung).

Q. Mr. Secretary, does this mean that gold will be sold to China for the first time for purposes other than exchange stabilization?

A. No.

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- Q. I mean, it says they "will purchase from the United States Treasury a substantial amount of gold." Now is that gold for the purpose of exchange stabilization?
- A. For the purpose of exchange stabilization.
- Q. Solely?
- A. Solely.
- Q. Will you say anything about the amount?
- A. Well, Dr. Kung and I would rather not--is that right?
- Dr. Kung: That's right.
- Q. Could you say if it is to be done at regular intervals or at those intervals convenient to each government?
- H.M.Jr.: This particular transaction has been concluded and the actual exchange of the silver and purchase of gold will take place just as rapidly as the documents and the checks can be drawn. Is that right?
- Dr. Kung: That's right.
- Q. Will that be reflected in any figures that are available to us--that movement?
- A. Yes, it will show up in a reduction in the sterilized fund. In other words, it's part of the sterilized gold and an increase in the silver certificates.

- 3 -

- Q . This is purely an internal matter, but since the money is going to be withdrawn from that sterilized fund, will you buy up bills?
- A. No, it's an exchange--the mechanics of the thing is paid for out of the general fund.
- Q. I just remembered that when you set up that fund you said as gold came in you'd issue bills and as it went out you'd buy bills.
- A. Perfectly true.
- Q. You didn't have to?
- A. No, the necessary adjustment will take place but the amount is not sufficient that it will make any difference in the program which we announce on Monday.
- Q. Will the gold remain in this country?
- Dr. Kung: Yes, I will deposit the gold here.
- Q. Could you say, Dr. Kung, what this would do to the silver reserves in the Chinese banks, what change it will make in the ratio?
- Dr. Kung: It will simply increase our gold reserves a little more and decrease our silver.
- Q. I think just one interpretation should not be put on this: The Chinese reserves of gold and foreign exchange have not been depleted?

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- Dr. Kung: No, no, no.
- Q. This isn't to bolster them?
- Dr. Kung: Yes, to increase them. We had too much silver reserve, but we think we ought to have more gold reserve.
- Q. I understand, sir, the gold would remain in this country.
- Dr. Kung: Yes, the gold will remain here. Of the silver that was sold last year and the year before all the money still remained in your banks, and without interest, so it's a little money for your banks.
- Q. Do you intend to transfer some of those credits then to some other place?
- Dr. Kung: No, I've got credit elsewhere; I want to keep the American credit here in America.
- Q. I thought this new gold perhaps might substitute for some previous silver credits you had here.
- Dr. Kung: The gold will remain here. What we want is a reserve fund against our issue. We circulate paper money in China--we have to keep the reserve.
- Q. Where do you keep the reserve?
- A. We keep reserve in New York, Washington, or Shanghai, Nanking--it doesn't make any difference.

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Q. This is behind the internal note issue and is not an international exchange as was the previous arrangement?

Dr. Kung: The reserve, whether we have gold or silver, that's all against the issue.

Q. What is your proportion of silver and gold reserves now?

Dr. Kung: That I am not prepared to answer just now.

Q. The figure was given out at the time of the silver agreement last year, I believe; as I remember, it was about 1/3rd.

Dr. Kung: Our cash reserve is sixty per cent and security reserve is forty per cent against the circulation.

Q. Mr. Secretary, do you plan to transfer any sterilized gold to any other country in a similar manner?

H.M.Jr.: Well, you know me by now; we only make announcements when we conclude agreements, and we have no other agreement which is concluded except this one with the Chinese Government.

Q. Could you elaborate, Mr. Secretary, on what you say here about "the United States Treasury will also broaden the scope of the arrangements under which the Central Bank of China has been enabled .... to obtain dollar exchange?"

- 6 -

- A. It's simply the arrangements which Dr. Kung has made with us, through our fiscal agents-- your agent is the Bank of China.
- Dr. Kung: Yes. Central Bank of China.
- H.M.Jr.: And ours is the Federal Reserve, and he keeps a certain amount of dollars and gold and silver on deposit with them and these moneys, whether they are gold or silver or actual dollars, are a part of his monetary reserve against his currency.
- Q. Is that the "broadening of scope?" You see we never did know what the scope was, so we can't tell.
- A. Well, I won't be mean enough to call on the man who wrote it, but I think you'll just have to take it in your stride.
- Q. Can it properly be said that this is a broadening of the stabilization policy involving France, England and ourselves? The tripartite agreement. Can they bring them in?
- A. No, this is an agreement between the Chinese Government and the United States and it has nothing to do with the tripartite agreement.
- Q. It strengthens it though, doesn't it?

- 7 -

- A. Anything that strengthens the ties between China and the United States helps strengthen all foreign exchange.
- Dr. Kung: Yes. That's right.
- Q. Mr. Secretary, would you expect to issue a statement similar to this on the conclusion of the discussions with the Brazilian Ministry of Finance?
- H.M.Jr.: If you don't mind--ask some of the men who cover the Treasury regularly--. (Flashlight bulb explodes).
- Q. Mr. Secretary, may we ask you a question about an internal affair?
- A. I don't mind, if Dr. Kung doesn't mind.
- Q. It's reported that during the past week, among other things, you considered the issuance of gold certificates to the Federal Reserve Board in exchange for securities which they hold.
- A. Well, I read that story and I thought that those stories were only weekend stories.
- Q. Wasn't it a good weekend story?
- A. Well, I'd rather not comment on it, but as I say, I don't know who wrote the story, but those stories usually are written over weekends--hot weekends. I don't think he got it out of the Treasury.

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- Q. Mr. Secretary, will you tell us about your visit with George Harrison yesterday?
- A. My visit with George Harrison was this: I wanted to explain to him how we expected to handle the gold and silver for the Chinese Government. As he is the head of the Federal Reserve of New York, which is our fiscal agent, we talked about that.
- Q. But that other plan was discussed at the conference here yesterday, wasn't it? The issuance of gold certificates against government securities?
- A. Shall I surprise you?
- Q. Yes.
- A. You always believe me, don't you?
- Q. Surely, I do.
- A. Well, we didn't discuss it--we did not.
- Q. I'll pin you down a little more and ask if you discussed it in the past week.
- A. That's enough. You know when you say you believe me I only tell the truth.
- Q. I'd like to ask Dr. Kung if this concludes his negotiations here.
- Dr. Kung: Yes, as far as Mr. Morgenthau.
- Q. I wondered if you were seeing any other departments.

- 9 -

- Dr. Kung: Well, I'm seeing people every day.
- Q. Are you leaving tomorrow, sir?
- Dr. Kung: No.
- Q. Mr. Secretary, since this figure will show up eventually in the gold sterilization fund figures, could you give us a general idea of the amount?
- A. No, I'm sorry. I think you'll have to be a little patient and then do a little guessing.
- Q. Could you say if it compares roughly with the transaction a year ago?
- A. No, Dr. Kung and I agreed that we wouldn't make any comments.
- Dr. Kung: It may affect the price of gold and silver on the world market and we don't want anybody to speculate.

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TREASURY DEPARTMENT

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Washington

FOR IMMEDIATE RELEASE  
Friday, July 9, 1937.

Press Service  
No. 10-71

The following joint statement is made by the Secretary of the Treasury and the Minister of Finance of China:

The monetary cooperation which resulted from the conference of the Secretary of the Treasury of the United States of America with representatives of the Chinese Ministry of Finance in May, 1936, has contributed to the very successful functioning of the new Chinese monetary system with benefits both to the internal economy of China and to American trade.

We are now able to announce further progress in monetary cooperation between the two countries in pursuit of the understanding reached a year ago. At that time the Secretary of the Treasury, in a public statement, said:

"I feel confident that the monetary program being pursued by the National Government of China is not only along sound lines, but constitutes an important step toward the desired goal of stability of world currencies.

"To supplement their efforts toward that objective and to cooperate with them in their program of monetary reform and currency stabilization, and in accordance with our silver purchase policy, we have definitely indicated our willingness, under conditions mutually acceptable, to make purchases from the Central Bank of China of substantial amounts of silver, and also to make available to the Central Bank of China, under conditions which safeguard the interests of both countries, dollar exchange for currency stabilization purposes."

At the same time, the Minister of Finance of China in a public statement expressed the firm belief that the new measures of monetary reform which were

- 2 -

then being adopted by the Chinese Government, and the arrangements made with the United States would insure the stability of the Chinese currency, and this would inevitably lead to greater economic improvement and prosperity of the Chinese people.

Arrangements have now been made through which the Government of China will purchase from the United States Treasury a substantial amount of gold. To aid the Chinese Government thus to augment its gold reserves, and in accordance with the terms of the United States Silver Purchase Act of 1934, the United States Treasury will purchase an additional amount of silver from the Chinese Government.

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Both the Secretary of the Treasury and the Finance Minister of China are greatly gratified by the beneficial results to both countries which have been the consequence of their understanding reached last year, and they are equally gratified to be able to announce further progress in their cooperation. It is a source of satisfaction to them that the program of monetary reforms and currency stabilization in China has been carried out with great success and has been accompanied by an increase of trade between China and other nations, particularly the United States, which occupies the first place in China's foreign trade.

Because of his desire to express the appreciation of the Chinese Government and the people of China, the Chinese Minister of Finance came in person to the United States to conduct the negotiations which have just been concluded.

- 3 -

The Secretary of the Treasury greatly appreciates having had this opportunity for personal contact with the Finance Minister of China and of undertaking in conference with him to further the welfare of both countries.

--oOo--

JR

GRAY

Paris

Dated July 9, 1937

Rec'd 2:27 p.m.

Secretary of State,  
Washington.

946, July 9, 5 p.m.

FROM COCHRAN.

The following is a brief survey of official communique published in AGENCE ECONOMIQUE outlining the new financial measures which are scheduled to appear in the Journal Officiel tomorrow in a decree comprising about sixty articles. It appears that further decrees to be published in the near future will embody measures to be taken to balance the so-called <sup>annexed</sup> ~~annexations~~ budgets (Postal Administration, Mint, et cetera) and the budgets of the state monopolies.

The measures as a whole are expected to add 10,500 francs to the annual revenue of the State (eight billion for the State proper and two and one-half billion for the railways).

Measures against speculation, fraud and fiscal evasions provide for a special tax equal to 100% on exceptional profits realized by speculators on forward purchases of gold or foreign exchanges between June 10 and 30. It appears that normal commercial operations in  
merchandise

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JR #946, July 9, 5 p.m., from Paris.

merchandise or foreign securities will not be liable.

The general income tax is increased by 20% for taxable amounts over 20,000 francs. Inheritance duties as concerns transfers of real property are increased from 8 to 12%. The tax on income from registered securities is increased from 12 to 15 per cent and from 18 to 24 per cent on bearer securities. The same tax is increased from 25 per cent to 30 per cent for foreign securities.

As concerns fiscal adjustments the Cederal tax is increased as well as the cost of certain stamp duties. The production tax is increased from 6 to 8 per cent.

In order to equalize rail and road transport charges, taxes on gas, oils and petroleum used by trucks are increased.

The above any measures concern the general budget.

In addition postal, telephone and telegraph rates are increased. Tobacco prices are raised by about 20%.

Furthermore through immediate reorganization of the railways an increase of the railway tariffs will provide at once for additional annual receipts of two billion francs and a further increase of six hundred millions before August 15.

Please inform Commerce. With reference to customs changes see 948, 7 p.m.

BULLITT

HPD

RB

GRAY

Paris

Dated July 9, 1937

Rec'd 2:30 p. m.

Secretary of State  
Washington.

947, July 9, 6 p. m.

FROM COCHRAN.

Yesterday's downward trend in the franc was reversed today after it became realized that the bad statement of the Bank of England which was released yesterday covered a period which included only one day of the new financial policy. Today's press gives official communique summarizing Bonnet decree laws but JOURNAL OFFICIEL containing them will not appear before tomorrow. In cablegrams 946 and 948 the main items of the communique are published. Too early to judge full market reaction. Initial feeling is one of relief that nothing more immediately detrimental to the exchange and stock markets has been included. On the other hand there is skepticism as to the actual amounts that will be collected through the new levies and consequently a doubt as to the effectiveness of the Government's program. Securities which are subjected to higher taxes naturally did not react well today.

RB

-2-#947, July 9, 6 p. m. from Paris

today.

French control had a fair day acquiring sterling although rate varied considerably and control was not able to operate steadily. One Paris American bank purchased today approximately one million dollars for the control at 25.85. Rumor current that Soviets contemplate early sales of dollars against sterling. Forward franc not holding earlier recovery. Hotel and restaurant situation continues unhappy.

BULLITT

KLP

WWC

RB

GRAY

London

Dated July 9, 1937

Rec'd 2:30 p. m.

Secretary of State

Washington.

455, July 9, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

Chamberlain made his first important public speech as Prime Minister last evening in the course of which he stated: "Every measure by which you can estimate prevailing trends tells the same tale, whether it be notes in circulation or the returns of trading companies or the traffic on the railways or the retail sales or the savings of the people. I hear occasionally from our opponents that all this activity is simply due to the Government's rearmament program. That allegation will not bear a moment's investigation.

There have been, I think, two main factors in that policy which produced these results and they are sound finance and the change in our fiscal system. Sound finance has given us balanced budgets; balanced budgets restored confidence and enable us to carry through the  
great

RB

-2-#456, July 9, 6 p. m. from  
London

great conversion operations. These operations enable us to establish the regime of cheap money and cheap money has encouraged the expansion of trade".

The French tax and economy decrees, details of which have not yet been received in London, seem to have concentrated somewhat the unfavorable impression made by yesterday's Bank of France statement and consequently the franc has remained steady and slightly bid today.

BINGHAM

KLP

WWC

RECEIVED  
JUL 10 1937  
THE INTERNATIONAL FINANCIAL  
AND ECONOMIC REVIEW  
PUBLISHED WEEKLY

*French Situation*

PARIS.--FRENCH TAXPAYERS TODAY RECEIVED DETAILS OF THE BILL THEY MUST PAY IN THE GOVERNMENT'S FIGHT TO SAFEGUARD THE CURRENCY AND RESTORE FINANCIAL NORMALTY.

BRASTIC TAX INCREASES WERE APPROVED BY THE GOVERNMENT IN A FORMAL COUNCIL OF MINISTERS AND PROMULGATED AS OFFICIAL--HIGHER INCOME TAXES, HIGHER REAL ESTATE TAXES, NEW STAMP TAXES, HIGHER PRODUCTION TAXES, HIGHER TARIFFS, HIGHER GASOLINE TAXES, HIGHER POSTAGE AND TELEPHONE RATES, HIGHER TOBACCO PRICES AND HIGHER RAILROAD FARES.

THE GOVERNMENT'S DECREES WERE MUCH MORE BRASTIC THAN EXPECTED.

THE TAX INCREASE WAS ESTIMATED TO TOTAL 10,500,000,000 FRANCS (\$420,000,000).

INCOME TAXES WERE BUSTED TO 20 PER CENT ON INCOMES ABOVE 20,000 FRANCS (\$800)--RETROACTIVE FOR 1937.

A 100 PER CENT TAX WAS PUT ON PROFITS FROM SPECULATION IN GOLD AND FOREIGN EXCHANGE DURING THE PERIOD BETWEEN JUNE 10 AND JUNE 20.

IT WAS ANNOUNCED THAT MEASURES WOULD BE TAKEN TO PREVENT FUTURE EVASION OF TAXES BY SECURITY HOLDERS, AND SECURITY TAXES WERE INCREASED, INCLUDING A RISE FROM 25 TO 30 PER CENT IN THE TAX ON DIVIDENDS FROM FOREIGN SECURITIES.

DETAILS OF STAMP TAX INCREASES WERE WITHHELD. THE GENERAL PRODUCTION TAX WAS INCREASED FROM 6 TO 8 PER CENT EXCEPT FOR FOODSTUFFS. TARIFFS ON PRODUCTS CONTROLLED BY QUOTAS WERE RESTORED TO LEVELS EXISTING BEFORE LAST OCTOBER.

GASOLINE TAXES WERE INCREASED ON BUSES AND TRUCKS, WHICH ALSO WERE SUBJECTED TO LICENSING FEES.

INCREASES WERE MADE IN TELEPHONE AND POSTAGE RATES AND TOBACCO PRICES WERE RAISED BY 20 PER CENT.

THE HIGH RAILROAD COUNCIL DECIDED ON FREIGHT INCREASES OF ABOUT 18 PER CENT, WITH LESSER RATES ON AGRICULTURAL PRODUCTS, EFFECTIVE JULY

7, 15 JUL 9 1937

PARIS - DIRECT AND INDIRECT TAXES TO YIELD 8 000 000 000 FRANCS IN THE CURRENT YEAR THUS COVERING THE ORDINARY BUDGET DEFICIT HAVE BEEN ENACTED INTO LAW BY THE SIGNING OF A GOVERNMENTAL DECREE - A RESUME ISSUED BY FINANCE MINISTER BONNET STATES THAT THE LAW 1- IMPOSES A 100 PC TAX ON PROFITS DERIVED FROM SHORT SELLING OF FRANCS BETWEEN JUNE 10 AND JUNE 30 - 2- OBLIGATION IS LAID UPON BANKS TO REGISTER THE NAMES AND ADDRESSES OF ALL PERSONS CASHING COUPONS IN ORDER TO SUPPRESS EVASION OF COUPON TAXES - 3- A PRODUCTION TAX IS SUBSTITUTED FOR THE TURNOVER TAX IMPOSED UNDER THE AURIOL FISCAL REFORM WHICH IS EXPECTED TO YIELD 1 400 000 000 FRANCS - 4- CUSTOMS DUTIES ARE RESTORED TO THE LEVEL WHICH PRECEDED THE OCTOBER DEVALUATION AND ARE EXPECTED TO YIELD 500 000 000 FRANCS IN THE CURRENT YEAR AND 1 000 000 000 IN 1938 - 5- 1938 INCOME TAX ASSESSMENTS ARE RAISED TO YIELD 500 000 000 FRANCS

POSTAL TELEPHONE AND TELEGRAPH RATES ARE INCREASED TO YIELD 700 000 000 FRANCS - TOBACCO PRICES ARE BOOSTED 20 PC - A SPECIAL MINISTERIAL COMMISSION WHICH WAS APPOINTED TO CONSIDER REORGANIZATION OF RAILWAYS IMMEDIATELY RAISED RATES TO PRODUCE 2 600 000 000 FRANCS ANNUALLY

THE NEW TAX DECREE INCLUDES A RISE FROM 25 TO 30 PC IN THE TAX ON DIVIDENDS FROM FOREIGN SECURITIES - THE GENERAL PRODUCTION TAX WAS INCREASED FROM 6 TO 8 PC EXCEPT FOR FOODSTUFFS

ADD NEW FRENCH TAXES

907 JUL 9 1937  
 PARIS - UP - THE HIGH RAILROAD COUNCIL  
 DECIDED ON FREIGHT INCREASES OF ABOUT 18  
 PC WITH LESSER RATES ON AGRICULTURAL  
 PRODUCTS EFFECTIVE JULY 22

-0-

NEW FRENCH TAXES

930 JUL 9 1937  
 PARIS - THE REACTION TO THE FISCAL  
 MEASURES ALL THE DETAILS OF WHICH HAVE NOT  
 YET BEEN PUBLISHED APPEARS TO BE FAIRLY  
 FAVORABLE - IT IS NOTED THAT THE GOVERNMENT  
 AVOIDED INCREASING TAXATION OF FOODSTUFFS  
 WHICH ALREADY ARE EXEMPT FROM THE 6 PC PRO-  
 DUCTION TAX AND REMAIN EXEMPT FROM THE NEW 8  
 PC RATE AND ON WHICH RAILROAD RATES WILL BE  
 ONLY MODERATELY RAISED - NEVERTHELESS IT IS  
 THOUGHT INEVITABLE THAT THE COST OF LIVING  
 MUST RISE OWING TO THE NEW FISCAL BURDENS

-0-

4,33  
 ADD NEW FRENCH TAXES

JUL 9 1937

PARIS- AMONG OTHER OUTSTANDING FEATURES  
 ARE THE 20 PC INCREASE IN GENERAL OF THE FLAT  
 INCOME TAX APPLYING TO ASSESSMENTS ALREADY  
 ISSUED OR ISSUABLE THE CURRENT YEAR INCREASE  
 IN THE COUPON TAXES OF 12 PC TO 15 PC ON  
 NOMINATIVE SECURITIES 18 PC TO 24 PC ON  
 BEARER AND 25 PC TO 30 PC ON FOREIGN SECURITIES  
 AND THE TAX ON DIRECTORS FEES OF 24 PC TO 27 PC-  
 ALL OF THESE ARE EXPECTED TO YIELD 1 000 000  
 000 FRANCS FOR THE FULL YEAR

## ADD NEW FRENCH TAXES

935 JUL 9 1937

PARIS- THE 100 PC TAX ON SPECULATIVE EXCHANGE  
-E PROFITS ON RECENT FRANC DEPRECIATION IS NOT  
EXPECTED TO YIELD MUCH AND NO ESTIMATE OF THE  
YIELD IS GIVEN WHILE IT IS POINTED OUT THAT  
SPECULATION IN SECURITIES AND COMMODITIES IS NOT  
AFFECTED

-0-

## ADD NEW FRENCH TAXES

943 JUL 9 1937

PARIS- CONTROL OF COUPON PAYMENTS THROUGH  
BANKS IT IS ESTIMATED WILL BRING IN 630 000  
000 FRANCS ANNUALLY BUT WILL BE INEFFECTIVE  
AGAINST EXTENSIVE FISCAL EVASION THROUGH THE  
PRACTICE OF DEPOSITING SECURITIES ABROAD

A TOTAL OF 8 000 000 000 FRANCS IS  
EXPECTED ANNUALLY BUT ONLY 4 000 000 000  
DURING THE BALANCE OF THE CURRENT YEAR

-0-



DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
FE 611.9431/132

July 10, 1937

CONFIDENTIAL

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses for the confidential information of the Treasury Department a copy of a paraphrase of the essential portions of a telegram dated July 8, 1937, from the American Embassy at Tokyo in regard to Japan's exchange position.

Enclosure:

Paraphrase of telegram  
No. 184, July 8, 1 p.m.  
from Embassy Tokyo.

5144

**Department of State**

B U  
DIVISION

FE

**ENCLOSURE**

TO

Letter drafted .....

ADDRESSED TO

Treasury. ....

PARAPHRASE

The essential portions of a telegram (No. 184) of July 8, 1937, from the American Ambassador at Tokyo, read substantially as follows:

There set in toward the latter part of 1936 a marked increase in Japanese purchases of certain articles which it was anticipated might be affected by any of the three following factors (1) Japan's program for the replenishment of armaments, (2) an anticipated upward revision of the Japanese import tariff in accordance with announcements by the Minister of Finance, and (3) rising prices in world markets.

There ensued a general wave of speculation as manifested by a gain during the last semester of 95 percent in the warehouse stocks of raw cotton alone. Alarmingly heavy purchases have been made of other essential commodities, particularly steel. While the purchases made by individual merchants have been of a speculative character the fact that there have been larger importations of primary commodities used in the production of articles for export and of commodities needed for the armament program shows that it is the deliberate policy of the Japanese Government to promote such importations in the pursuit of certain fixed policies. It would appear very doubtful from available evidence that Japan can go on financing such imports unless either it curtails drastically the export of capital to Manchuria or reduces the importation of commodities which are non-essential.

The

- 2 -

The recent revision of the existing exchange control regulations in the direction of more rigid and thorough control indicates that even though the exchange position has not only not improved but has probably shown retrogression since last January, the Japanese Government will try to regulate the exchange situation by imposing restrictions upon the importation of commodities which are either unconnected with the armament program or which are not used in the production of goods for export in preference to the modifying of governmental policies which contribute in large measure toward the creation of such a situation.

It is roughly estimated that the capital transferred annually to Manchuria for military expenditures and for the economic and industrial development of that region amounts to about Yen 400,000,000 yearly. There is no evidence that this amount is being substantially curtailed in spite of the very great difficulty of the present exchange position of Japan.

While it is true that the present adverse trade situation in Japan has been brought to a head by speculation consequent to certain economic factors such as anticipated upward revision of Japanese import duties and rising world prices, it is primarily due to heavier imports of articles required for the carrying out of national policies. An integral factor in Japan's economic position is the degree of dislocation in Japan's international trade position which can be ascribed to

- 3 -

to such purchases heightened as the dislocation is by the continued export of capital to Manchuria and to that extent may be considered as a matter of calculated and deliberate policy.

RECEIVED

JUL 15 1940

SECRETARY OF THE TREASURY  
OFFICE

JR

GRAY

Paris

Dated July 10, 1937

Rec'd 9:50 a.m.

Secretary of State,  
Washington.

950. July 10, 1 p.m.

FROM COCHRAN.

With Paris markets and banks closed today it is impossible to judge further reaction of financial community to Bonnet's decree laws. The French General Confederation of Labor has however come out with a series of recommendations for financial measures which appeared in this morning's press. These envisage control of foreign operations of French banks, reorganization of Paris money market and institution of "open" policy, nationalization of insurance business, heavier taxes on wealthy, suspension of amortization of public debt, reorganization of banking and credit system and similar measures. For organized labor to advance this formidable program just at the time the Government is introducing its new projects planned with idea of encouraging return of capital to France will undoubtedly be interpreted as a continuing menace to capital and a handicap to Bonnet. More serious aspect of hotel and restaurant strikes is also discouraging.

Proceeding to Basel tonight and returning Tuesday morning.

BULLITT

HPD

## RE BRAZILIAN AGREEMENT

July 12, 1937  
9:10 a.m.

Present: Mr. Lochhead  
Mr. White

H.M.Jr: Harry, now when Taylor comes back - I've read this thing very quickly, this answer to Bachmann and Schnyder, see, but I understand, going up on the plane with Riefler, that this isn't polished and finished.

White: Possibly could be polished a little more.

H.M.Jr: well, I'm not ready now, but I want - who wants to be custodian of this?

Lochhead: Well, I think Harry better be custodian.

H.M.Jr: If I get a chance I may want to sit down and kind of talk about it this evening, you see. I don't know yet - I mean my time is short - but I think I got it, and I think it sounds all right.

Now, where are we on this Brazilian thing?

White: The Brazilians returned at four o'clock, and much to the surprise of everyone, I think, what they asked for was merely the privilege of purchasing gold, and as they paid for it it would be theirs; they would not include it in their statement until they had paid for it. However, they were of the opinion that the most desirable thing - psychological effect would be given if a definite amount were to be indicated that they could buy. In other words, if you were to say, "We stand ready to sell 50 million dollars of gold, to be paid for over a period of possibly a year or two or three" - however, the gold would not be theirs until they paid for it in foreign exchange. Which was a little contrary to what we had been led to believe.

Lochhead: The situation cleared up very quickly when we found out what they wanted.

White: And Sousa Costa appears to be a very intelligent person, a man whose ideas are very sympathetic to

-2-

what ours are. They're coming back Wednesday morning, at which time we will presumably have read over their answers to the questions which we submitted. I have already read them over. They are very simple statements without - there would be no question at all, I think, of our willingness to meet their request. I think you can give them everything they want.

H.M.Jr: What time they coming back Wednesday?

White: 10:30 Wednesday morning.

H.M.Jr: All right. You (Lochhead) get word that I want Riefler, Viner, and Williams here.

White: I think probably you'd better get them on the phone; don't you think so?

H.M.Jr: Well, I'm on this Swiss thing. Let these fellows come back.

White: They hate to come back.

H.M.Jr: I know. They get the honor; let them get a little work.

Lochhead: When do you want them back?

H.M.Jr: I want them here in the office at 9:15 Wednesday morning.

White: Williams is coming anyhow.

H.M.Jr: Well, let these birds come. Viner gets home from Friday night until Tuesday night; he comes down here. And tell them I want them here for two days.

Lochhead: Two days. O.K.

White: Yes, and I think another reason you'd want them - there's a letter from Senator Wagner and I prepared a letter to....

H.M.Jr: Well, tell them I want them here two or three days at the most.

-3-

- Lochhead: That will give them off a weekend.
- White: Remember I spoke about a letter from Senator Wagner and a reply by us? I prepared a draft of something, if you want to go forward on it.
- Lochhead: I honestly feel that this Brazilian situation has cleared up tremendously in the short talk we had on Friday afternoon. The only thing that might stand in the way of giving them what they want is the possibility that you may be tying in for some future undertaking with Brazil. I don't feel that way. I know there is some feeling that way. I feel we must take our chances. In other words, if we give them a commitment to sell 50 million and they can't take it up, they might come to us and say, "Make us a loan to carry this out." But I think in any agreement you run the same danger.
- White: This is interesting. When someone mentioned a hundred million dollars, he said, "Oh no, that's too much." He's very moderate.
- H.M.Jr: Anybody say anything about silver?
- White: No, and that's one thing to which Williams is averse. But I think we can work up some...
- H.M.Jr: What would it be - one-quarter of 50 million, 12½ million?
- White: That would be as much as you could hope for.
- H.M.Jr: Mathematically, what would it be? If they had 50 million, one-quarter....
- White: At \$1.29....
- H.M.Jr: 45 cents.
- Lochhead: I think you'd have to sell them on the one-quarter monetary basis at \$1.29, which would make about ten million ounces. Otherwise, it would have to be over 25 million ounces.
- H.M.Jr: What would it be on a \$1.29 basis?

-4-

White: At \$1.29, four million dollars in bullion value.

Lochhead: About ten million dollars.

H.M.Jr: It's one-quarter of the gold - and then together makes one-third of each? Is that right?

Lochhead: One-third of gold; one-fourth of the total monetary stock.

H.M.Jr: One-third of the gold should be silver; then it's more than 12½.

White: It's 50 million altogether.

H.M.Jr: Work it out mathematically.

Lochhead: \$1.29 is as high as you can ask them to go.

White: It is your thought that we ought to open that field of discussion?

H.M.Jr: Absolutely.

White: I don't know if they....

Lochhead: I think that it was part of it.

H.M.Jr: Well, who was at the meeting?

White: Williams and myself - Archie stepped in for part of the time - and Feis and Livesey, and Sousa Costa, the Ambassador, and his interpreter.

H.M.Jr: Now, when you do this, Sousa Costa - does he understand English?

White: He understands English very well, better, I think - as well as the Ambassador.

Lochhead: He knows enough to sit quietly and take it all in.

White: When he wants to answer, he answers. When the other person gives a wrong answer, he interrupts. And he is a very able man, he's a very shrewd man - very

-5-

competent.

Lochhead: But I think he's so competent that he's not asking impossible things.

White: Herbert Feis was there, very eager to push this thing and get over with it as rapidly as possible. He will doubtless object to silver. Nothing was said. But he was very pleased and he said he doesn't - he told them personally he doesn't see any reason why there should be any obstacle.

H.M.Jr: Couldn't we get word to these fellows, so they could be thinking about it, that we have silver in mind?

White: Sousa Costa isn't here. We can find out - I don't think it does any good to talk to anybody but Sousa Costa.

H.M.Jr: Find out when he gets back. Maybe I can see him before.

White: It would be a very good idea.

Lochhead: Did you see about my interview with the Brazilians? Some fellow from the Havas News Agency called me up. Now they say you got your staff so intimidated that they won't talk at all for publication. He asked whether I had seen the Brazilians. I said, "I don't talk for publication." Then he asked if I was going to see them. I said, "I don't talk for publication." He said, "Is your name Lochhead?" I said, "I don't talk for publication." That's the way Drew Pearson got it.

But I do feel we can clean that up this week.

H.M.Jr: I can have Kieley find out - (to Kieley) find out when Dr. Sousa Costa, the Finance Minister, will return to Washington. I'd like to know. Call up the Brazilian Embassy.

Then we can wait; just hold up on Viner and Williams until we hear.

Lochhead: I won't put that call in then.

H.M.Jr: Well, isn't that about all?

White: That's all.

July 12, 1937.  
9:57 a.m.

H.M.Jr: Hello.

Operator: Ready.

H.M.Jr: Yes.

Operator: Go ahead.

H.M.Jr: Hello.

Wm. W.  
Butterworth, Jr: Hello.

H.M.Jr: Butterworth.

B: Yes, sir.

H.M.Jr: Good morning.

B: Yes, sir.

H.M.Jr: Butterworth I can't remember whether the message came through you or through the Embassy here in Washington, in regard to Sir Frederick Phillips going to Canada.

B: No, it must have come through Washington.

H.M.Jr: Well, do you know about it?

B: No, I don't.

H.M.Jr: Well, I don't like to rub it in but the impossible has happened, see.

B: Yes.

H.M.Jr: And he wanted to know whether I'd like to see him.

B: Yes.

H.M.Jr: And of course I sent back word I'd be delighted to. Now the word I'd like you to get today is - because I want to have you over here when he's here.

B: Yes, sir.

H.M.Jr: I'd like you to go over there and tell him that I'm going to expect to be gone the end of this

-2-

month until the second of September.

B: Until the second of September.

H.M.Jr: And if he could get to Washington about the 13th, you see, I would see that there's no other - I mean, I'd sort of save that week, be ready for him.

B: The week of the 13th of -

H.M.Jr: September.

B: of September.

H.M.Jr: The 13th is a Monday.

B: Right.

H.M.Jr: You see - and you might ask them and then get word back to me.

B: I will indeed.

H.M.Jr: But they told me that - well, I needn't go all into it, but

B: No.

H.M.Jr: They sent word, I couldn't remember through whom, it must have been here, the British Ambassador, would I like to see him, he was going to be in Canada the middle of September.

B: Quite.

H.M.Jr: The answer was, of course, that I'd be delighted.

B: Quite.

H.M.Jr: So, if he could get here about the 13th., I'd like it.

B: Quite.

H.M.Jr: And then if I know that, then I'll have the Department give you instructions to come over and be here at the same time.

B: Thank you, sir.

H.M.Jr: And by the way, if I don't get a chance to get it, you come. Take any boat, it doesn't make any difference.

B: All right, sir.

H.M.Jr: Get any boat. Take American boat if you can, but if you can't get accommodations why then take an English boat.

B: All right, sir.

H.M.Jr: Or a French one.

B: All right, sir.

H.M.Jr: Now.

B: I was talking to the British Treasury about the communique about the Chinese -

H.M.Jr: What's that.

B: I say, I gave the British Treasury communique joint statement issued in Washington about your discussion with the Chinese Minister of Finance.

H.M.Jr: Yes.

B: Are there any other details that are to be communicated to them, or is that all?

H.M.Jr: That's all there is.

B: That's all there is. Right.

H.M.Jr: Did they have any comments?

B: No, they didn't. They just said they'd - I don't think they objected a bit.

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

B: No. I mean, I thought that they were rather pleased about, I mean they were all for China pulling itself together.

H.M.Jr: Well, I think they should be pleased, because

-4-

here, for instance, with the Japanese war scare in China, the Chinese foreign exchange hasn't hardly varied a fraction.

- B: Yes, I know.
- H.M.Jr: Now, unless they had a considerable sum of money here with us, they couldn't keep their exchange so stable.
- B: No, I understand.
- H.M.Jr: And the only statement that I made, they asked me was this in any way related to the tri-partite, and I said no, it had nothing to do with it, other than that if the Chinese and ourselves, I put it, had a strong currency -
- B: Yes.
- H.M.Jr: Why, it meant that the repercussions on our own tri-partite agreement would be that much less.
- B: Of course.
- H.M.Jr: And I should think -
- B: The statement was published over here.
- H.M.Jr: Oh, was it?
- B: Yes.
- H.M.Jr: And there's nothing - if you know when I make these arrangements, I mean there are no trade favors that go with it. It's strictly financial.
- B: Purely financial.
- H.M.Jr: Purely financial, as all of mine are and there's no side bets.
- B: Right, sir.
- H.M.Jr: See.
- B: Yes, sir.

-5-

H.M.Jr: But the main thing I wanted you to find out was to get word to Sir Frederick Phillips so that if he wouldn't come at a time - you might - I have my financing just before the 13th.

B: Yes.

H.M.Jr: And then by the 13th, I'd have my desk clear.

B: Right.

H.M.Jr: And - I want to be able to give him plenty of time.

B: Right, sir. I'll get word back to you immediately about it.

H.M.Jr: All right.

B: Thank you very much. Goodbye.

July 12, 1937.  
10:57 a.m.

H.M.Jr: Hello.

Rep. Robert Doughton: All right, Mr. Secretary.

H.M.Jr: How are you Bob Doughton?

D: First rate, thank you. Are you well?

H.M.Jr: I'm all right.

D: I missed getting you the other day, on Friday.

H.M.Jr: Well, I called you up simply to say thank you.

D: Well, that's all right. You needn't have done that.

H.M.Jr: I thought you handled a very difficult situation, extremely well.

D: Well, I thank you very much. We're doing the best we could about it.

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

D: I think it's just as well that fellow has blown the wind out of himself to show - to show breezy issue on the floor of the House and in the Congressional record. had some evidence.

H.M.Jr: Well, I think the way it worked out - I know as far as I am concerned I am entirely satisfied.

D: Well, I thank you very much. I think now, when the matter comes up properly for debate on the floor of the House, we can just show him up in the right light.

H.M.Jr: Uh-huh.

D: Whereas, if we had shut him off and never gave him a chance to say anything, he'd always claim he had evidence, hadn't had a chance to show it and we suppressed him.

H.M.Jr: Now, he's shot everything he's got. He's got nothing left.

-2-

D: Nothing left, and had nothing.

H.M.Jr: Well, I think even Treadway was disgusted with him.

D: Oh, undoubtedly. Treadway and was very gentlemanly about it.

H.M.Jr: Yes.

D: Well, I appreciate your calling and I want you to know that we want to cooperate the best we can, and let us know if there is anything more we can do any time.

H.M.Jr: When do you have your next session?

D: Tomorrow - we'd ought about probably wind up tomorrow. We meet tomorrow again on the Treasury - Doctor Magill and the Bureau bring in what additional evidence they have.

H.M.Jr: Is that public or executive?

D: It's public tomorrow.

H.M.Jr: I see.

D: After tomorrow they'll be probably - unless something more than that comes up that I don't know about, if we get through, we get through we'll be able then to go into executive session decide what we'll do.

H.M.Jr: Well I expect to leave Monday a week on my vacation.

D: Well, I wish you would tell us when we can leave.

H.M.Jr: So if there's anything that you want of me will you keep that in mind.

D: Yes, I certainly will.

H.M.Jr: All right.

D: Certainly will.

H.M.Jr: Thank you.

D: Goodbye.

July 12, 1937.  
10:59 a.m.

H.M.Jr: Hello.

Operator: O.K. Go ahead.

H.M.Jr: Hello.

George  
Harrison: Hello, Henry.

H.M.Jr: Good morning.

H: Henry, I'm planning to go to Chicago this  
afternoon.

H.M.Jr: Good.

H: And just want to let you know that I'm off,  
unless there is something, you think I ought  
not to go.

H.M.Jr: Oh no, no, no. No, I think everything look's  
fine.

H: But I think everything looks pretty quiet.

H.M.Jr: Well maybe that's - well I think it does by com-  
parison.

H: Yes.

H.M.Jr: People around the office. Say if they could only  
get me out of the Treasury, they know things will  
stay quiet.

H: They don't think what?

H.M.Jr: If I - If they could only get out of the Treasury  
quickly enough they know things will stay quiet.

H: Well, I think that's If we  
could both go up together it would be fine.

H.M.Jr: What do you want - don't you think I earned a  
holiday?

H: Is anything going to happen about the legislation  
before you go, Henry?

H.M.Jr: Not as far as I can see.

-2-

H: Uh-huh.

H.M.Jr: My understanding is that there's nothing to be done until the Court bill is passed. But your guess is as good as mine.

H: Yes.

H.M.Jr: There's been nothing since and I haven't talked to Eccles.

H: I see.

H.M.Jr: So, that's my understanding now. So....

H: Yes. Well you're going this week and I think I'll go and I'll be back, well - before you go - I'll be back early in August.

H.M.Jr: Are you going to San Francisco or Los Angeles?

H: No, I'm going to San Francisco. I'm going out to Chicago.

H.M.Jr: Oh.

H: But, I'm having a meeting tomorrow.

H.M.Jr: Yes.

H: And then I'm going to San Francisco, and I might come back by way of the Northwest.

H.M.Jr: Uh-huh.

H: Then come back to Minneapolis if I've got time. San Francisco, and I'd like to come back by way of the Northwest.

H.M.Jr: Uh-huh.

H: Then come back to Minneapolis if I've got time.

H.M.Jr: Uh-huh.

H: Just depends upon whether we are going to have an open market meeting on August 5 or not.

H.M.Jr: Uh-huh.

H: I don't see any occasion for it, I don't think

-3-

we ought to do anything until after you're back, and into September anyway.

H.M.Jr: Well, I - I don't see what you want one for, but that's - unless you fellows like to see each other.

H: Well, I didn't want to run off without calling you.

H.M.Jr: I appreciate that. Well, get some fun. I know I'm going to have some.

H: Well, I'm going to try to.

H.M.Jr: All right.

H: Where are you going? Are you going to San Francisco?

H.M.Jr: We're going to Hawaii via Los Angeles and the boat lands coming back at San Francisco.

H: Uh-huh, I see.

H.M.Jr: But I'm not doing business.

H: No, but I won't bother you.

H.M.Jr: No, I didn't mean that. I didn't mean - as a matter of fact, the only person I'm taking with me, I'm taking a lieutenant coast guard as a code officer.

H: Yes.

H.M.Jr: That's the only thing I'm going to take care of.

H: All right, if there's anything I can do, let me know, Henry.

H.M.Jr: Thank you.

H: And I hope you have a good rest, a good vacation.

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

H: Goodbye.

H.M.Jr: Goodbye.

July 12, 1937.  
11:26 a.m.

H.M.Jr: Wait a minute, what is it Butterworth?

Butterworth: I went over to the Treasury and I explained the position as you had stated it to me.

H.M.Jr: Yes.

B: And he said he'd be -

H.M.Jr: What's that?

B: The 13th was agreeable to him.

H.M.Jr: Yes.

B: I said if it suited your convenience. I also asked him that if it was a matter of his personal comfort -

H.M.Jr: Now, wait a minute. Butterworth, we have a very bad connection. Say it over again.

B: He said that the 13th was perfectly agreeable.

H.M.Jr: Yes.

B: But that he had a preference for the 20th, because he wanted to meet his sister during the week of the 13th, but that that was completely unimportant.

H.M.Jr: No.

B: the 20th, but not as agreeable to you.

H.M.Jr: The 20th is just as agreeable to me.

B: But I said I thought it would be, but he left it to me to decide.

H.M.Jr: Well, the 20th is just as agreeable, I didn't want him to get here, say between 6th and the 13th, being all tied up.

B: Well I told him that I thought that the 13th was the first possible time when you could see him and have your desk clear for him.

H.M.Jr: That's right.

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B: So, we will make it the 20th then.

H.M.Jr: That's right.

B: And I will pass it on to him.

H.M.Jr: That's right. Did you see him?

B: Yes, I did.

H.M.Jr: I see. Where does his sister live, in Canada?

B: Don't know where she lives.

H.M.Jr: I see.

B: He said that that was one of the reasons that he had to - that he was going. Would like to be with her that week.

H.M.Jr: That's quite all right. You might, if you could-sort of without making any - discreetly find out who his sister is and where she lives.

B: I will indeed. I'll do my best on that.

H.M.Jr: What!

B: I'll do my best on that.

H.M.Jr: The 20th is quite all right.

B: Good. -

H.M.Jr: Are they at all excited over there over the Japanese-Chinese things.

B: Are they. the reports  
that they've got from their people in the Far East are not very satisfactory.

H.M.Jr: I see.

B: I mean the situation actually is not very clear.

H.M.Jr: Uh-huh.

B: And I think they are somewhat disturbed about it.

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H.M.Jr: I see. And how does the Spanish thing look today?

B: Well, the Spanish thing is no better or no worse.

H.M.Jr: Uh-huh.

B: \_\_\_\_\_ has been given a mandate. He signed a compromised proposal.

H.M.Jr: Uh-huh.

B: And he is still considering ways and means

H.M.Jr: I see.

B: And our intimation is that nothing very much is going to come out before the end of the week.

H.M.Jr: I see. Do you know that I'm planning to leave Washington a week from today?

B: Yes, sir.

H.M.Jr: And to sail from Los Angeles on the 24th.

B: You are going where? To Honolulu?

H.M.Jr: Honolulu.

B: Fine business. Didn't know you were going there.

H.M.Jr: Yes. Mr. Taylor will be here.

B: Good.

H.M.Jr: Yes. All right.

B: Thank you, sir, very much.

H.M.Jr: Goodbye.

RE RUSSIAN GOLD DEALINGS

July 12, 1937  
11:30 a.m.Present: Mr. Oumansky  
Mr. Lochhead  
Mr. White

Oumansky: Mr. Secretary, to go back to our questions.

H.M.Jr: Please.

Oumansky: I wanted to tell you the following. The first step in what we were trying to do, as you suggested, is achieved in the sense that the State Bank of the U.S.S.R. has established normal relations with the Federal Reserve.

H.M.Jr: Right.

Oumansky: Those were settled very smoothly, and the State Bank has made the usual deposit and the banks know the necessary information about each other, so that this is achieved.

Unfortunately, one of the first actual operations didn't work. On the 7th of July, the State Bank asked the Federal Reserve Bank by telegraph to acquire from it ten thousand kilograms of gold bars which are on the London market, suggesting that this gold, as it was suggested by you in our very first conversation, must not necessarily actually be shipped to the United States.

H.M.Jr: I think you're wrong.

Oumansky: No.

H.M.Jr: You're wrong.

Oumansky: Am I? Well, that was a suggestion of the State Bank.

H.M.Jr: No, I'm sorry, you're wrong, and I tell you why.

Oumansky: I see; it's all right.

H.M.Jr: Because I tell - am I - I'm correct, am I, on that, that exactly the same thing was put up to us by

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Switzerland?

Lochhead: (Nods yes)

H.M.Jr: I just want to let you know - they asked us to buy Swiss gold for delivery in London and we told them, "Very sorry, no." So - I mean it's been our policy that we would buy gold delivered in New York at \$35 an ounce less one-quarter, but it must be delivered in New York at the risk of the owner. Did exactly the same thing how long ago with Switzerland?

Lochhead: Oh, a couple months ago. It's a policy, not a question of....

H.M.Jr: What you asked us to do - not only have we turned Switzerland down, but it's absolutely against our policy. I was terribly sorry that the first thing you asked, you couldn't do it.

Oumansky: You're informed about it, are you?

H.M.Jr: Oh yes, I'm entirely informed; and we thought that rather than make it diplomatic, since the telegram was from your central bank to our fiscal agent - your telegram came down and I said, well, I thought the most courteous way was simply to let the Federal Reserve of New York send a cable that we were very sorry, we couldn't do it, because we haven't done it and we don't want to do it. But we do stand ready to buy from you any gold that they would ship directly to us. You see?

Oumansky: I see.

H.M.Jr: Now, what they ask - I'm sorry if at the time I didn't make myself clear. But all I can tell you - normally I wouldn't say, and it's for your information, that there had been another request from another country, but to assure you of our sincerity I want to let you know that we had exactly the same request from Switzerland, which is a member of the tripartite agreement and we might stretch a point for them; but we told them "No," and I want you to tell your government so they'll know that, see?

Oumansky: I see.

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- H.M.Jr: But the point is if they will simply send us a new cable in which they say that they are advising us - that's all they have to do - simply advising us.....
- Lochhead: The Federal Reserve.
- H.M.Jr: .....the Federal Reserve that they are forwarding ten thousand kilograms of gold, that it is going on such and such a boat and will arrive at such a time - that's all there is to it; that's all they have to do. Am I right, Archie?
- Lochhead: That's right.
- H.M.Jr: They simply have to say, "We are forwarding - according to our understanding, we are forwarding to you, on such and such a date, on such and such a boat, ten thousand kilograms of gold to be consigned to the Federal Reserve of New York." That's all.
- Lochhead: They can do it directly with the Federal; don't have to go through any intermediary of a commercial bank - do it direct with the Federal.
- Dumansky: That's exactly what I wanted to ask; perhaps they could do it in such a way that they ask the Federal Reserve.....
- H.M.Jr: Now look, if the gold is in your country they can ship it direct from your country to here. If it is in London, they simply put it on the first boat they can, and as soon as the gold arrives - I mean you have to arrange all the shipping and insurance and all that - as soon as it arrives and it is in our assay office, why, we pay - deposit to your account \$35 less one quarter.
- Lochhead: Just a little thing - they deposit about 98 percent to your account in the Fed, until - but they treat the others exactly the same.
- H.M.Jr: That's what we do for everybody - 98 percent.
- Lochhead: Not for everybody; don't give 98 percent except to people we know are all right.

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- H.M.Jr: I mean we don't do any better for anybody.
- Lochhead: We don't do any better for anybody.
- H.M.Jr: What I am suggesting is the way we treat Great Britain or France or Switzerland or Belgium.
- Lochhead: That's right.
- H.M.Jr: Any of the tripartite countries are treated exactly that way.
- Lochhead: That's right.
- H.M.Jr: No better or worse.
- Oumansky: Between the European central banks there seems to be a different arrangement in the sense that, for instance, country X can sell gold to the Bank of France, depositing it at the Bank of England.
- Lochhead: I don't know; there are certain arrangements, probably, between other central banks between themselves; we don't know that, but we know our own policies.
- H.M.Jr: I want - because it's very important - because this whole thing is a question of building up.....
- Oumansky: Exactly, and I approach it in the same way, and I'm disappointed that the first thing didn't work.
- H.M.Jr: I don't think it was our fault.
- Oumansky: Yes.
- H.M.Jr: But I want you to know that what we are saying here is that we treat any other central bank exactly the same, and if the French would call up - "Will you pay us for gold delivered in London?" - "No, we don't do business that way." Now, what they do I don't know; I know for instance the International Bank of Basle - they do all kinds of things.
- Oumansky: Yes.
- H.M.Jr: To tell you - you'd be interested in this, for instance. If the International Bank of Basle

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wants, for instance, to sell us a million dollars worth of gold, we make them tell us who it belongs to; otherwise we won't buy it. If it isn't their own gold, unless they tell us whose gold it is we won't buy it. And in any case we won't take it until it arrives here in our assay office.

Lochhead: May I ask this question?

Oumansky: Yes, please.

Lochhead: It might help you clear up. What advantage would there be to the State Bank.....

H.M.Jr: Excuse me, Archie - I don't want to take that angle.

Lochhead: All right.

H.M.Jr: If you and Oumansky want to go outside afterwards and talk about it - but I don't want to ask him that, because that's none of my business. I don't care what their reason is or what they do. I want Mr. Oumansky to go out of this room knowing that I say that if they did certain things we would do certain things. And we are ready to do that, because it is terribly important, in a transaction like this - after all, it's one word against another. But you know we're ready and want to treat your government just as well as we are treating anybody else.

Oumansky: I'll transmit that statement.

H.M.Jr: And if Lochhead has some technical thing he wanted to ask, that's his business.

Oumansky: We discussed.....

H.M.Jr: I'm not interested. That doesn't interest me, Archie, what their reasons are. All I want to know is that Russia has ten thousand kilograms of gold, and what they want is the answer, see? - am I ready to buy it? They went around it, from our standpoint, the wrong way. Now, what other questions have you got to ask?

Oumansky: The other question will be just about the same subject, so.....

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H.M.Jr: Please. Are you satisfied on this?

Oumansky: I am satisfied, but my government will not be.

H.M.Jr: Yes, they will be.

Oumansky: Because....

H.M.Jr: Yes, they will be, because I have....

Oumansky: I feel absolutely the spirit of your statement.

H.M.Jr: They'll be satisfied, because all they can ask, Mr. Oumansky, is that we treat them just the same way as anybody else

Oumansky: There is a suggestion to make, and that is that the State Bank offers gold in London which is going to the Federal Reserve Bank, and the Federal Reserve Bank gives an order to the Chase National Bank, for instance - the commercial bank - to buy it for the account of....

H.M.Jr: We don't do that.

Oumansky: You don't.

H.M.Jr: No, we only have one formula.

Oumansky: And the formula is actual shipment to the United States.

H.M.Jr: I'm just trying to convince you that we only do business one way.

Oumansky: Yes, I see.

H.M.Jr: We only have one way of doing business.

Oumansky: I see, I see. Well, I'll transmit that and then we'll just find another... There was a definite misunderstanding.

H.M.Jr: There must have been.

Oumansky: A definite misunderstanding, because the thought was that - it was part of my impression too, from our

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first talk, that - I understand you this way, that the suggestion was that, after direct relations between the State Bank and the Federal Reserve are established, the gold must not necessarily be physically shipped to this country.

- H.M.Jr: I think you must have misunderstood it, because we have worked this thing out most, most carefully - the technique.
- Oumansky: I see.
- H.M.Jr: Now, it's - we've had - it's been working this way now for quite a while, and it's impossible for us....
- Oumansky: I see.
- H.M.Jr: ....to treat any one country different.
- Oumansky: The Ambassador had the same impression in his most recent talk with you, when, if I'm not mistaken, you discussed the question of depositing gold on the account of the Federal Reserve in one of the European central banks. Did you mention Switzerland at that time?
- H.M.Jr: Archie?
- Lochhead: I wasn't at the meeting.
- H.M.Jr: I don't remember.
- Oumansky: The question was, among other things, depositing the gold in the State Bank of the U.S.S.R. for the account of the Federal Reserve Bank.
- H.M.Jr: Oh, that's a different thing.
- Oumansky: I know.
- H.M.Jr: That's different.
- Oumansky: I know, I know. ....and receiving the equivalent in dollars when we need them in this country.
- H.M.Jr: That's something different.

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Oumansky: If I'm not mistaken, you suggested Switzerland....

H.M.Jr: (Nods no) You're...

Oumansky: I was not present myself.

H.M.Jr: The last talk I had with the Ambassador?

Oumansky: The very last, yes.

H.M.Jr: (On phone) Miss Chauncey. - - Miss Chauncey, the last time the Russian Ambassador was in to see me - may I have the notes please.

That's one of the reasons I don't trust my memory, and therefore so much happens every day here that I have stenographic notes made of whatever I say, so that - I can't - I mean I'm dealing in such vast sums, so many countries, so much is at stake, and I don't trust my memory; therefore I make a stenographic report which goes in my safe.

Oumansky: I am prepared to admit, after all, that it can be a pure misunderstanding, too, because I do know your law passed in 1934 which specifies, if I am not mistaken, that gold should be shipped to this country. Isn't that right?

Lochhead: (Nods yes)

H.M.Jr: I'm glad this happened, so that you find out we treat everybody the same - see that we treat everybody the same.

(Miss Chauncey brings in notes of meeting with Russian Ambassador of June 15, 1937)

H.M.Jr: (After reading) Here is this one thing; this is your Ambassador speaking: "And we are ready to sell to your Government if you want the dollars. We are interested in the price of gold - the better the price, the higher the price, the better for us, of course, and we are ready to discuss any possible agreement in this way, in this line, but we are ready to sell to your Government the gold for dollars even if you don't want to have gold exported from our country. We are ready to discuss the possibility

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of deposit of gold in some place without exportation. Any agreement.

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

"Ambassador: Yes. And we are ready to discuss the possibility not to export gold, but to make deposit of gold in certain place, in our bank, in your name, and to get the dollars if you want, of course, without sending the gold to the world market."

Oumansky: I understand.

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

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

"HM, Jr: The movement of the gold." And I say, "Anything you want to ask, Dr. Feis?

"Feis: No, sir."

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

Oumansky: Who's speaking now?

H.M. Jr: That's Taylor.

"HM, Jr: You mean Russian gold?

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

"Ambassador: It is not necessary. I understand you can transfer it to any place you want." That means that we can transfer it to any place we want.

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

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"Ambassador: Yes, yes, of course.

"HM, Jr: Bringing it here also?

"Ambassador: Yes.

"Dr. Feis: I have one question. Did I understand the Ambassador to say his government regards the question of gold production..." - well, that's something else.

I'm going to read that over again. Here's the thing which doesn't make sense to me. I'll read it again. But now I see where he got this idea from. It doesn't - it just doesn't make sense to me. I'll read it again.

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

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

Well now, that's clear. I mean we talked about if we wanted to buy five million dollars worth of gold; he suggested that they'd earmark it in Russia.

Oumansky: Correct.

H.M. Jr: "HM, Jr: The movement of the gold." Then I ask Feis if he wants to say anything and he says, "No." Then comes Taylor: "I suppose that would apply to some third country."

Oumansky: That means earmark it in the central bank of a third country.

H.M. Jr: "It would be a transfer of earmarks to some place else."

White: Mr. Secretary, may I interpose that....

H.M. Jr: Just a minute. "This question of earmark either in Russia itself or in, let's say, Switzerland." Now, what did Taylor mean?

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- White: He meant this, that if you wished to buy gold in Russia and purchase that gold in Russia, for which you gave them dollars here, they could either place that gold on earmark for you in Russia or if you prefer you could say, "I would like that gold to be held on earmark in a third country." It has nothing to do with what - the transaction that you were talking about before.
- Oumansky: I think it is absolutely correct - what you (White) just said.
- White: In other words, I think you (H.M.Jr) were right in your statement and there was no misunderstanding.
- H.M.Jr: Yes, but I can see where it would lead to a misunderstanding, because if after my reading Taylor I don't understand, how, after the Ambassador translates into Russian what he thought I said and it gets over there to the Foreign Office - how should they have understood?
- Lochhead: I think when you referred - he had in mind an earmark of gold in the United States, that you'd be willing to earmark gold for Russia in the United States.
- H.M.Jr: This is confusing, but the thing that I keep repeating again - because all of this stuff is a matter of good faith, and I want to assure you that, having entered this thing, we will treat you just the way we want to be treated - exactly as well as we treat any other country, and you can explain....
- Oumansky: I will.
- H.M.Jr: And that doesn't - I'm willing to say this, that due to that remark of Mr. Taylor I can understand that it might have led to a misunderstanding.
- Oumansky: I see.
- H.M.Jr: Now, you can report that, you see.
- Oumansky: I will. But isn't that suggestion of earmarking in Moscow or - which would probably be preferable - or in a third country - is it something which interests you?

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H.M.Jr: Not particularly, not particularly, because, again, just as soon as we do it for you we have to offer that to every other central bank and every other government with which we have an agreement.

Oumansky: Would it not affect favorably the movement.....

H.M.Jr: Excuse me?

Oumansky: With reference to your domestic situation, would it not affect favorably the movement of gold?

H.M.Jr: Well, Mr. Oumansky, on these gold things, before we decide sometimes just a slight infinitesimal change, we sometimes go day and night discussing it for three or four weeks. Why? Because what we are trying to do here is to convince the world that gold is the best medium for exchange, for goods and services.

Now, we here in America, as far as the buying and selling of gold, have had to do all the thinking, because when you get all through and done - our own people even admit it - we are fixed to gold at \$35 an ounce. England isn't fixed, and now France is no longer fixed, and we have become the only country that is fixed to gold at \$35. Now, before we make the slightest little adjustment, we weigh the thing, we argue, we discuss it; and we have just gone through this whole period of nervousness about gold. They've had this Imperial Conference and the speculators in these gold stocks are - have been whispering around, and they know so much more than I know myself. Now the thing is just quieting down, and frankly, we don't want to do anything at this time that would again start rumors that America is going to do something, as they say, about gold, and you can understand....

Oumansky: I understand.

H.M.Jr: ...it creates nervousness, and...

Oumansky: Yes.

H.M.Jr: ....now the people are just beginning to quiet down.

Oumansky: Yes.

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H.M.Jr: And again, I'm not asking you why - that's your business.

Oumansky: And you do not mind more gold coming?

H.M. Jr: No. No. But that's important. We stand ready to buy...

Oumansky: More.

H.M.Jr: ...more. That's important.

Oumansky: I see.

H.M.Jr: I mean - in other words, the fact that we say we don't take it in London is not a device to make it difficult for you to sell; it is simply a policy which we have been following, which we think is a good policy for us.

Oumansky: I see, I see.

H.M.Jr: But I'll buy your gold right now, this minute - sold! - if you tell me it's going to be delivered in New York.

Oumansky: In New York.

H.M. Jr: In New York, see?

Oumansky: I see.

H.M. Jr: Does that....

Oumansky: I understand perfectly.

H.M. Jr: You understand?

Oumansky: Yes. Now, I don't think that I should repeat what the Ambassador probably has already told you, answering your suggestion about exchange of information.

H.M. Jr: Yes.

Oumansky: If you want, I can say just a few words.

H.M. Jr: I'll appreciate it.

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- Dumansky: I have had in the meantime more correspondence with Moscow on that question, and the spirit of it is that of real preparedness for constructive cooperation. The reaction to your suggestion has come quickly and...
- H.M.Jr: Pardon?
- Dumansky: The reaction to your suggestion has come quickly.
- H.M.Jr: Seems to come very quickly.
- Dumansky: One point they always try to make as clear as possible, and this is that we want the United States to understand the particular characteristics of our national economy.
- H.M.Jr: Particular what?
- Dumansky: The particular characteristics of our national economy, which exclude absolutely any speculative movements on the gold market in the world. Everything is regulated in our country; we export gold only to the amount we need dollars, pounds, and other foreign currencies for our import trade. So that under these circumstances, - it is something like our international agreements about sugar and timber and wheat and others which we entered and entered voluntarily. When we discussed those agreements, we always made it clear that the amount of our home production of wheat, of timber, of other goods, is of no real importance for our partners abroad, but what can interest them is the actual export of those goods, and here we are prepared to cooperate in establishing....
- H.M.Jr: Well, I understand that. Now, I'm not going to argue with you at this time.....
- Dumansky: Yes.
- H.M.Jr: ...whether you can consider gold in the same class that you can lumber, see?
- Dumansky: Yes.
- H.M.Jr: If you don't mind, I differ with you, but that's my private....
- Dumansky: Yes.

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- H.M.Jr: I think there is a difference. I think the visible and the invisible supply of gold have a direct bearing on the price of gold. How much lumber you cut at home and how much you sell in Seattle or Boston or New York - they pay you so many dollars per thousand feet for your lumber in Seattle and New York, and how much you cut at home has no practical relation to the price that you receive at Seattle or Boston.
- Oumansky: Correct.
- H.M.Jr: But I don't believe that that is true of gold. Now, you may say, "Well, Mr. Morgenthau, that's our policy," and as I say - but I think I don't agree with you.
- Oumansky: I see, I see.
- H.M.Jr: And I think it's all the difference in the world whether it's lumber or coal or something else. I mean if Russian coal is delivered at Norfolk, it is worth so much a ton to the Chesapeake & Ohio Railroad as against our domestic coal; it's a question of its having just as many units of heat; and they're buying a commodity which is used up and gone. Now, the invisible supply of gold at home in Russia, I think....
- Oumansky: ...does affect....
- H.M.Jr: It does, and I think possibly some of your economists might study what has happened to platinum. I think there's a pretty good lesson there. And - but far be it from me to...
- Oumansky: I'm interested, of course, to know your point of view.
- H.M.Jr: I think there is all the difference in the world. But I at this time don't particularly care to push it. But I would be pleased if they would think about it.
- Oumansky: I see.
- H.M.Jr: I mean to have your students in international finance study that fact, that there is a difference. I've just gone through two or three years on silver. I went through hell on it, and the whole question was, how much floating silver is there in the world? Some

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said 10 million ounces, some said 20 million ounces; nobody knew. And they went back and they traced the production of silver since the time - way back. Now, the statistics on gold and the production and all that, and this question of how much the world supply is, and in connection with production; it's an entirely - if we're going to use it as a medium of exchange, all the difference in the world, I think. As I say....

Oumansky: With the very important amendment that our country, considering its using gold as a main means of our foreign trade, is of course interested in stable prices in gold.

H.M.Jr: Of course.

Oumansky: It is very important.

H.M.Jr: It's just as important for you. But I wish they would reexamine this thing and simply say, "Is Morgenthau right, that there is a difference between a monetary metal and copper?" Are they the same, or are we right? Now, after all, we've been wrong and you've been wrong on other things. Is that right?

Oumansky: Yes.

H.M.Jr: So I mean it's just this question: Can you think of gold as you would of copper, or as you do of oil?

Oumansky: The implication of different letters I receive is that we are prepared to discuss the export of gold, you see; we do not want to in any way disrupt international markets. But our domestic output is something which, due to the particular character of our economy, must not necessarily interest our foreign partners. That's the point of view.

H.M.Jr: Well, what you say is that you people are interested in keeping the foreign market stable; it is of tremendous importance to us to know that.

Oumansky: Yes.

H.M.Jr: As I told the Ambassador when he brought this message that you were ready to discuss the amount of gold exported - I told him that you people moved too fast

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for me, I couldn't keep up with you. I needn't tell you - I mean I don't know how it is - the human brain can do just about so much - I'm talking for myself - and assimilate so much. I've been up to here (chin) with some of these things, and I haven't been able to concentrate on this question do I or don't I want to continue this very generous suggestion that the Ambassador made - I mean very honestly. And this situation in the international monetary field with France - I mean just a matter of seconds, you see: When they make this new move, what will we do, etc., etc. Well, unfortunately here we always have the emergency, but when it comes down to thinking of the things for two or three years, we don't get time.

Oumansky: I see.

H.M.Jr: And to do the thinking which a subject like this deserves - but we're thinking about it. But I wanted to be - I'm being very honest with you now; if Mr. Chautemps and Mr. Bonnet will be successful, that may throw an entirely different picture; can't tell. I feel - it seems as though nothing will happen over the summer; be quiet enough that I can go away.

Oumansky: And enjoy yourself.

H.M.Jr: I haven't been away in a long time. And just stop worrying. And then if we can come back in September I'll take this thing up fresh. But right now the important thing that seems to have happened - it's too soon - is that the flight of capital from France is stopped. They're gaining, gaining considerably; they have the courage to put into force their tax measures, which they never have so far, as you know - I mean they passed these laws but they never enforced them. And if they tax their profiteers in gold and exchange and go through and raise their price on their railroads, why - and capital goes back, this whole thing - these things change so fast that where two weeks ago everybody was worrying about gold, today if I should speak to some New York bankers and ask him about gold, why, he has a new worry; and the picture has changed so fast.

But I still believe that the time must come next fall

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whenever we are ready, whenever we get around to it, or when anybody else gets around to it, and we'll have to sit down and - the large producers of gold - and talk this thing over. The reason I'm not doing it is because I've been through a terrific strain; my batteries are exhausted, my brain is exhausted. We've got our own house in as good a shape as can be; looks as though we're going to come practically to balancing our budget. And so I'm asking everybody to give me....

Oumansky: A breathing spell.

H.M.Jr: ....a breathing spell.

Oumansky: Yes.

H.M.Jr: And the Ambassador moved quicker than I was ready. Now, can I be any more frank than that?

Oumansky: No, I realize your great frankness.

H.M.Jr: I mean there is nothing - no hidden secret motives or anything else.

Oumansky: Yes.

H.M.Jr: I think we have just done something that will be good for China last week.

Oumansky: Unfortunately, very dramatic events followed immediately that agreement.

White: Didn't follow - preceded.

Oumansky: Preceded. They coincided.

H.M.Jr: I don't think they had any relation.

Oumansky: No, I don't think so either.

H.M.Jr: But the interesting thing is here that, according to our newspapers, it looks as though Japan was going to do something, and the Chinese currency is practically stable. Now, that couldn't have happened a year ago. I mean their foreign exchange hasn't felt the impact of that at all; is that right?

Lochhead: That's right.

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- H.M.Jr: Practically stable.
- Oumansky: Very important.
- H.M.Jr: What?
- Oumansky: Very important.
- H.M.Jr: Oh, it is very important for them if they can keep the yuan stable.
- Oumansky: No doubt your agreement with China is of great importance.
- H.M.Jr: I told Dr. Kung that fifty years from now it may seem a great deal more important than the tripartite agreement.
- Oumansky: I think you're right.
- H.M.Jr: Fifty years from now I think it may be a great deal more important than the tripartite, because it gave them just what they needed in the monetary field.

FEDERAL RESERVE BANK  
OF NEW YORK

*M. C. C. Greene*

OFFICE CORRESPONDENCE

DATE July 12, 1927. 168

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH  
DE NEDERLANDSCHE BANK.

L. W. Knobe

I called Mr. de Jong at 12:08 today and discussed the French situation with him; the franc was a little better but there had as yet been very little repatriation of capital; buying so far had been mostly for the purpose of covering short positions. Tomorrow was a critical day in France because of the meeting of the Socialist Congress. Nobody knew what was going to happen. Early last week there had been a rumor to the effect that this Congress would pass a resolution which would compel the socialistic ministers to resign but of late that rumor had died down. He did not think anything untoward would happen and expected the French franc to be better.

I then referred to his cable request for an offer of \$10,000,000 Treasury bills. I told him that it would be difficult for us to make any firm offer now good overnight because dealers were hesitant to bind themselves for that length of time in view of the very substantial demand for this kind of paper, that had come into this market from abroad; however, I could offer him now firm good for reply here at one o'clock today, our time, \$5,000,000 Treasury bills maturing September 18 and \$5,000,000 Treasury bills maturing September 17 at .28½ net. I added that it was difficult to get longer term bills at the moment. If two months maturities did not interest him, I suggested that he leave an order with us for a couple of days at .28½ net, thus giving us a fair chance to pick them up. de Jong replied that he would rather do the latter because the paper

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 12, 1937.TO: CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM: L. W. KnakeDE NEDERLANDSCHE BANK

- 2 -

which they had already purchased was mostly September maturities and two months paper therefore did not suit him particularly. What he was interested in were October maturities. As I finally understood it, today being too late for him to do anything, he would try to give us an order tomorrow or the following day along the lines suggested.

I then made reference to his cable of June 30 in which he requested us to open on our books in the name of the Netherlands Bank a special dollar account designated "B" and asked whether (in line with the last sentence of our cable No. 62 of November 24, 1936) it was to be understood that all transactions booked over this new account "B" were conducted under the September arrangement of the treasuries. de Jong answered very emphatically that this was so and explained (but I did not understand entirely) that account "B" represented equalization fund money and that the account was opened in connection with the September agreement. In reply to my question he also stated that his cable of June 30 dealt only with his dollar account, not with the gold account.

LWK:ENC

July 12, 1937.  
2:16 p.m.

H.M.Jr: Hello.

Knoke: Yes, Mr. Secretary.

H.M.Jr: Knoke.

K: Yes, sir.

H.M.Jr: What do you mean by selling so much sterling, gold and all that stuff.

K: Well, don't you believe in giving the people what they want.

H.M.Jr: Yes. Well now - why - what's the explanation why the New York banks want it?

K: The explanation has been two-fold for the last few days, none of the two reasons being very convincing.

H.M.Jr: That's why I'm calling Mr. Knoke because I'm not convinced either.

K: Well, he is no better than the rest.

H.M.Jr: Well now listen -

K: The reason people are - the rumor in the British - in the French press that the are off between the Treasury here and the Treasury in Paris with a view to giving to each other information as to each national holdings in the other countries.

H.M.Jr: Well, if that'll make them buy gold, I'll ...

K: has supposedly ditched the French out of dollars into sterling.

H.M.Jr: Well, if that's the reason can't we give them a little foundation.

K: Well, of course I - I told as late as last Thursday that from my personal - from my own contacts I didn't believe there was any such negotiations on.

H.M.Jr: Well, don't discourage it too much, because if it'll help us unload the gold why maybe I can start a rumor.

K: Yes, that's - I wouldn't suggest that.

H.M.Jr: What!

K: I wouldn't suggest that.

H.M.Jr: Why not?

K: Because there are some rumors on the market already.

H.M.Jr: Listen, don't you want to sell a little gold?

K: Why, certainly.

H.M.Jr: Well.

K: Certainly.

H.M.Jr: Well, I'll - I wish - I've been joking up to now. I wish you'd really give me an explanation, which is reasonable, see - I mean, I'd like to know. Nothing that I've heard so far, makes more sense you know.

K: Yes.

H.M.Jr: And I keep digging at these things until I do know.

K: Well, I have - I thought but I swear so far nobody has been able to explain it satisfactorily.

H.M.Jr: Now - listen - What does the Bank of Manhattan want to buy sterling for?

K: They say commercial demand. And I think commercial demand is primarily for an order from abroad. Now that brings me to the next point that although our figures here don't show it, the world is convinced that there has been a heavy short division in sterling.

H.M.Jr: Now, let me ask you. What's the name of the foreign exchange Vice-President of Bank of Manhattan?

K: Schubart.

H.M.Jr: Yes, well he's a smart fellow.

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K: He's what?

H.M.Jr: He's a smart fellow. Have you talked to him?

K: Why, no, I haven't talked to him on this yet.

H.M.Jr: Would he tell you?

K: Yes, - he would tell me something, Mr. Secretary. I don't know to what extent I could get the right dope. .

H.M.Jr: Well - I don't want to - I've got to rely on you, you know.

K: Yes.

H.M.Jr: So you keep plugging on it, and see if you can't get an answer which satisfies you.

K: Yes.

H.M.Jr: Will you?

K: Yes, certainly I shall.

H.M.Jr: Well - with these new movements I keep asking until I got something. Now, I mean I'm delighted to see it but I just like to be fairly intelligent about it, that's all.

K: Well, I'll ask . I don't know.

H.M.Jr: I don't - I just - I don't.

K: It's always - you see, it's a little delicate to ask.

H.M.Jr: Well, I'll leave it to you.

K: Yes.

H.M.Jr: Use your own connections.

K: All right, sir. I'll try and call you back a little later.

H.M.Jr: All right.

July 12, 1937.  
3:56 p.m.

H.M.Jr: Hello.

Knoke: Yes, Mr. Secretary. I spoke to Schubart

H.M.Jr: Yes.

K: He said he had at noon time today sent a cable to his friends in London from whom he had been getting the order telling them that he can't understand the strong demand for sterling and would they please explain.

H.M.Jr: Yes.

K: He has received no reply so far.

H.M.Jr: Yes.

K: His orders have been coming in regularly from London and he thinks it's the French movement of capital through London for the reason that I suggested before making negotiations between Washington and Paris.

H.M.Jr: I see.

K: I checked with all the others, and find that Yokohama has been a buyer - he has been a steady buyer, we know why - that's the proceeds of the gold.

H.M.Jr: Who has?

K: Yokohama -

H.M.Jr: Oh yes.

K: The Jap. Then the Manhattan's orders had been from London, as I said before, and he thinks it's French movement.

H.M.Jr: Do these people want to get out of dollars?

K: Pardon me.

H.M.Jr: Getting out of dollars.

K: Yes, sir.

H.M.Jr: Uh-huh. It's all right -

-2-

K: The Guarantee has an order from Brazil for a hundred thousand and so has the Chemical.

H.M.Jr: A hundred thousand what?

K: Pounds.

H.M.Jr: Uh-huh.

K: So has the Chemical, about a hundred and fifty thousand pounds.

H.M.Jr: I see.

K: On the other hand the Guarantee had an order from the Argentine to sell a hundred thousand pounds.

H.M.Jr: They'd better get together.

K: Yes - well, he did. At least he could sell that to Commercial company.

H.M.Jr: I see.

K: But, generally speaking the market is convinced rightly or wrongly that this is a repatriation of French, also Dutch and Swiss money because of the

H.M.Jr: I see.

K: Now, because of the strength of sterling and then the market also brings, as I said before, that there is a short position which we cannot prove here.

H.M.Jr: All right, well keep at it.

K: Yes, sir.

H.M.Jr: Thank you.

July 13, 1937.  
After 8:15 a.m.

H.M.Jr: How is business today?

Knoke: Well, everything is up again, sterling, particularly also the old that's the guilder and the Swiss franc and the belga.

H.M.Jr: Uh-huh.

K: Which would indicate - of slides of capital into those currencies or repatriation of money.

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

K: Which would be - which I would consider a very helpful sign.

H.M.Jr: Oh, yes.

K: Gold again is fixed slightly above New York shipping parity 74.78. The Bank of France is still trying to hold the franc down.

H.M.Jr: My thought is not to touch our gold in London, but to bring back our gold from Belgium.

K: Why - I think we only have a million dollars in Belgium.

H. M. Jr: No, we've got about eight in Belgium.

K: No, seven is on the way.

H.M.Jr: Yes. But I mean -

K: The other would have to us if we could have had insurance at the time.

H.M.Jr: That's right, but we thought we'd clean up our Belgian gold.

K: Yes.

H.M.Jr: And we got it roughly, they tell me a hundred million of English gold. We'd thought we'd leave that with the hopes that we could sell it.

K: Leave it in London.

H.M.Jr: Yes.

K: Well, I'm heartily in favor of that.

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H.M.Jr: Yes, but clean up the Belgian gold.

K: Yes. Yes, we have in London about a hundred and I think the Belgium probably -, shipment is being arranged now.

H.M.Jr: Yes.

K: Of course, it always takes a few days there because they haven't the - any boats - American boats.

H.M.Jr: But you agree with that?

K: Oh, yes. Yes, I think gold in London is always handy.

H.M.Jr: But clean up the Belgian gold.

K: Yes.

H.M.Jr: I'm glad we've got as much gold as we have in London.

K: Well, that might come in very handy.

H.M.Jr: Yes. Have a couple of more days like yesterday.

K: Yes - yes, yes.

H.M.Jr: Well keep at - inquiring, will you?

K: Yes, I shall.

H.M.Jr: Thank you.

LMS

GRAY

Paris

Dated July 13, 1937

Rec'd 4:25 p. m.

Secretary of State,  
Washington.

966, July 13, 4 p. m.

FROM COCHRAN.

Paris exchange market and all banks closed this afternoon and 14th. Late yesterday evening French control had to yield sterling which left little gain of foreign exchange on balance for the day. Paris American Bank bought one and one fourth million dollars for control yesterday. This morning control acquired fair amount of sterling. Feature of exchange has been heavy sale of dollars by Japanese. French hotel and restaurant situation unsatisfactory and atmosphere tense. This is not conducive to capital return or to rise in Government securities.

BULLITT

SMS:NPL

July 13, 1937.

Dear Mr. Witt:

Thank you for your letter of June 26th and for sending me a copy of the memorandum dealing with the investigation of narcotic smuggling in Europe. I was glad to have your viewpoint on the whole situation as well as your praise of Mr. Scharff personally.

Mrs. Klotz sails from New York on July 14th, and I know that this year, as in the past, you and your staff will extend her every courtesy, both personal and official.

With all good wishes,

Sincerely,

(Signed) H. Morgenthau, Jr.

Hon. Bernard Witt,  
Supervising Treasury Attaché,  
United States Embassy,  
2 Avenue Gabriel,  
Paris, France.

HW/m/che



EMBASSY OF THE UNITED STATES OF AMERICA  
OFFICE OF THE TREASURY ATTACHÉ  
CUSTOMS

CABLE AND TELEGRAPH ADDRESS  
SPAGENT, PARIS

2 AVENUE GABRIEL  
PARIS, FRANCE

June 26, 1937.

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

PERSONAL

Dear Mr. Secretary:

Herewith is a copy of a letter addressed to the Commissioner of Customs relative to the investigation of narcotic smuggling in Europe, as I see the situation at the present time. Commander Thompson probably has discussed the matter with you since his return to Washington, and my impression is that our views are quite similar both as to the present situation and what should be done in the future.

The question of personnel is of the utmost importance. Many discouraging things are met with in trying to get information, and under the conditions in which work has to be done in foreign countries, it is absolutely necessary to have a dependable personnel, trained in investigative work, with a good working knowledge of a foreign language. I trust the suggestions in my letter to the Commissioner, especially those concerning the men now having a clerical status, will receive favorable consideration.

May I add something about Mr. Alvin F. SCHEARFF, Customs Agent detailed to this office for the past four months. He has had full charge of the narcotic activities since his arrival, as I have been absent from Paris and engaged on other work. He has shown great ability in handling the situation, has devoted his entire time to the matter, experimenting with new methods to produce better results, and now has an organization functioning which, I believe, in time will produce results. I am glad to bring his work to your attention, as I believe he merits favorable consideration when he returns to the U.S.A.

With kindest regards, I am

Respectfully,

*Bernard Wait*  
BERNARD WAIT  
Supervising Treasury Attaché

BW/ES

C O P Y

Bureau of Customs,  
Investigative Unit,  
Treasury Department,  
Washington, D. C.

Sir:

Under date of June 23, 1937, I forwarded a memorandum prepared by Acting Treasury Representative Scharff, relative to conducting narcotic investigations in Europe. With respect to general conditions, the following additional observations are submitted.

When this office took over the narcotic investigative work in Europe, on November 1 last, five men were assigned to the work, Messrs. Reers and Bruner, treasury representatives, and Messrs. Dyar, Vachon and Violet, detailed from the Bureau of Narcotics. The problem confronting the office was discussed and it was decided that one of the principal things to do was to contact police officials and to make arrangements for their cooperation. At the same time informers were to be contacted for information concerning shipments, carriers and sources of supply, and American embassies, legations and consulates were to be visited for the purpose of securing their cooperation.

It was presumed at this time that official notice would be given the American embassies, legations and consulates in Europe, as well as the foreign governments, of the new arrangements of the Treasury Department in handling narcotic work. Officials in France, Belgium, Germany and Great Britain were contacted immediately, but some time

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was lost in contacting other governments waiting for such notice to be sent out.

When it was apparent that the notice referred to would be delayed, other officials were contacted, with some confusion and embarrassment, as it was not apparent to some why they had received no notice of a change in practice.

During the first week in May I learned unofficially that the American embassies, legations and consulates had been notified in April of the change in organization of the Treasury offices in Europe. So far as I know, no foreign government has been so notified, but this office is left free to contact foreign officials with respect to narcotic work.

By the middle of February contacts had been made with the principal government and police officials who could be of assistance in narcotic work. Mr. Violetta had been working in southeastern Europe; Mr. Dyar had been stationed in Antwerp, to cover Holland also; Mr. Beers was working in the German ports, while Mr. Brumer and Mr. Vachon were in Paris and also covering French ports.

About this time Commander Thompson arrived accompanied by Messrs. Scharff, Christides and Stuhldreher, the latter three being assigned temporarily to this office. With the permission of the Bureau, Mr. Scharff was placed in charge of the direction of narcotic work, in which he had a free hand until about two weeks ago. Mr. Stuhldreher was sent to Hamburg, and Mr. Christides to Athens and Istanbul.

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For the past three months Mr. Scharff has followed quite closely suggestions made by Commander Thompson, as well as initiating many new practices for the investigative work. Many experiments have been made, all looking toward a solution of the problem confronting the office, that is, the best way to use the men available to obtain the most and best information. The experiments have been followed by me with great interest, for I am as anxious as anyone to find a method of operation that will produce results.

Without discussion of the experiments made to obtain information, I would like to state my own ideas of what should be done in the future.

The chart submitted with Mr. Scharff's memorandum shows the situation in Europe. Paris undoubtedly is the key point of control; Vienna a secondary point from which to contact the police and other officials in eastern and southeastern Europe.

With respect to the various ports, Marseilles is extremely important and an agent should be stationed there. Shipping from Nice would be covered from Marseilles.

Athens and Istanbul are good listening posts that may give information as to source of supply; perhaps of smuggling, and both should have an agent at the present time. The permanent assignment of Mr. Christides would fill one place, provided he desires to live in Europe. His knowledge of the Greek and Turkish languages makes him valuable. With training, he should be a most useful officer in southeastern Europe.

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One narcotic agent probably is sufficient for Italy at the present time. Mr. Paterniti would be desirable for narcotic work, but someone else would have to be appointed for customs work. Mr. Paterniti was detailed to narcotic work for one month, showed considerable ability, but it was necessary to return him to his regular duties on account of the large number of cases pending. All Italian ports are easily reached from Milan. Two men at Milan, one for customs cases and one for narcotics, is my idea of what is needed at the present time.

The outlet for Germany is Hamburg. Mr. Beers has the situation well covered and, further help is not necessary there as long as Mr. Beers is available.

Belgium and Holland can be covered by an officer stationed at Antwerp. Mr. Dyar is there at the present time, working in close cooperation with the consul general.

Havre, Cherbourg, Dunkirk and Calais can be covered from Paris. Havre probably is the worst spot and it might be feasible to have Mr. Vachon at Havre most of the time.

At Paris one man is needed to do desk work and two to be free to go anywhere in Europe as may be necessary. It is my intention to put Mr. Butler on desk work as soon as he returns from vacation, to replace Mr. Scharff who is due to return to the United States this fall. For a free man to travel where necessary, Mr. Brumer will meet all requirements. He knows several languages, is an excellent investigator, and he can be depended upon to do the work assigned to him.

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Either Mr. DeLagrove or Mr. Schlager might be assigned to narcotic work for the other man, provided a replacement is furnished for market value work.

Vienna is important and a good agent is required for the post. Mr. Violett is now stationed there and he has made contact with many of the police officials in the surrounding territory. It has been difficult to judge the value of his work. If he should be left in Marseilles, it seems to me the situation would be well covered by returning Mr. Beers to Vienna, and by giving him Mr. Pogliès as an assistant, with a clerical status.

The above plan would require additional men as follows:

<u>Place</u>	<u>Language</u>
1 Athens or Istanbul	French, Greek or Turkish
1 Milan	Italian
1 Hamburg	German
1 Paris	French
1 Vienna	German

It seems to me to be advisable that the Bureau decide immediately the status to be required for investigators on narcotic work.

Treasury Representatives are required to have a civil service status, and positions are filled only from civil service registers or transfer after five years customs experience.

Messrs. Dyar and Violett are American citizens but they have no civil service status. Both are on temporary detail from the Bureau of Narcotics until July 1, 1937.

Messrs. Paterniti, Vachon and Pogliès are not American citizens. The

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first two are clerks, both with the government many years, both reliable and valuable investigators. Due to civil service requirements and their alien citizenship, they cannot be given the title of Treasury Representative. Regardless of future policy, it is my belief that they should be retained in the service. Mr. Pogliès is an alien, rated as a messenger. He is well educated, has excellent connections, speaks several languages, and probably would be very valuable as an assistant to an agent stationed at Vienna. If given such a status, I believe he should be made a clerk with a salary of \$1700 and authorized to travel. If this is done, it will be necessary to employ another messenger at a salary of about \$50 per month.

It is my opinion that the entire European staff should be built up of trained investigators, having a civil service status, who can do both narcotic work and other customs work. A man may spend days in a place primarily interested in a narcotic case, with nothing to do while waiting for something to happen. In such instances his time could be used to advantage on work in connection with other smuggling, undervaluation or market value work.

It has been suggested to the Bureau that in the future clerks assigned to the Berlin, Paris and Vienna offices be young men who have passed a suitable civil service examination (probably that of junior civil service examiner), that they be selected with the view of making them customs agents and treasury representatives, that they be required to live with a native family for two or three years to become fluent in a foreign language, that after being abroad two or three years they

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be appointed assistant customs agents in the United States. This suggestion, if adopted, would build up in the United States a corps of trained investigators, speaking a foreign language, available to fill vacancies in the foreign service.

At the present time there are eight men clerks in the European offices without civil service status. Any ambitious young man will not be satisfied to remain in a clerical capacity indefinitely. Those that are satisfied are not the kind of men the service needs.

Mr. Allen, when in the United States, took the Junior Civil Service Examiner examination. He passed with a very good rating. He speaks both French and German and in my opinion is good material for the investigative service. It is recommended that every effort be made to give him a classified status in his present position and as soon as this is done that he be transferred to the United States as an assistant customs agent. After training in the agency service at home, he will be ready for transfer abroad.

Mr. Griffin has passed a typist examination. This should be used to give him a classified status, with the view of returning him to the United States as an assistance customs agent, and later returning him to Europe. He is proficient in the French language and I believe him to be good material for the agency service.

Mr. Henderson took the Junior Civil Service Examiner test recently in Washington. He has not received his ratings. I do not know whether

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the other clerks have taken or passed examinations. Messrs. Burton, Hall and Roach look like good material. It might be feasible to have them classified by executive order.

Work in a foreign country is quite different from that in the United States. Knowledge of a foreign language is essential. It is more expensive for an American to live in a foreign country, according to our standard of living, than it is for a foreigner to live in his own country. For that reason the salaries should be liberal. Investigators assigned abroad should have at least \$3200 per annum, with yearly increases of \$100 for the first five years. At the present time in Europe in the \$3500 class is one man who entered the customs service in 1923, one in 1924, two in 1927, four in 1930, three in 1931, and one in 1936. Some of these men are discouraged at the outlook for the future and they get no encouragement from the fact that new men receive the same salaries they were given six or seven years ago. A greater spread in salaries is necessary to make a well balanced organization and to encourage those who have rendered efficient service for several years.

The Bureau was telegraphed several weeks ago that more men were needed for narcotic work, and that if it was not feasible to send trained narcotic men, treasury representatives would be acceptable who could do market value work and relieve some of the present staff for narcotic work. To date no appointments have been made.

Narcotic work is very difficult, inasmuch as there is no definite

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information on which to work. No one knows the quantity of narcotic drugs smuggled into the United States although estimates run up to 15 or 20 tons annually. The few seizures made indicate certain points of origin and these places must be worked in the hope of getting information. Reliable informers are difficult to find—the business itself is such that few people know what is going on. Some informers make wild guesses, in hopes of getting awards, but such guesses seldom produce results. Informers should be paid liberally, but in my opinion only when results are produced. Subsidizing informers in the hope that some day they will produce results seems to me unsatisfactory. To my mind it seems better to let them know they will be paid liberally for any information proving to be of value, but not to pay until the information is delivered and proved.

Police cooperation is essential and at times it is worth while to furnish police officials with money for the assistance they give. Establishing this cooperation, in order to get information and to follow up cases, along with trying to find and interest informers who may be in a position to give valuable information, seems to be the best lines along which narcotic work in Europe is to be conducted. It is a difficult task, requiring men of unusual intelligence and ability. Great care should be taken in choosing men, as the question of personnel is of the greatest importance.

Respectfully,

Bernard Wait,  
Supervising Treasury Attache.

## MEMORANDUM OF THE DAY'S ACTIVITIES

July 13, 1937

To: Secretary Morgenthau  
From: Mr. Magill

1. Undistributed Profits Tax

Senator Glass called me this afternoon to make an appointment for me to see Mr. Vance McCormick relative to proposed changes in the Undistributed Profits Tax. Mr. McCormick proposed (1) that corporations whose current assets were less than twice their current liabilities should be permitted to accumulate earnings to restore this ratio; and (2) that the first 20 or 25 percent of undistributed earnings should not be subject to the tax. He wanted to know whether the Treasury would oppose the adoption of these amendments as part of the revenue bill which will result from the present hearings. I told him that we would and pointed out that the President had specifically stated that amendments of this character were not to be considered at this time. Mr. McCormick said he had talked to Senator Harrison and Mr. Parker, both of whom had told him that no such amendments would be adopted now without Treasury approval.

2. Tax Investigation

Mr. Irely has a number of suggestions to make for improvement of the efficiency of the Bureau administration, arising out of his observations during the current investigation. I have asked him to prepare a detailed set of recommendations to be presented to a meeting Thursday afternoon which will be attended by the Commissioner, Mr. Russell, Mr. Oliphant, Mr. Shafroth, Mr. Irely and his assistant Mr. Burford.

*Rm*

INDEX OF EVENTS  
IN CONNECTION WITH  
CONVERSATIONS BETWEEN SECRETARY OF THE TREASURY  
AND CHINESE DELEGATION

*Ref. no. 51,114,1437*

NOTE: FIRST REFERENCE TO POSSIBILITY OF CHINA SENDING REPRESENTATIVE TO UNITED STATES TO DISCUSS SALE OF SILVER AND CHINA'S MONETARY PROBLEMS WILL BE FOUND IN CONFERENCE BETWEEN SECRETARY MORGENTHAU AND AMBASSADOR SZE ON

February 10, 1936

President told HM, Jr there is no objection to Chen coming to US

February 10, 1936

Cable from Nicholson giving background of K.P. Chen who will head Chinese delagation.

February 10.

Cable from Buck giving his appraisal of K. P. Chen.

February 10

Cable to Treasury Attache Nicholson instructing him to accompany K. P. Chen to the States.

February 11

Cable from Secretary Morgenthau to Buck instructing him to advise Kung or Soong that Kung will be acceptable to Treasury Department as Chinese representative. ✓  
Chen

February 17

Cable from Secretary Morgenthau to Buck advising him that he, the Secretary, will be on short vacation from March 20 to April 5 and that Nicholson should arrive the same time as Chen.

February 18

Cable from Muck advising Kung requests detailed statement on nature of matters to be discussed by Treasury and Chen, so Chen may be instructed accordingly. Chen has changed sailing date to March 24 to arrive San Francisco April 8.

February 19

Cable from Buck that Kung again appreciates support of China's monetary system.

March 4

Cable to Buck instructing him to suggest to Kung that it will be helpful to both Chen and Secretary Morgenthau if Chen is instructed to confine conversations while in United States to monetary subjects only.

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March 14, 1936

Cable from Buck advising that Chen sailed last night on the PRESIDENT PIERCE; Kung's attitude one of hearty cooperation with United States Treasury; brief statement of China's monetary program.

March 16

Cable from Buck that HM, Jr's cable of March 4 helpful to China.

April 1

Cable from Buck transmitting message from Kung that China is in great need of further financial support and Secretary's statement on success of monetary policy helped tremendously; desires United States buy more silver at prices advantageous to China.

April 4

Memorandum from Mr. Lochhead to Secretary, outlining possible objective of Chen's visit and methods by which Chinese may be able to utilize silver in their monetary system to obtain foreign funds.

April 4

Memorandum from Johnson, U.S. Treasury Attache, Shanghai. (1) A General Survey of the Latest Political Situation in Nanking; (2) Nanking's Position with USSR and Japan, dated April 7.

April 8

First formal conference with Chen, at which Chen presented letter to Secretary from Dr. Kung, Chinese Minister of Finance, dated March 11. HM, Jr. asked for detailed information concerning financial picture of banks of China.

April 8

Memo to Secretary from Mr. Haas, "Condition and Status of loans to the Government of China made by the Grain Stabilization Corporation in 1931 and by the RFC in 1933.

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April 9, 1936

Conference with Chen, who presented second letter from Kung, dated March 9, with two memoranda, "Financial Position of Chinese Government" and "China's Monetary Policy." Discussion included following topics: Chinese policy on use of silver in yuan and half-yuan; metallic reserves of China; China's commercial relations with Germany, France and Russia; Russian-Japanese situation, and Japanese activities in North China.

April 10

Memorandum to Secretary from Mr. Haas, "China's February foreign trade."

April 12 (See April 13)

Secretary Morgenthau entertained at stag dinner at his home in honor of K. P. Chen and Chinese delegates accompanying him

April 14

Conference with Mr. Chen in Secretary's office. Chen presented Secretary with memoranda on the Bank of China, Central Bank of China, Farmers Bank, Bank of Communications, funds of the Boxer Indemnity and agreement with Otto Wolf, in answer to request of April 8. Matters discussed: possibility of China operating between sterling and dollar, rather than being linked to sterling; possibility of China's sending silver to San Francisco or New York and their borrowing against that silver, similar to Mexican arrangement; possibility of U S buying 5,000,000 ounces a month, beginning with May; again discussed quantity of silver in Chinese coins.

April 17

Memorandum to the Secretary from Mr. White, "China - Her Exchange Situation."

April 18

Cable from Buck that Kung appreciates time given to Chen and that anything done to help China is also help to United States and world.

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April 20

Cable from Buck giving results of London sales by China, as suggested by Secretary Morgenthau.

April 20

Memorandum from Mr. Knoke, New York Federal Reserve Bank, of luncheon to be given tomorrow to Mr. Yutaro Tomita, Financial Commissioner of the Imperial Japanese Government.

April 20

Memorandum giving background and duties of position of Financial Commissioner Yutaro Tomita.

April 20

Memorandum from Mr. White - "China - Monetary Situation."

April 20

Conference with Mr. Chen in Secretary's office. Mr. Chen presented two memoranda, "Memorandum on Increasing the Liquidity of the Cash Reserve Against Note Issues of the Chinese Government Banks," and "Memorandum on the Question of the Independence of the Chinese Currency," as requested in conference of April 14.

April 21

Conference in Secretary's office with Mr. Chen, who asked about sale of silver to the United States. Secretary asked definite reply to suggestion that China would free her currency from any other currency, and amount of silver to be put in China's subsidiary coins.

April 21

Cable from Buck. Kung gives reassurance that China has no intention of selling all her silver and that she will use silver in 50 cent token coins and as reserve, but another sale of silver is necessary for larger foreign exchange stabilization fund.

April 21

Memorandum from Dr. White to Secretary, "China - New Silver Coins."

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April 24

Memorandum to the Secretary from Mr. Taylor reporting on conference of Chinese representatives with Mr. Taylor, Mr. Lochhead and Mr. White, on April 23. Summary: Proceeds of sale of silver by China; New silver coins; Increased use of silver in the arts; Silver reserve against note issue; Fixing of the yuan exchange rate.

\* April 27April 28

Chen met with Secretary. Secretary advised Chen that he had received message that Kung was disturbed over prospect of National City Bank making loan to the Canton Government. Secretary advised Chen he could cable Kung no loan would be made by National City Bank.

April 30

Cable received at Customs from Buck inviting Dr. Warren to come to China to advise on monetary and agricultural problems.

April 30

Cable to Buck from Secretary Morgenthau advising such a trip would undoubtedly be interpreted as having great monetary significance and unofficially suggesting it be postponed.

May 1

Memorandum from Mr. Taylor to Secretary reporting on conference held in Taylor's office with Mr. Chen. Subjects discussed: Industrial use of silver; Silver coins; Silver reserves; Yuan-dollar-sterling exchange rate.

May 2

Memorandum to Secretary from Dr. Viner stating his personal comments on pending conferences.

May 6

Memorandum from Mr. Taylor to Secretary analyzing memo of Chinese representatives on increasing the use of silver, independence of Chinese currency and increasing liquidity of cash reserves against note issue of Chinese Government banks.

May 12

Conference with Chinese delegates to discuss draft of April 27. Taylor and Lochhead's conference with HM, Jr to discuss cable from Buck re rumor Canton Govt will ask Nat'l City Bank for loan with silver as security.

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Chinese announcement to the press. At this meeting Chen proposed US increase its purchase of silver to 75,000,000 ounces. HM, Jr. took matter under advisement.

May 14

Memo to Secretary on final steps in concluding conferences with Chinese.

May 14

Memo dated May 15 from Taylor to Secretary on meeting held with Chinese at Secretary's home, evening of May 14.

May 15

Memo from Taylor to Secretary on meeting held with Taylor, Lochhead and White, 12 o'clock, May 15 in Taylor's office.

May 18

Announcement of Chinese Minister of Finance, of Chinese measures of monetary reform.

May 18

Press conference at which Mr. Sze read announcement of Chinese Minister of Finance and Secretary Morgenthau read Treasury announcement.

May 18

Cable from Buck advising Kung anxious to give Secretary distinct recognition for friendly and helpful cooperation.

May 18 (and 19)

Various ticker services reports of announcements to the press by Chinese and U. S. Treasury.

May 22

Chen's two letters to Secretary outlining proposals of Chinese Minister of Finance for further measures in connection with China's monetary reform. (See May 27)

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May 19 - May 23

Foreign press comment on silver agreement with China.

May 25

Letter to Federal Reserve Bank of New York inclosing authorization, as fiscal agent of Treasury, to write to Central Bank of China and to carry out instructions in regard to purchase of silver.

May 27

HM, Jr.'s acknowledgment of Chen's two letters of May 22. HM, Jr. is forwarding instructions to Federal Reserve Bank of New York.

May 28

Letter from Secretary to Mr. Chen advising him Federal Reserve has been instructed to act for Treasury and expressing gratification at successful outcome of conversations.

May 29

Telegram from Chen announcing he is sailing on Bremen and expressing appreciation for kindnesses while in Washington.

June 12

Editorial, Washington Herald, "Morgenthau's Wise Pact," commending HM, Jr. for intelligent handling of the Chinese currency situation.

June 19

State Department transmits portion of cablegram from American Consul General at Canton that reports from bankers and very reliable sources indicate much progress in Nanking's negotiations for adoption at Canton of national currency.

July 27

Ambassador Sze's letter transmitting confidential memo from Dr. Kung to Secretary -- General Outlook of the Charter of the Central Reserve Bank of China.

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July 28, 1936

Ambassador Sze's letter transmitting copy of letter from Dr. Kung to Mr. Cyril Rogers urging him to extend his stay in China for three to six months in connection with establishment of Central Reserve Bank of China.

Sept. 5

State Department encloses copy of letter, dated August 3, 1936, from Chen, expressing appreciation of courtesies and facilities extended to him by Treasury Department.

Oct. 1

Newspaper Comment on the Recent Monetary Agreement between the United States, Great Britain and France. (Filed Stabilization Folder)

Oct. 2

Request from Central Bank of China for withdrawal of lump sum of \$7,000,000 from their account at Federal Reserve Bank of New York to replenish its working balance.

Oct. 3

HM, Jr's instructions to Lochhead to send cable to China authorizing Central Bank of China to withdraw \$7,000,000 in lump sum with understanding that proceeds of silver sales are to be used only for stabilizing Chinese currency.

Dec. 10

Nicholson's letter to Mr. Lochhead including memorandum from Central Bank of China explaining their reasons for wishing to sell silver in London through an intermediary.

Dec. 17

Haas' memo "Recent Political Developments in China". (This memo given to President for his information.)

Jan. 22, 1937

HM, Jr's cable to Buck, in Shanghai, informing him of Ambassador Sze's call and instructing Dr. Buck to see General Chiang Kai Shek to inquire his internal and external policy for China during 1937.

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Jan. 25, 1937

Ambassador called to give HM, Jr. answers to his questions asked in the meeting of January 22. Sze says attached article in New York Times of January 11 from Hong Kong is authentic.

Jan. 27

HM, Jr instructed Taylor to tell Chinese Ambassador he will extend borrowing privileges only for month of February; also to tell Ambassador HM, Jr wants General Chiang Kai-Shek to see Professor Buck. Buck's cable: time not auspicious.

March 24

Letter from State Department transmitting Cable 127 from American Embassy, Nanking, that Kung is going to England as special envoy to attend Coronation. Unconfirmed reports that T. V. Soong also will go. If this is true, may be some conversations on financial matters.

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March 26, 1937

State Department's letter transmitting Cable 133 that Kung and Admiral Chen are leaving China for London on April 2. Chiang Kai Shek will head Finance Ministry during Kung's absence; while financial conversations would be held in London, result would probably be that China would merely receive large credits and a quantity of "war junk".

March 26, 1937

Nicholson's cable that Central Political Council has approved plan for reorganization of Central Reserve Bank.

April 3, 1937

Nicholson's biographical sketches of those who will accompany Dr. Kung.

April 6, 1937

State Department letter transmitting cable 151 and cable 152; rumors that Dr. Kung hopes to obtain sizeable loan from Great Britain; T. K. Tseng did not accompany Kung and party; Tseng is considered important member because of expected financial conversations.

May 11, 1937

Ambassador Sze's call on HM, Jr reporting cable from Dr. Kung in London that he will be in Washington to personally thank the President and HM, Jr and inquiring if US is interested in buying Chinese silver on deposit with Federal Reserve. HM, Jr says he has no ideas of buying the silver.

May 27, 1937

State Department transmitting cable 219 of May 26 from American Embassy, Nanking, that Kung plans to confer with the American authorities regarding the Chinese-American silver agreement.

June 4, 1937

State Department transmitting cable 734 from American Ambassador, Paris, reporting his conversation with Dr. Kung on Chinese loan negotiations with Great Britain.

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June 10, 1937

State Department transmitting part of No. 356 from American Ambassador at London relating to Chinese loan negotiations with Great Britain.

June 21

Cable from London Embassy re Kung's loan negotiations in London.

June 30

Chinese Ambassador and Dr. Kung call on the Secretary. Dr. Kung referred to a previous request for permission to invest Chinese funds in American (US Govt) securities. HM, Jr said Federal Reserve will do it for China just as they do for other Central Banks.

Dr. Kung broached subject of purchase by US of two lots of silver held on deposit in this country. HM, Jr said he would take it under consideration.

July 6

Taylor's memo to the Secretary reporting several conversations with Dr. Kuo regarding silver held in this country by China. They wish to convert 50 to 60 million ounces of silver into gold.

July 6

Taylor, Viner and Lochhead met with the Secretary. Secretary said as a starter he was willing to buy the 12,000,000 if he will convert proceeds into gold and if President wants to treat the Chinese extra nice, HM, Jr is willing to buy all provided they take it in gold earmark.

July 7

HM, Jr's telephone conversation with the President. HM, Jr told him the Chinese are coming in to see him tomorrow and that he will swap the 62,000,000 ounces of silver for gold to be left in the US, earmarked in the Federal Reserve with an agreement that China can borrow dollars against that when they need it. President thought it was a grand arrangement.

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July 7, 1937

Meeting in Secretary's office with Treasury officials, to consider draft of agreement between US and China.

July 7, 1937

Meeting in Secretary's office with Treasury officials and Chinese representatives, to discuss agreement, prior to arrival of Chinese, tomorrow morning.

July 8, 1937

Chinese representatives meet with Secretary and Treasury representatives. Agreement accepted and both sides will work on draft of public statement.

July 9, 1937

Both sides agreed on draft of statement. McReynolds, Lochhead and White took copy to White House. President approved but asked it not be released without State Department approval.

July 9, 1937

Press conference at which joint statement was released.

July 14, 1937

Letter of Secretary of Treasury to Federal Reserve Bank of NY authorizing and requesting them to carry out transactions as fiscal agent of US.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 14, 1937

TO Secretary Morgenthau

FROM Mr. Magill

Joint Committee on Tax Evasion and Avoidance

Mr. Doughton informed me over the telephone that Senator Harrison had asked that tomorrow's meeting of the Committee be called off.

Mr. Doughton said that he did not suppose that the Committee would meet again until after Senator Robinson's funeral and the return of the Congressional delegation from Arkansas. He said he himself was a member of the delegation from the House, and he supposed Senator Harrison would be from the Senate.

I told him that we would proceed with the drafting of the legislation and go over it with the Committee at the next meeting. He said he contemplated merely a report by the Joint Committee and that the drafts of legislation should be considered by the Ways and Means Committee.

*Rm*

## RE BRAZILIAN AGREEMENT

July 14, 1937  
9:15 a.m.

Present: Mr. Lochhead  
Mr. Riefler  
Mr. White  
Mr. Williams  
Dr. Viner  
Dr. Feis  
Mr. Opper

H.M.Jr: Well, let's start on Brazil. They're coming in at 10:30, aren't they?

White: Yes, sir.

H.M.Jr: Does Feis know it?

White: He did know it, and said he would be here.

H.M. Jr: (On phone) Remind Dr. Feis that the Brazilians are coming in at 10:30 and I want him here, and it's up to him to bring anybody who he wants to. If it's O.K., don't call back; don't call me back.

I thought we could have a dress rehearsal. Where are we at?

Williams: Well, we saw them again Friday afternoon, and we had what we all thought to be a very satisfactory talk with them. Apparently their expectations are moderate. We thought they might be wanting a commitment for a hundred millions of gold, and they said right away, "That's too much." I think we got the impression they wanted about half that, didn't we, Harry?

White: That's what it was.

Williams: I don't know whether they actually said....

White: Judging from the figures they gave in that report, it would be between 50 and 60 million.

Williams: So that the thing really boils down to two points. They want to talk over their idea of the central bank with someone, although they point out to us that the decisions will all have to be theirs; of course we agreed to that.

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The other point is whether or not we should give a commitment in advance to supply the gold up to 50 million dollars, and we pointed out....

H.M.Jr: Excuse me a minute. (On phone) Have you talked to Dr. Feis? - I'd like to talk to him.

Williams: We pointed out there were two ways to do it, to accomplish their purpose. One was for us to give the commitment, then they could announce that at home, which apparently they are very anxious to do. The other is for them to make their announcement and for us to give an indefinite commitment, simply saying that we give them gold when and as they have the exchange wherewith to buy it. Last week I thought I favored that second course pretty strongly; this week, after thinking it over, I don't know that it makes a whole lot of difference; it is such a small amount, and there are some advantages in the commitment.

H.M.Jr: That's where I come in.

Williams: That's what it boils down to, wouldn't you (White) say?

White: Yes.

H.M.Jr: Well, here's the point. I'm tickled to death that they only want the gold as they pay for it; in other words, that they are not going to do a Ponzi scheme on us.

Williams: Yes, they covered that very carefully in their memorandum.

H.M.Jr: That makes it easier for us. It isn't nice to have to call down another country.

The other thing is this. I'd be perfectly willing to agree to sell them 46 million dollars in gold and 4 million ounces, is it, of silver?

White: Well, it would be 43 and 7 million, if you want it to bring their silver up to their - including the gold they already have.

H.M.Jr: Yes, it would be how much?

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- White: And if they wanted to spend 50 million dollars, then it would be about 43 and 7.
- H.M.Jr: How much in ounces of silver?
- Lochhead: I don't know. I was figuring on 50 million and if you figured at \$1.29 an ounce, it would be roughly about 13 million ounces of silver.
- H.M.Jr: All right. Well, I don't for a moment.....
- White: Exactly 7 million dollars worth of silver, 45 cents an ounce.
- H.M.Jr: The point I think I don't want to do is to give them a call on us beyond one year for gold at \$35 an ounce, because I think that I'd be subjecting myself to... Hello, Jake?

(Viner comes in)

We just got to the silver stage. You haven't missed anything yet. I mean we're just talking about this Brazilian thing. The only thing, unless they have - they told it to us after, I think, you left. They say they only want to buy gold that they can pay for, which makes our job very much easier.

Now, the question is about a contract, and the question I raise at this stage, should I as Secretary of the Treasury commit myself too far in advance to sell anybody gold at a fixed price?

- White: They didn't mention - the fixed price wasn't mentioned.
- Viner: At the price prevailing - at the legal price at the time.
- Lochhead: We have more or less had that same question on the Chinese agreement.
- H.M.Jr: What I wanted to say is this. If we could have something - and I want to clean this up. I don't object to saying that I am ready to sell X million dollars of gold to these people, but I think we ought to have a time limit; then use Viner's suggestion - at whatever the legal price is at that time.

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Lochhead: In the Chinese agreement, when we tried to draw it up, the question came as to how we would lend them against the gold; and the Legal Division had it written up for \$35 an ounce minus a quarter, and we questioned whether or not the contract extended to the end at that price and whether we wanted that; and we checked back and said we'd make it with reference to the Gold Act, which does not specify a price, but just....

(Gaston comes in and speaks  
to the Secretary)

H.M.Jr: Just a second. You'll have to do it, Herbert. I mean I can't think straight.

(On phone) With the exception of Herbert Feis, no calls for half an hour.

Now, where was I?

Lochhead: About the question about giving them a price or just leaving the price open.

H.M.Jr: Well, let's leave the price open. But for how long? Somebody make notes, because I'd love to have something on a piece of paper here, a tentative plan, at 10:30, that we could propose.

Riefler: We could give them a one-year thing with 30-day renewable clause - both parties.

White: One year is a little short to buy 50 million. They may be able comfortably to buy it, or they may like two years. Two years may be the outside.

(Opper comes in)

H.M.Jr: I don't want to give them more than one year. That's the longest I've ever given any money.

White: They might like a shorter term, because it may put more pressure on them and they may be able to make more of it at home.

Williams: Of course, on the other hand, if they fall down it will be bad at home for them.

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- H.M.Jr: What's that?
- Williams: If they fall down.
- White: They've got a lot of foreign exchange already.
- Williams: Of course, they can always buy gold with the exchange that they have.
- White: They've got 50 million dollars worth of foreign exchange now which they could use if necessary, if they wanted to maintain their contract.
- H.M.Jr: You see, what this is, evidently, from what you gentlemen tell me, is that they've got the idea that if they can say at home, "We're in this, we've got an agreement with the United States," it helps them tremendously. Now, it's pure window dressing.
- Now, why not let's start and say that we give them an agreement that we'll sell them up to 50 million dollars worth of gold and silver - I'll give you a chance to argue that - 50 million dollars worth of gold and silver, of which roughly 46 million dollars would be gold and 4 million dollars would be silver. That isn't - I don't know whether that's right.
- White: 43 and 7.
- H.M.Jr: 43 and 7. You (Opper) making notes?
- Opper: No.
- H.M.Jr: Well, somebody is. ....at a price - at whatever - well, as to gold, whatever the legal price is as of that date; and the silver, the average price for the previous 15 days. How's that?

(On phone) Hello. Herbert? - Good morning. - Herbert, I'm working on the Brazilian thing. They're going to be in at 10:30. We're trying to draw up a rough memorandum in advance. So if you can get over a little early it will help. We're on it from now until 10:30. Pick up any cables you got on China, will you, if there's anything in that's new. Do you mind? If there's anything, just let somebody hand it

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to you. - - They were helpful. - Yes.

Well, we'll talk about a 12 months contract. "This contract" - I don't know what the legal language - "to be taken up 30 days before it expires."

Opper: The extension of it?

H.M.Jr: Yes.

Could you put it something like this: "with a right on both sides to renew for one year," but make it so we could - so we don't have to - I mean make it read, "We will discuss at the end of 11 months the renewal of this contract." I mean something to make it look as though it's a two-year contract but it's really only one year. I mean "At the end of 11 months Brazil and the United States will discuss the renewal of this contract."

Viner: Is this to be a contract to purchase or a contract whereby you give them the right to purchase but they are not obligated to purchase?

H.M.Jr: It's a one-way.....

Viner: It's the second, isn't it?

H.M.Jr: It's the second. It gives them the right - it gives them a call on us for gold and silver, the price of the gold to be the price of that day, the price of the silver to be the average price for 15 days previous.

Williams: May I interject a word? We have been searching for the possible outs. Of course, one obvious one was that they might want to count the gold as reserves before they paid for it. They said - say that's out.

Now, there is another question that we have discussed a little, and that is the relation of this to the debt service.

H.M.Jr: Whose debt service?

Williams: Theirs.

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Williams: The debt service settlement. You see, it would be a rather awkward thing from our point of view to put the Brazilians in a position to say, "Well, we're sorry, we can't pay any more on our debt, because we're obligated to buy this gold from the American Government." The American Government wouldn't like that. So I think we ought to cover that.

H.M.Jr: How?

Williams: And make sure that the debt service settlement is satisfactory at this moment.

H.M.Jr: No, now look, do you mind my talking very plainly, because....

Williams: I just want to raise the question.

H.M.Jr: Raise anything you want. But you want to know how I feel, see. Now mind you don't mind - please remember I don't feel particularly well, so - I mean I may sound a little bit more stern than I feel normally.

That concern is not mine - example: any more than you or the Federal Reserve have raised that question of the debts owed by the old Russian Government to the Singer Sewing Machine when we agreed that the Russian State Bank could open an account with the Federal Reserve. You didn't - I'm talking to you now as the Federal Reserve of New York - didn't raise the question; when the Russian State Bank deposits five million dollars with the Federal Reserve of New York, does that in any way jeopardize what the Singer Sewing Machine has due them?

Williams: Yes.

H.M.Jr: Am I right? Did the Board raise that question?

Williams: No.

H.M.Jr: What?

Williams: No.

H.M.Jr: No. And the point is this. The President permits me, as Secretary of the Treasury, to go ahead with these negotiations on the straight financial basis.

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We don't ask for - we won't let any other branch of the Government use us to get any special favors, either trade treaties or concessions or anything else, or debts. And all of the things that I have done here up to now are on a straight financial government-to-government basis. Any more than the five million dollars that the Continental Bank owed the old Russian regime; the State Department made those poor fellows - I mean China; the old government, 15, 20 years ago, owed the Continental Chicago five million dollars and, by God, Hornbeck made the Chinese come through, and was willing to sacrifice his whole picture of China for five million dollars owing the Continental of Chicago 15, 20 years ago.

Williams: There is this about it. This is current, you see; they're up....

H.M.Jr: I know. I'm going to say one more thing I said to them. Now, you could also say, "You've got no right to make an arrangement with England and France as long as they owe us the war debt." I mean I'm just throwing all of these things in. And if - I mean the pattern, which isn't appreciated and isn't understood, is that all of these things that we do, the only thing that we're interested in - What is my policy? My policy is here that if one country after another we can take them up and help them get a stabilized exchange in the world, that gradually we'll bring about an exchange stabilization.

Williams: Oh, I agree with you entirely.

H.M.Jr: But I want to get that over; and if we had to stop and consider private debts, trade agreements, tariffs, anything else, I wouldn't be anywhere today.

Now, don't misunderstand me. The reason I ask you in is to bring up everything. But I don't see any more, when Russia deposited five million dollars in the Federal Reserve of New York that we should have said, "Does that mean the people are going to get less?" or whether in any case we should consider these foreign debts - those things as more important. Now, I wouldn't knowingly be a party to help Brazil cheat the American bondholders. Knowingly, see, I wouldn't want to be a party to that. But if I stop

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to consider their private debts, then I better not go into any agreement at all.

Now you fellows can all take a crack at me.

Williams: The only point I had - I might as well finish - I understand one of the reasons they're up here is they want to negotiate a renewal of the debt service settlement for three years, and they're talking that with the State Department and Reuben Clark, the bondholders. Now, I think it would be good procedure to.....

H.M.Jr: Excuse me?

Williams: .....good procedure to let that thing terminate, come to a head, then have it followed by this rather than for them to be able to use this as an argument when they come to do their debt service.

White: Sousa Costa said that they absolutely - this is a statement, but whether he means it I don't know - absolutely they will not alter - they will not exceed the total amount of payments which they are now making on these foreign debts, the Aranha debt. He said they may alter the interest payments or principal payments, but the total of foreign exchange that they're going to use will not be changed. It isn't as important as it might seem.

Williams: Now, maybe Herbert Feis knows that that's all settled now; I don't know.

H.M.Jr: Just a second. Riefiler wants to....

Riefiler: It seems to me there are two points there. One is that this government isn't a debt-collecting agency and hasn't been; I think that's correct. The second thing is, however....

H.M.Jr: You mean the Treasury isn't.

Riefiler: Yes. The second thing is, we shouldn't.....

H.M.Jr: Excuse me; I make a distinction between the Treasury and making it all-inclusive governmental.

Riefiler: Yes.

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- H.M.Jr: Because the Government has been active.
- Riefler: That they are not a debt-collecting agency. The other thing is, however, I don't think we should - the Treasury should be an excuse for not paying their debts. I mean we didn't say to Russia, "We'll make an agreement with you provided you won't pay up your debts," or give them anything of that order.
- H.M.Jr: No, here's the point. Don't worry, the State Department will take damn good care of Reuben Clark and his committee, see? They always have and they always will. They're in here.
- Viner: I think that's the answer.
- Williams: That's the answer, sure.
- H.M.Jr: They'll take damn good care. That's the reason I make the distinction when you say the Government isn't a debt-collecting agency, and I interrupted you by saying, "The Treasury isn't." Now, the State Department will take damn good care. Because I've had this thing out and the State Department still hold that, through their diplomatic representatives abroad, that it is their job to see that American citizens abroad who are owed money by foreign countries receive as good treatment as other nationals; and my understanding with the State Department is that in conducting these negotiations for exchange stabilization with various countries, I take no interest in money owed our nationals by the particular government we are doing business with. Now, I - I think that that's a pretty clean-cut thing.
- Williams: I think that's the answer.
- H.M.Jr: Now, as a matter of fact, I don't know yet where this thing - I use another case; take Mexico. There's a law firm here, Rigby and something - Owen - they've got all this stuff; in all this thing I've done with Mexico we've never raised this question of what they owe us. And, if I say so myself, I've made more friends for the United States through the way we've handled it than we could any other possible way, and I can get anything within reason out of the - (Eduardo) Suarez, Minister of Finance in Mexico.

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Williams: Of course, it is to the interest of the bondholders in the long run.

H.M.Jr: Of course. I don't want to brush it aside, but have I explained.....

Williams: Yes.

H.M.Jr: Have I explained how I feel?

Williams: Yes.

H.M.Jr: And how I approach this thing. At the same time, the State Department always knows what I'm doing and if they wish to notify the bondholders that's their job.

But, to use another example, Spain two years ago wanted five million dollars loan against their gold to free their foreign exchange; it was six months behind. It was a cinch. The State Department said, "No, we ask you not to do this until our trade treaty is through, because that will establish the precedent that these countries get a loan in connection with the trade treaty." And by the time they got their trade treaty through, it was too late. I had Cochran down there and he made a report. They had all their gold, all their silver, and all they wanted it for was three years. So I mean I've had - and all they needed was five million dollars, and they had their gold and silver as collateral.

So I say now that if this is all Brazil wants, it looks like a cinch to me.

Williams: It does to me too.

Lochhead: As a matter of practical fact, if we give them an option.....

H.M.Jr: And you understand, please always when you come in here say what you think and don't mind if I.....

Williams: No, I think we ought to explore the possible outs, but as a matter of fact I don't see any real outs.

White: Moreover, this isn't a loan really. It is merely an option to purchase. I don't see how the bondholders could possibly object.

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- H.M.Jr: Jake, am I all right, on safe ground?
- Viner: All right. The State Department will take care of that side. It is not your problem.
- H.M.Jr: But am I on safe ground?
- Viner: I think you are on safe ground.
- H.M.Jr: Riefler?
- Riefler: Yes.
- H.M.Jr: I'm glad to have had a chance to explain how I feel.
- Opper: I'd like to ask a few questions, Mr. Secretary.
- H.M.Jr: You would, would you?
- Opper: I don't know whether I'm as familiar with this as the other gentlemen; I want to be sure about a few things here. In the first place, it is not to be required that they take the same proportion of gold and silver each time, is it - I mean that they can't get the gold unless they take the silver?
- H.M.Jr: Well, we haven't had a chance to talk about that. You run through your stuff.
- Opper: That's the first thing.
- H.M.Jr: Let's argue about that. My thought is this: Under the Silver Act we are obligated to keep buying silver until we either have one-quarter as much silver as we have gold, or silver reaches \$1.29. Now, if you look over some of the statements of the President, going way back, I don't know how far, you will find he more or less laid down this thing that if we are going to start now with South America and if we want people to keep some interest in silver - I think that when we establish this thing with Brazil, this is the time to say, "We have this policy up here, Canada has it, Mexico has it, and throughout North and South America let's agree that one-quarter - we'll try as near as possible to keep one-quarter of our monetary stock in silver." I don't know any other way to keep this large volume of silver we have at some basis of monetary value other

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than - if we don't do this, it just becomes a commodity. Somebody says it's a commodity anyway. Well, I don't look for much support; if I get it from any of you people, I'll be surprised. I'll let you (Williams) talk last....

Williams: (Laughs)

H.M.Jr: ...because you're agin' it.

Williams: I'm agin' it.

Riefler: I don't see how you're going to get them to do it in the first place.

H.M.Jr: What?

Riefler: I don't see how you're going to get them to do it.

H.M.Jr: I'm going to ask them. If I'm turned down, I'm turned down.

Viner: Ask them to buy silver from you.

H.M.Jr: Yes.

Viner: Are you going to sell silver - the only way to do it is out of the Stabilization Fund.

H.M.Jr: What we're starting to do is - you see, as against this, is to build up some silver in the Stabilization Fund. Archie's going to take some in.

Lochhead: Of course, the argument for this is that we did use this pattern with China.

H.M.Jr: Just let me put it this way. I'm going to be a little unfair. Don't let's argue for the minute - then we can come back - whether the Silver Purchase Act is good or bad. I got it, see? I'm under a mandate; I can't get it changed. Take it this way - I'll go with Williams - considering that the Silver Purchase Act is a fact - we're not discussing should we have a Silver Purchase Act, but we've got it; having it, would you still argue with me that I shouldn't, in dealing with South American countries, try to get them

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to take some of this silver and share our burden?

Williams: Well, yes, I would argue that you shouldn't, on several grounds. One is the magnitude. You wouldn't get rid of a great deal of silver on this basis; it wouldn't make any essential difference in your own position, it seems to me.

Then it comes down to the question of future of monetary arrangements, monetary stability. I think that you would have a simpler system if you used gold and dollars supplied against gold for stabilization purposes. I think that would meet with a better reception in the world, be better understood.

The other raises the question of whether we are not really trying to move toward a bimetallic system, which is in a great many minds, and the repercussions of that on Europe I don't believe would be favorable.

And the only thing we could say in justification of it is, "Well, we've got a law." Now of course we have a law, and we have to recognize that. If you are in a position to induce the world to take a large amount of silver and help you carry that burden, that would be different, but I don't believe you are. You see, in this example the amount of silver is comparatively small, and that would continue to be the case.

If you apply this to other nations - I don't think the Chinese case is a good analogy, because of course they've got a silver problem too. I imagine the Brazilians would simply raise their eyebrows and say, "But we don't want silver; we want to stabilize on the dollar and we want to use gold as a counterweight, same as you do."

H.M.Jr: Well, that's their privilege, and I'm not going to - I can't force anything on them.

White: I think there is more to be said, possibly, for this silver.....

H.M.Jr: Do you mind holding your fire, because I know you're for this. Just hold it. I'd like to hear what Viner and Riefler have to say.

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Viner: Well, I'd say that it is all right to ask them if they would be interested in it, because they might conceivably regard silver at 45 cents as good a buy as gold at \$35 an ounce, for reserve purposes.

But I don't see how you could make it a condition. In the first place, the Silver Purchase Act is a buying act and not a selling act. In the second place, if you ask them to introduce silver in some role into their currency system which it hasn't got now, you're making a major request of them as a condition to a very minor concession to them, if it is a concession at all.

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

Viner: Then third, I'd say if you ask them - they can turn it down - I'd say ask them in a very cautious way, so it isn't a formal request, so they don't get it in writing, and so it isn't a part of the publicity.

H.M.Jr: Now wait a minute; I wish you for a minute would take a broader aspect. Just let's - I got time - I mean don't let's - this particular thing. Am I - I mean I've been terribly careful and very proud of what I have done up to now, with the help of everybody, and is this - am I continuing to make a step forward where I don't have to make a step backward? I mean is this something I should do looking one, two, three years ahead? I mean what I - the conception that I have - I haven't got an awful lot, but the conception I have is that this might be something for North and South America and China as a dollar bloc area, as opposed, possibly, to the rest of the world, leaving Russia out.

Viner: I think you'll make it harder to attain if you introduce the silver complication.

H.M.Jr: Make what harder?

Viner: To obtain anything like a dollar bloc, because each time one of the countries is approached it is conditions that we attach rather than something they seek; and I don't see that you can get any important advantage in it, because, as Williams said, I don't think there is

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any prospect of getting them to take up a substantial amount of silver, so that it doesn't reduce our load. And I'd just simply say that the silver you have is a price paid for something or other, and that....

H.M.Jr: Well, you're not quite - I mean let's just say that Brazil would accept it - I mean that they want this thing so badly that they will do anything we ask. Just let's say - I mean it means so much to them they say they'll accept it. Now, that pretty well advertises - that's a signal to the world that we really mean that we want bimetallism, and do we want that?

Williams: Well, I think that raises a very large issue, but rather unnecessarily; I think that is my principal objection. I don't know how bimetallism would work, but the larger immediate question is whether you get enough acceptance for it in the world at large, whether it would be a step forward in your program toward monetary stability, or whether it would be raising an additional obstacle that we'd have to get over in getting other nations to see it that way; that's the thought.

Then, when you go beyond that, the old argument for bimetallism was that there wasn't enough of the one metal. Well, that isn't like so true now, when the world is faced with a superabundance of gold. It is the problem of distribution now.

Viner: This would intensify the excess monetary metal problem of the world; but in any case I'd say that is a very big problem. The world would show no enthusiasm for it now - less than ever; nobody's interested in it any more. There was China; there was a silver remnant; that is destroyed.

H.M.Jr: There was a silver what?

Viner: A remnant of silver-using countries; that's all over.

Williams: I think that from the diplomatic or public opinion side, whichever it is, there is a great deal of support for what we are trying to do through the medium of gold - work out some sort of scheme that will be more or less stable. I think outside - now,

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I was in South America in '34; our silver program, frankly, was not well-regarded down there. I happened to be down there just at that time and they were raising all sorts of questions about it. Now, I think there is a general approval of what we are doing with gold and through gold, and a desire on their part to tie up. Now, I'm afraid that the mention of silver might give it all a setback, because I think their reasoning would be, "Well, the United States is in a rather embarrassing position by reason of the Silver Purchase Act, and obviously they are trying to get us to carry the load to help." Now, the amount that they could help would be so slight that I don't believe it is worth risking that unfavorable opinion.

H.M.Jr: What Viner said, I think, is the meat of the coconut, and that is this. As he put it, my problem right now is we've got too much gold and we're trying - I mean in the back of the head - I talk in front as though - reduction of gold production and that sort of thing. Now, say we want to add an additional monetary metal to the stocks we already got.

Williams: Yes.

Viner: There is this added point - and if the world were really to move toward bimetalism, that would mean a higher value for the silver than it now has in terms of gold, so it wouldn't be merely the new production, but you'd get some value - more value in the world stock of monetary metals than you have now, and that certainly is....

Williams: I should think it would make your excess reserves problem greater in time - large supplies of both metals.

Opper: I think there is even a further possible difficulty there, Mr. Secretary. I am wondering whether it's even been considered what the effect on this problem and the London silver agreement may be. True, that expires in December, but at the moment it is still in existence.

H.M.Jr: Well, we've sold foreign excess.

White: We've bought foreign excess.

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- H.M.Jr: we've bought so much more than that.
- Oppen: Theoretically, the indication is that we don't sell any no matter how much we buy. Some bridges there that we haven't crossed yet.
- Lochhead: Mr. Morgenthau, approaching it from another angle - I think I agree pretty much with some of these things that have been said - but on the other hand, we have the Silver Purchase Act, and there have been certain plans drawn up for these South American countries for a gold-silver bloc. Now, if something comes up - Brazil is the first country that's approached us on it; if we make no mention of silver to Brazil, I don't know how you're going to explain letting that drop that way. I think it should be at least mentioned, so that we get their reaction. I think if we got their reaction on record it might be all right.
- After all, you know, on this silver program we had other things about China; we had to test things out to prove things. Now, I think that you do not make this a condition when you issue them an invitation to take some silver and get their reaction. You have a record then to guide you, and, you might say, as a defense for any attack you might have.
- Williams: That's true; still a question....
- Viner: Raise an issue with them in an informal way.
- Lochhead: Not as a condition. What you want is their reaction - what do they think about it?
- Riefler: On the contract it simply could read gold or silver.
- Lochhead: Wouldn't want to go as far as that. I simply want in the conversation to get their reaction to some proposition.
- H.M.Jr: Let's give Riefler an opportunity.
- Riefler: It seems to me that these moves for stabilization that you have been making have been received by everybody as being not political and not just from the American point of view, but from a very broad

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world point of view. Now, if you bring the Silver Act into this group, it will be taken as something that is motivated not entirely by broad considerations, but by your personal difficulties in carrying out the Silver Purchase Act, and it will detract from the plan at which you have been working. And I personally don't see anything to be gained by it, except the answer to Congress. I mean it's....

H.M.Jr: Well, I can tell you that as far as Congress is concerned on silver, it's "sleeping dogs." I mean I just couldn't get over the fact that Key Pittman didn't call up after this Chinese thing - "What do you mean by selling them gold?" I haven't had a word from them.

White: He wouldn't be apt to object to your buying silver.

H.M.Jr: But from that agreement you couldn't tell - you couldn't tell but what I might have sold them 20 million dollars worth of gold and bought a million dollars worth of silver.

Viner: You'd think he'd want to know in any case.

H.M.Jr: I was afraid to call him up to tell him, for fear he'd say, "No." He certainly would have said "No" in '34.

Since the first time I talked, the way I feel - I've never done anything in the monetary field unless I - even one-tenth as important as this - without thinking it over and having lots and lots of time. I haven't thought this thing through and I just wonder if I want to do as important a move as this without having time to think it over. And my brain is in no condition.....

Williams: You can't tell what the implications of this might turn out to be. One thought that we have discussed occasionally is, "Well, the United States is still far from bimetallism. We have a fixed price for gold, but we buy silver at market price. Shouldn't there be a devaluation of silver to the same extent as gold, etc.?" But now, if you try to make arrangements with these nations whereby you furnish them certain proportions of gold and silver and create a supply of dollars against either gold or silver, one might

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well raise that whole question of what our own metallic basis is, and whether there wouldn't need in the course of time to be some change. Now, I don't know about that, but why raise it at this time, when you are going along with a program that everybody accepts as being in the interest of the world at large?

H.M.Jr: You've been very good, Harry.

White: Well, I feel this way about silver. Not only do we have a Silver Purchase Act, but we have two billion ounces of silver. Two billion ounces of silver, rather than the Silver Purchase Act, plus the fact that recent developments have altered my position on silver, either from the point of view of other countries or this country. Whereas at one time silver didn't look so good, now, compared with gold, it is not a bad investment at all at this price, so that I don't think we would be putting one over on Brazil if we should sell her some. But let's get that out of the way; I don't think we are doing something necessarily bad for her.

Secondly, I do have in mind possibly that we don't want to do anything now which would congeal a pattern which we are not yet ready to definitely decide upon. In other words, I have in mind the possibility - very definitely one of the considerations - of moving toward, or at least of considering moving toward, international bimetallism, at a ratio however which wouldn't raise all the difficulties which have been advanced in the past. I don't think we have settled that issue yet; I know we haven't. I mean it hasn't received the attention or the consideration, as the Secretary has indicated, that that important problem merits. But it is for that reason that I don't want us to proceed in such a way as to make it more difficult if we should wish to do something later, rather than easier.

Now, there is China - has silver; Cuba is going to have silver; Mexico would be for silver; Chile, Peru would be for silver; Canada would be for silver; the United States would be for silver. If we can get a few of these smaller countries who do not have an

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intimate interest in silver - like Brazil, probably a couple of the others - get them to purchase a little silver, so that they have it in there, the transitional period becomes easier.

And I don't think the Secretary had in mind to make it a condition; didn't have it in mind. In fact, we studied the question as to what inducement was there for them to accede; we couldn't find them on the basis of what they asked; there may be some other inducements in other directions that we don't know. But a request that they purchase silver so that they have a similar proportion such as we have, I think, could be legitimately made. If they did take it, I don't see any of the repercussions on international action that you speak of. It would merely be that they have decided to include silver in their - in their monetary reserves; it's a small amount. And they've got two million ounces; it would be about triple the amount of silver....

H.M.Jr: Have they some silver there?

White: In their coins, not monetary stock.

Lochhead: It would allow them to take silver as monetary stock.

H.M.Jr: Harry, look. Let me just say - I haven't done a single thing here that I look back and can't say that I've given this thing careful thought. This doesn't close anything. But, on the other hand, this thing has to be published, and anything that we do now here - I mean every country in the world is watching it, and they put all kinds of innuendoes and meanings, and this and that and the other thing, and this would be a definite signal to the world that we're going in that direction. I don't know whether I want to go in that direction; I may. Now, not having made up my mind and not having decided that that is the thing which is best for the United States and for the position and influence which we bear...

And the Silver Purchase Act, as far as I'm concerned right now, no one bothers about the thing; no one calls me up; nobody kicks just as long as I pay the 78 cents. .... I think the thing to do, as a matter of giving this thing 24, 48 hours' consideration, and that's - I couldn't take up the question of bimetallism and its influence on the world. As you gentlemen know,

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we've got to - I mean we've got this whole thing....

(Feis comes in)

Hello, Herbert.

Feis: Good morning.

H.M.Jr: Sit down.

So my inclination is to postpone that thing at this time, because I haven't digested it.

Now let's look at the other thing.

We're talking about whether we should include in this thing silver.

Feis: In Brazil?

H.M.Jr: Yes. And I've just come to the conclusion that I haven't had time to study it, you see. Saved you a lot of - I mean you would have had a good time for the last 40 minutes if you'd been here.

Feis: Not if it was about silver..

H.M.Jr: Yes, you would, because I'm just going to postpone it. Anybody think I make a mistake by postponing it?

White: Certainly not a serious one. But I think a request might well be made, because - you say you're postponing it; you're not postponing it if you're proceeding on a pattern. It isn't a question of postponing it; you're adopting a pattern.

H.M.Jr: No, I haven't got a pattern yet, as far as that goes; I haven't had a chance to think this thing through.

White: Well then, why commit - aren't you committing yourself in one direction as well as the other?

H.M.Jr: No.

Feis: May I ask, Mr. Secretary, you meant you're explaining the whole formulation of your proposals?

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- H.M.Jr: We're talking about whether - should the agreement include 50 million dollars worth of silver - I mean 50 million dollars worth of gold, or should it read 43 million of gold and 7 million of silver, see?
- Opper: Mr. Secretary, may I .....
- Feis: The reason I ask - you possibly have this information - their plan was to take a plane tonight and go down to Dallas, Texas, and return - I think it's Friday. They're just going down there for one day. So I thought you might want to know that.
- H.M.Jr: No. Of course, this whole thing - I mean it's the most unsatisfactory thing I've ever had, and I'll never again be put in this position, because - I mean I absolutely have not had time to think on this thing. When this thing next time comes up, I'm going to take it up in writing with Mr. Hull; ridiculously unfair to Brazil and unfair to the United States Treasury - I mean the way this thing has been handled - and I'm not going to be put in this position again.
- Feis: For your information, they have just made that plan; there was no way of knowing. They probably would change it if you want them to change it.
- H.M.Jr: Well, I'm ready today. I don't know when that plane leaves, but they better cut that Dallas trip out if they want to settle this; they better work with me today and tomorrow.
- Feis: Well, I think....
- H.M.Jr: The hell with this Dallas trip if they want to do business with me. What they going to go down there to see, a fan dance?
- Feis: Yes, a Panama fan dance.
- H.M.Jr: Is that what it is?
- Feis: Yes, Panama Day down there.
- H.M.Jr: Let Aranha go down there.
- Feis: But I - I'm almost sure....

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- Williams: You might do this today on the lines that have been outlined.
- White: May I raise just one more question? When Cuba wished to buy silver from us, which she did, and borrowed to purchase it, I don't think we felt or anybody felt at the time that we were introducing all these larger problems, and it appears to me that it could be properly done so that you wouldn't be introducing them now.
- Viner: I think there is a difference. Cuba wanted to buy silver.
- White: The assumption is that Brazil will wish to.
- Williams: There's a difference; we're going to ask her.
- Viner: I say if Brazil wants to buy some, I don't object.
- Williams: If they come up here and say, "We want some silver."
- White: I say merely that the Secretary might suggest it not as a condition, but as a....
- H.M.Jr: Now look, I can't here as Secretary of the Treasury of the United States Government say, "Do you want to buy some silver?"
- White: Would you put it that way? Merely say that they might consider that possibility.
- Viner: Have to make up your mind.
- Williams: Cross a big bridge.
- H.M.Jr: I don't want to make up my mind. I don't want to make it up. I don't want to close it up. I don't want to operate. I can't do as important a thing as this in 48 hours; I just can't do it. Now here's the State Department laying more stress on this than anything else that we have had anything to do with with them. They say this is - they've never laid as much stress on anything as they have on this.
- White: Have they told us why?

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H.M.Jr: Yes, they've told me why. And I - I'd have to postpone it and sit down and argue and discuss this thing. Now, you raise Cuba; we didn't insist that Cuba take gold either. I think we better - after all, I told Aranha that if they cared to come up here and discuss this thing, we'd discuss it. I don't want to write their ticket for them. If they want an agreement on gold, fine, we'll give them an agreement on gold.

And what we're talking about now is this, Herbert - along these lines - that if we enter an agreement with them for 12 months, at the end of 11 months - we'll work it out something like that - that we'll discuss again another agreement for another 12 months, which gives it the appearance of a two-year agreement, see? I don't want - and we agree to sell them up to 50 million dollars worth of gold any time during that 12 months at the then - at the legal price of that day, see? But I can't agree to sell gold at - we're on a 24-hour basis on the price - and whatever the legal price of gold is that date, see?

Williams: There's another question, Mr. Secretary.

Feis: May I....

H.M.Jr: Go ahead, Herbert.

Feis: The only thought I get is that to get the full psychological effect for which they are striving, just to set a maximum for their own economy to strive for and to carry through in their own internal politics and affairs, I think if they could get something that covered, say, three years rather than two years, it would be worth more to them. They want a long-run program to put before their country.

H.M.Jr: Is it all right for us to say - we'll put it this way - I don't want to be bound - put it this way, try to work it out so it looks pretty: a 12 months' agreement with the understanding that at the end of the first 11 months we discuss extension for another 12 months, and at the end of 23 months we again discuss it.

Williams: You could work that out.

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- Viner: Why not say a three-year agreement? What is it you're giving them if you say the legal price of gold?
- H.M.Jr: Jake, I don't know! Neither do you.
- Viner: I'd say there's nothing in sight.
- H.M.Jr: O.K., I could have talked a month ago to you and you would have bet me 50 to 1 that there was nothing in sight which would turn this gold flow around. You don't know - I mean it may sound perfectly ridiculous - we may be short of gold three years from now.
- Viner: Even if you're short, you'd still be willing to sell it at the legal price.
- H.M.Jr: I don't know. I mean you can't... anything that turns as fast as this.....
- Viner: In two years they may have used 28 million; it would leave 22 million. It looks small, you see. It looks small. You're protecting yourself otherwise; you've got safeguarding clauses, etc. And I still don't know what - it still is a puzzle to me, what are they getting out of this?
- H.M.Jr: They are just getting one thing, window dressing for them at home, that they've got a monetary agreement with the United States Government. Is that right?
- Viner: Why not give it to them? If you have hedges and so on, 11 months' agreement - agreement to buy an over-valued commodity at its regular price, I don't see....
- H.M.Jr: All right, if you want it, I'll do it that way, or give them a three-year agreement which can be broken on 30-days' notice.
- Feis: That would be much better.
- Lochhead: Give them more freedom.
- H.M.Jr: Three years' agreement subject to 30 days' notice. All right, I'm willing to do it that way - a three-year agreement subject to 30 days' notice.

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- Feis: You dress up your 30 days in the form of a provision for mutual consultation in case any question should arise - there would be mutual consultation; if by means of such mutual consultation the matter was not the subject of agreement, then either party is free - or something of that sort.
- Opper: Can't do that.
- Feis: No?
- Opper: I'm just saying it doesn't seem to me that will give you the thing you're looking for.
- H.M.Jr: We give them their choice of extending this each year up to three years, or three years subject to cancellation by either side on 30 days' notice - whichever they like.
- Feis: I think you probably thought my phraseology was impairing its legal form. I didn't mean to. If you study some of our agreements, you will find we have framed them without impairing the legal form, and yet it doesn't make it an abrupt termination clause.
- Viner: So there shan't be termination without previous notification - I suppose that's the one thing that shuts out - you have to tell them beforehand, you see?
- H.M.Jr: Am I right that they want this, that they feel that it is useful to them to have some kind of a monetary agreement with the United States, and that's what you want?
- Feis: (Nods yes)
- H.M.Jr: Huh?
- Feis: And while - that's the one object, and the other one - while in one sense window dressing is a correct characterization, in another sense it will be for them more than window dressing; it will become a commitment on which they can move affairs within their own country; they will keep presenting it as a commitment to their own people.

(Miss Reynolds comes in with  
press dispatches)

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Williams: Help them with their budget and help them with any trade control they think is necessary.

H.M.Jr: May I have just a minute please.

Archie, take a minute; go outside and get the last on foreign exchange, will you please.

Williams: May I raise one more question about the Brazilian matter? It is a question that Opper will want to raise; I'm not interested primarily in that aspect. That is the question of the terms on which they get their gold and the time of delivery. They said something the other day that I didn't understand about when they would get the gold. It is true that they don't expect to be able to count the gold as reserves until they pay for it, but the question is whether they are expecting in advance to get the gold now and pay for it through the year, that sort of thing. I think that ought to be covered with them very carefully, because two or three times Aranha said something about the terms on which they'd get the gold, the time period, the payment, things like that. Now, he probably doesn't mean a thing by that. What he is really referring to is that he wants to be able to buy the gold in annual installments. It ought to be covered.

H.M.Jr: Why don't I ask Sousa Costa to review for me just where we stand now?

Viner: On the delivery?

H.M.Jr: No, on this whole question. Would he mind that? I haven't sat in on these conferences, and after all where does he consider we are now?

Feis: That is not an easy question to ask him, because of, first, his language handicap. Secondly, he will say that your staff asked him a list of questions that he tried to give adequate answers to, and he believes he has; and the little I saw of the memorandum, it was an exceptionally adequate one, lacking in ambiguity all along the line; I mean it was clear. And on the basis of that he is waiting to see the United States Treasury.

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- White: Well, Herbert, he hasn't specifically asked for what he wants, and I think it would be quite in order.
- Feis: Well, you can't put a Minister of Finance in a position of coming to you with his hat in his hand.
- White: Why is that a simile? He states what it is that he wishes. He hasn't specified. How does that...
- Feis: Well, he has specified sufficiently clearly in certain meetings. When we have said a hundred millions, he said, "No, too much, too much."
- Viner: Did he?
- Feis: Oh yes.
- Viner: I'm just....
- Feis: Which meeting was far more satisfactory than the first one. And while I agree with you, John, that you want to get rid of all that ambiguity, I didn't find a single trace of ambiguity... Haven't you seen the memorandum?
- Viner: No.
- Riefler: No.
- (Secretary leaves room)
- Viner: No, we haven't.
- White: Don't exaggerate the specificness of the memorandum.
- Feis: I must say I have the opposite impression of the Secretary of the Treasury, because I think the American Treasury is behaving badly. I think it's fuzzling around, it's raising shadows and shapes, it's not coming to grips with the issues; it is obtuse in taking in what is being told to it; that particularly it is being obtuse....
- Viner: I still don't know what it is they're asking of us. It is difficult to ascertain their purposes.

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- Feis: It would be if you haven't read the original memorandum; it would be if you haven't sat in at the critical discussions, if you haven't read their subsequent memorandum; it is difficult to, unless you're good at crystal-gazing. It is difficult to know, but it is your duty to know.
- Viner: I asked Williams, "Is there anything other than we worked out before?" He said, "No."
- Williams: The only question now, Herbert, is this. Should we say, "We understand in general what you want. We have discussed this, we have read your memorandum; it is excellent. Now would you make a suggestion to us as to just how much gold you want and over what period of time?" You see?
- Viner: What's wrong with that?
- Lochhead: That's different than the other thing, reviewing the whole question.
- Williams: Then we get right down to an agreement.
- Feis: You don't enhance your authority. These fellows would actually - they've heard of you fellows, they think you know something, and they are actually thinking that maybe you can guide them.
- Williams: Do you think we better advise them how much gold they ought to take?
- Feis: I think it's a better way, yes. Why do they give you all the figures of circulation and all that....
- Viner: We asked for it.
- Feis: ...except as an indication of how much gold they should strive to add to their present foreign holdings.

(Secretary returns)

- Feis: Mr. Secretary, I want to repeat in your presence the fact that I, despite the State Department's role in this matter - I don't believe that the Treasury staff has really yet lived with this problem to the extent

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they might have during the past week. They haven't studied the memorandum, they have left the vital discussions; they haven't discussed with Mr. Williams, who was at the meeting, the real course of the discussions.

White: Why don't you ask some question and see whether we could answer? Apparently you have studied it.

Williams: Before you came in this morning - we started an hour before you came in.

Feis: Did you? One could never tell it, if White can say, "What are specific terms?"

White: I say, specifically what are the things they want?

Feis: That's one of the things they'll want to discuss.

H.M.Jr: Listen, you know what I'm doing? If they will stay, I'll work with them for the next 48 hours personally.

Feis: I'll - I'm sure they'll stay. This other plan was made on the supposition.....

H.M.Jr: The only thing I've got now - I mean I'm ready to work on this thing today and tomorrow and clean this thing up.

Feis: Well, I'm sure they'll stay.

H.M.Jr: And I'll work tonight if this bird will work tonight. Has he got something tonight?

Feis: I'm sure he's got nothing that will stand in the way of continuing these discussions. This is now the only thing that is keeping them in this country.

White: The one sentence that is interesting here is the very first phrase - "It is an American suggestion desirable....."

Feis: Say that again.

White: The very first phrase is that it is an American suggestion.

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Feis: Well now, let me again - I think this is probably the fourth time - maybe it will again have to be explained the fifth time.

White: You're dealing with pretty stupid people.

Feis: Yes, you are being so obtuse that I think it is being persistently obtuse. This thing originated in conversation between President Roosevelt and President Vargas.

Williams: We know that.

Feis: In which by common agreement - President Roosevelt said to President Vargas, "We think means can be arranged by which certain of this gold can be made available to you." That makes it an American suggestion.

I have not found that Sousa Costa, in any remark that he has made in the course of three weeks' negotiations, has twisted a statement by one-tenth of an inch.

White: Nobody imputed that he has. But the point I'm getting at.....

Feis: Then why, again, is it....

White: The statement he has here that bears most on the quantities involved is his question of proportions, of about approximately what he would want on proportions. Now, if you raise the question as to what we think he would want, it's a very different thing from what he might ask for. He has an opinion as to how much gold he would like to buy; he already expressed that. I think what he'd like to buy, commit himself to, is too small a proportion for his national economy, but that question hasn't arisen yet because he hasn't specified exactly what he would like to buy, nor has he asked us, "How much do you think we ought to buy?"

H.M.Jr: Harry, just a second, let me get this point; this is the whole meat of the coconut. Is it in this memorandum that if he buys, as I understand it - that he wants to pay for what he buys and leave that on

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earmark here, and he doesn't want what we originally thought, but he wants to buy 50 million dollars and then give us a note for the full amount?

- White: As he has it, after he buys it, he can either leave it here on earmark or take it with him.
- Williams: The question I am raising is not all-important, but ought to be covered as a matter of business: whether he expects to get the gold at the time, you see.
- H.M.Jr: What time?
- Williams: At the time he pays for it, or somewhat in advance of that, you see. There was some rather vague talk the other afternoon....
- Feis: John, I agree that the thing should be cleared up, but I disagree that there was vague talk.
- H.M.Jr: Now listen, don't let's get - I think I've got enough of it - the balance of today and tomorrow we'll get the thing down. And Feis, you know - you've seen me now with a number of countries, and I've never yet had one country walk out of here with hurt feelings.
- Feis: Right.
- H.M.Jr: And this fellow won't go out of here with hurt feelings.
- Now, fortunately, we are in a position to - that we can concentrate on this, and when we get through with this we'll take up that Swiss memorandum that's been waiting so long. But we'll concentrate on this now; we've got Kung out of the way.
- Feis: Since I've talked so much - I think what continues to disturb everyone with a technical mind is the original form in which this was placed, as a highly baffling thing; the form in which it emerged from the original discussions had so little significance that you keep looking for another, an underlying, significance; but I am convinced, on the basis of all the subsequent discussions, there is no underlying

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significance except the psychological that they repeatedly dwell on.

Viner: This gives the answer as to how much gold they want. It has to be figured out from the other data, but they are telling you very precisely what they want, as the aim toward which they....

H.M.Jr: How much gold?

Viner: You'd have to figure it out.

H.M.Jr: Hasn't somebody figured it out?

White: Well, it's 30 percent; it would be as of \_\_\_\_\_, or depends on what the latest figures are.

(Sousa Costa and Mr. Carneira,  
his interpreter, arrive)

(Balance of transcript written  
up separately)

July 14, 1937.  
9:22 a.m.

H.M.Jr: Hello.

Rep. Robert Doughton: Hello, Mr. Secretary.

H.M.Jr: Good morning.

D: How are you?

H.M.Jr: I'm fine.

D: That's good. Too bad about our friend Robinson - wasn't it.

H.M.Jr: Oh, I am terribly upset about it.

D: Oh, it's terrible.

H.M.Jr: Terrible.

D: Old man "Work's" dead.

H.M.Jr: Well, it's -

D: A terrific strain so long, you know.

H.M.Jr: Yes.

D: I reckon that's the way we'll go one of these days.

H.M.Jr: Well, it seems that -

D: What I wanted - what I called you about Mr. Secretary was this.

H.M.Jr: Yes.

D: You remember some time ago, you probably won't remember but I can refresh your mind. While I was down there about something else, I mentioned to you about three investigators who had been - who had temporary appointments for quite a while.

H.M.Jr: Yes.

D: Mr. Berkshire had been taking care of them, but they served notice that they couldn't be given any more temporary appointments.

H.M.Jr: Yes.

D: And you took the matter for consideration, to see if there was any way in the world we could get them put on the permanent role, get the Civil Service Commission to qualify them.

H.M.Jr: Yes.

D: They've been in now about three or four years, and they're men of highest efficiency - turn them out and put in new men, who know nothing about it. No quality in it whatever. Looks pretty bad, and I just wondered if you had done - or thought anything could be done about it.

H.M.Jr: Yes. Well, I went right through with it, but as I understood it, if we gave them another ninety days.

D: Gave them another ninety days, that's right, with the understanding that I wouldn't ask for that anymore.

H.M.Jr: You've got a good memory.

D: How's that.

H.M.Jr: You've got a good memory.

D: Yes, I remember those things, when I promise anything I do it.

H.M.Jr: Yes.

D: And if they couldn't be put on the permanent role, why they would have to go.

H.M.Jr: Well of course, they can't.

D: How's that.

H.M.Jr: Of course, it's impossible to get them on the permanent role unless they pass the examination.

D: Well, isn't there any way the Civil Service Commission - where men have demonstrated their efficiency and their qualifications, they can be given a special examination on the basis of their qualification for the work.

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- H.M.Jr: Unfortunately, that isn't the way the law reads. I'm with you on it. - But would it help you out any if we kept them on until Congress adjourns.
- D: Oh yes, it'd help me out, of course, just as long as they be kept on, but I don't want to be running two years on special favors. It's only been about a month now I reckon - since their last appointment, was it.
- H.M.Jr: But supposing I agree to keep them on until Congress adjourns, will that help you -
- D: Oh well of course, but I don't want to ask you to do that unless it suits you. It might embarrass you somewhere else, you know. I'm not asking anything - you've already been so nice you know.
- H.M.Jr: I'll tell you what we'll do. We'll keep them on - I didn't say until they passed the Court Bill, I simply said until Congress adjourned.
- D: How's that.
- H.M.Jr: We'll keep them on until Congress adjourns.
- D: And you think there wouldn't be any way worked out why they can't be put on permanently?
- H.M.Jr: Goeh, I'm .. I'm not smart enough.
- D: We ought to change that law, oughtn't we?
- H.M.Jr: Well, that's up to you gentlemen -
- D: Well, I know but now your experience and your responsibility in administering the law. Well you've got men that are efficient and qualified and faithful in every way and diligent - and have demonstrated they can do the work, but what about putting some fellow just according to standard theoretical examination, it don't look like good business to me.
- H.M.Jr: Of course it doesn't.

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D: You wouldn't run your private business that way.

H.M.Jr: I wouldn't - I couldn't stay in business five minutes.

D: No, you couldn't or you wouldn't.

H.M.Jr: No.

D: Well, we'll talk about it some other time. But I'll appreciate it - but - I don't want to - I don't want to put you under any strain about it anyway.

H.M.Jr: No.

D: You've been exceedingly nice about it anyway.

H.M.Jr: No, there's nobody I'd rather do it for than you.

D: Well, thank you so much.

H.M.Jr: Thank you.

D: Goodbye.

H.M.Jr: Goodbye.

## MEETING WITH BRAZILIANS

July 14, 1937  
10:30 a.m.

Present: Dr. Sousa Costa  
Ambassador Aranha  
Mr. Carneira  
Mr. Lochhead  
Mr. Riefler  
Mr. White  
Mr. Williams  
Dr. Viner  
Dr. Feis  
Mr. Opper

H.M.Jr: Now, what I'd like to do now, if it is agreeable to you, is to concentrate on this until we can come to a happy ending.

Costa: Yes.

H.M.Jr: I mean just to work on this steadily now. I'd like to work with the Finance Minister on our mutual problem now until we finish it. I mean I'd like to go right through.

Carneira: (Explains to Costa)

H.M.Jr: If we can't finish it today - I understand from Dr. Feis - he thought that Dr. Sousa Costa may go down to Texas, but if he could I'd like to work today, this evening if necessary, and tomorrow, and finish this.

Carneira: (Explains to Costa)

Costa: All right. I think it would be best to wait until the Ambassador comes, because that idea of Texas is from the Ambassador.

H.M.Jr: Well, let the Ambassador go to Texas.

Costa: Yes, that's better.

H.M.Jr: You see - I want to tell Dr. Sousa Costa we're so pleased with the answers which he's given us to our questions; we're very much pleased with the answers.

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Carneira: (Explains to Costa)

Costa: I am happy.

H.M.Jr: And if he will be a little patient with me, why, I feel that by working on this steadily for two days.....

Carneira: (Explains)

H.M.Jr: ....we can come to a mutually agreeable understanding.

Carneira: (Explains)

H.M.Jr: But this is the first opportunity that I will have to give this problem the time it deserves, you see.

Carneira: (Explains)

H.M.Jr: Dr. Kung has sailed and he's happy. So he's gone. Dr. Kung, the Chinese Minister - he leaves today. But he came a little bit before Dr. Sousa Costa, I think, and so - but he's left now and he's gone away happy, and I hope that Dr. Sousa Costa will also go away happy.

Costa: I hope so.

H.M.Jr: And I wanted him to know that the war between China and Japan - I had nothing to do with it.

(Hearty laughter)

H.M.Jr: I think that that started - the war started there first.

Costa: I read in the newspapers the notes published about the agreement with China - between China and the United States.

H.M.Jr: Well, that is really more or less of a continuation of an agreement which we made with them over a year ago, you see.

Carneira: (Explains to Costa)

Costa: Since 1936.

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Lochhead: May.

H.M.Jr: May, '36. And it's worked out extremely well for both China and ourselves. I don't know whether it's by accident, but since that agreement we have become China's best customer. We're the best customer she has.

Costa: And China must be a great market.

H.M.Jr: But we buy from her; I think we're her best customer.

Costa: Well, what does the United States buy from China?

H.M.Jr: Harry, what do we buy from China?

Lochhead: You've got different things like tung oil, raw silk; then you've got these ores.

H.M.Jr: Some special metals, this tung oil - a lot of little things, but they together amount to a great deal, to a great deal. It's a very nice business. And of course, they buy a lot from us - automobiles and automobile trucks, a lot of airplanes, railroad equipment, locomotives.

(Ambassador Aranha comes in)

H.M.Jr: Mr. Ambassador, what I suggested, if it is agreeable to you gentlemen, is this. What I'd like to do - I told the Minister that we feel that the questions we have asked him - that we have received most satisfactory answers. What I'd like to do, if it is agreeable to you gentlemen, is to concentrate on this for the next two days and do nothing else, so that we could come to some satisfactory arrangement. Now, I'm free, with the exception of a lunch appointment, just to work right straight through on this, work tonight if necessary. I mean I want to do it myself and just concentrate on this for the next two or three days, which is certainly - I think in two days we might come to an agreement. But I'd like to, if you gentlemen agree, just concentrate on this. It so happens that at lunch today I have the Finance Minister of New Zealand, but that's just something - I'll put all other business aside and I'll just concentrate on this, if that is agreeable to you gentlemen, see?

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- Aranha: We're entirely at your disposal; we'll fulfill the program you set.
- H.M.Jr: All right, I want to - you see, not having sat in on all of these - not having had a chance to, as they say in school, do my homework, if you would take a little pity on me and could - either you or the Minister - maybe review just where are we now, it would help me, be a kindness to me. Just where are we at this moment, you see - if you could....
- Aranha: You mean if - I can tell you this. We had this last meeting with the technicians and we gave all details and all these answers, and they promised to study this memorandum that we gave, and we left them with the hope that today we could settle something. That's all we.....
- H.M.Jr: Well, they've got the answers, but.....
- Aranha: Yes.
- H.M.Jr: ...but it's more than that. I mean are we ready to put down on a piece of paper....
- Aranha: ...what your ideas are.
- H.M.Jr: Mutual....
- Aranha: Mutual..
- H.M.Jr: ...mutual ideas. Question of sale of gold - that's what it amounts to, isn't it?
- Aranha: Yes.
- H.M.Jr: And under what terms and conditions? Aren't we up to that point?
- Aranha: Yes, we are at just that point.
- H.M.Jr: Now, if I - as I understand it, first, the question of over how long a period has not been discussed, has it?
- Aranha: No - we just - it's an open question, the amount and the period.

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H.M.Jr: Well, would you like to discuss the amount first or the period first? Which would you.....

Aranha: Oh, I think one is depending on the other; the one completes the other.

H.M.Jr: Well, have you or the Minister got anything in mind as to the amount or the period?

(Ambassador and Costa confer in Spanish)

Aranha: The Minister says that the interest of his government is just to have the longest period that could be possible, and to reduce the amount but to have the faculty to buy more if that is in our interest.

H.M.Jr: Well now, let me just raise up some period, to have something to discuss, you see. I want to explain; you see, we have a policy here that we are on what we call a 24-hour basis, which means that if any country wants to sell gold to us, we reserve the right in all of these agreements, the tripartite agreement and all of them, that anybody can change on 24 hours' notice. I mean I just want to give that as a background - because we are the only country in the world that has a fixed price for gold.

Aranha: Yes.

H.M.Jr: Now, we don't want anybody to take advantage of us because we have that, and use us as a springboard. Therefore, we have always reserved the right to say that anything that we do is subject to cancellation on 24 hours' notice.

(Ambassador and Costa confer)

H.M.Jr: I just wanted to give you that.

Aranha: Yes, I am just explaining.

H.M.Jr: Well, what we'd like to do - Dr. Feis has given me some of this background - there was this thought, that this would be helpful - now I'm just feeling my way - that if we could say, first, as to the time, we'll say, two or three years - I don't know how long

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you want it - with the understanding that this agreement could be broken off by either country on 30 days' notice.

(Ambassador and Costa confer)

Fels: After discussion.

H.M.Jr: Well, whatever the - however the lawyers would have to word it, I mean.

Aranha: Yes.

H.M.Jr: I mean each country, after discussing the matter, could break off the agreement on 30 days' notice.

Aranha: Yes, that's correct.

H.M.Jr: I mean I don't know whether you'd want it for one year, two years, or three years. I'm just throwing this out. I don't expect you to say "Yes" or "No."

Aranha: Well, we would have to....

H.M.Jr: Think about it. That we would say during that period we would agree to sell to you, as I understand it - do I understand you have mentioned the amount 50 million dollars worth of gold?

Costa: It's 60 million.

H.M.Jr: 60 million. ...60 million dollars worth of gold at whatever the legal price is in the United States on that particular day.

Aranha: Yes. (Explains to Costa)  
That's correct.

H.M.Jr: Now, that protects us so that we can say to anybody that we are not giving you a better agreement than we are to England or France, but we're giving you as good an agreement. As a matter of fact, we're giving you a little bit better agreement, because - you're getting something, I think, that is a little bit better than anybody else has, if you....

Aranha: (Explains to Costa)

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- H.M.Jr: Now, as I understand, if, let's say - during this period, let's say, you buy one million dollars worth of gold. As I understand it, you pay for that gold and will leave it on earmark at the Federal Reserve in New York, but the gold belongs to you and we can't hold you to keeping it there forever, but the understanding is that you will try to keep it there.
- Aranha: Yes.
- H.M.Jr: But after all, it's your property, so that if you should during that period find it necessary to transfer it, of course, it being your property, you would have that right; but I understand that the idea is that you are going to try to build up a gold fund in the United States.
- Aranha: That's correct.
- H.M.Jr: And that is why we're going into this agreement.
- Aranha: (Confers with Costa) Yes, it is exactly that.
- H.M.Jr: Now, I don't know - now I'm on ground I don't know, because I've been told - has in this discussion been raised the question of borrowing foreign exchange against gold they have purchased?
- White: There is a statement there that if they wished to at some time - if they need dollar exchange for certain brief periods, they could borrow against gold left here as collateral, at interest.
- H.M.Jr: That against the gold that you have bought and paid for, if at any time you want to borrow against that - arrangements which we have just made with the Chinese - this is for you in confidence - are that if - again using the figure of a million dollars - if you have a million dollars worth of gold here, we would stand ready at any time to lend you against this million dollars worth of gold a million dollars, a full million, for which we would charge you whatever the rediscount rate of the Federal Reserve is, plus a half of one percent. The rediscount rate now is one and a half percent. We'd charge you whatever the rediscount rate is of the Federal Reserve, plus one half a percent. So at present it would come to one

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and a half percent plus a half percent, or two percent.

Aranha: (Confers with Costa) That's correct.

After the agreement with the Chinese, I am afraid of these cigarettes - that they could have opium.

H.M.Jr: I told Dr. Sousa Costa that our agreement had nothing to do with the Japanese-Chinese war.

Aranha: But I think it will have an effect on that.

H.M.Jr: Well, I don't think it will hurt China.

Aranha: No.

H.M.Jr: Gentlemen, have I covered everything? Williams, is that... .

Williams: I think so, in general. There would follow then the question of how much gold they are interested in.

H.M.Jr: He said 60 million.

Williams: And over what period.

H.M.Jr: Well, we have said that.....

White: Is that 60 million definitive or tentative?

H.M.Jr: Well, this whole thing - without getting down to details, have I covered the subject as you understand it?

Williams: Yes.

Feis: Mr. Secretary, if I may say, I think that phase of the subject - I think also the question of central bank stock, which perhaps is a separate subject.....

H.M.Jr: Will you hold that a minute? Now, wouldn't it be the thing, Mr. Ambassador, if I would sort of - see, what I'm trying to do is sort of feel my way in this. Before we get on what Dr. Feis says, have I covered all the points in a general way that Dr. Sousa Costa

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has in mind?

Aranha: (Confers with Costa)

Costa: I think so. I understand this delay (period) of one, two, or three days (years) is not an important point of the matter, because you could give it larger delay, no?

Aranha: The Minister is saying that the period - when you asked these gentlemen, they talked about the period, and he was saying that the period we have to discuss, because that depends on the amount and the way in which you will buy, and that can be more or less; we will want just certain - more or less a period, an exact period, because during this period we will be compelled by ourselves to buy all this gold.

H.M.Jr: No, no, not in this.

Aranha: But we will compel - we will compromise ourselves for our ideas in Brazil, you know.

H.M.Jr: Yes, but as I understand it, Mr. Ambassador, what you are getting from us is the right to buy up to 60 million, but you don't have to buy it.

Aranha: But we'll have to for ourselves, our needs. You're right, but....

Costa: Three years is too short, in my opinion.

H.M.Jr: How many?

Costa: We can not do anything in three years.

H.M.Jr: How many years would you think?

Aranha: Well....

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

Feis: Mr. Secretary,.....

H.M.Jr: Just a second, Herbert, please. If we have covered all the points, what I would suggest is that you people take a couple of hours to think this thing over.

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Aranha: Yes.

H.M.Jr: We can then meet again at three o'clock, you see.

Aranha: And we will write that....

H.M.Jr: And we will have our people reduce what I have said into writing. Then we can meet again at three o'clock and we could again.....

Aranha: Fix all details.

H.M.Jr: ....talk it over. And then if we don't come to an agreement again, we will keep this evening open. Have you any social engagements?

Aranha: Our idea was to go to Dallas tonight at ten o'clock, but we will not.

H.M.Jr: Well, if you could it would be a favor to me.

Aranha: Yes. No, it's not a favor; we're interested.

H.M.Jr: It would be a favor to me. And then if we are free - let's say we don't - we see you again at three; then we can work again this evening and then tomorrow morning. And by withdrawing a couple hours, giving you a chance in between and giving us a chance, why, I think that this is going to be very easy. I mean I'll keep tonight open if he has no date.

Aranha: We want to know if you're going to Hawaii or to Brazil; if you're going to Hawaii, we will go to Dallas.

H.M.Jr: No, I tell you, I told Mrs. Morgenthau about your most kind offer and she wanted me to thank you and say that.....

Aranha: The next year.

H.M.Jr: ....but we will consider it very carefully next year, when we don't take the children, just when she and I might go, maybe in the winter time. But I'd like to very carefully think about it, you see.

And then if we could come back about three o'clock. And our people can put it - you get it - then we'll

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see how near we are together.

Costa: You will see me - I'm in the Chancellory and I'll come back here about three o'clock.

H.M.Jr: You'll be back here.

We'll have a draft.....

Aranha: Have a definite solution just this afternoon.

H.M.Jr: We'll make a draft, but we'll have to leave the number of years blank and that sort of thing.

Aranha: Yes, that's what....

Williams: Don't you think it would be a good idea if we could talk a while informally now before you make your memorandum and we make ours?

Aranha: Well - yes, we'll go over to your room.

H.M.Jr: Now, if you don't mind, I say no - if you don't mind. I dislike to lead these gentlemen, and I'd like to be at all the meetings from now until tomorrow, and I can't do it now myself. And so if you don't mind I'd rather let - we'll have something, and if we have it before three o'clock I'll send it up to the Embassy, and if not, in any event we'll have it for you at three o'clock. But I'd like to meet with you gentlemen personally.

(Brazilians leave)

H.M.Jr: Do you gentlemen want to sit down?

I hope you don't think I was rude, Williams.

Williams: I thought I had a suggestion for simplifying....

H.M.Jr: I thought it might be best, if you don't mind, because I don't see what else there is, and if - Feis agrees with me we covered everything this morning except the central bank. I think the thing to do is - where's Oppen? Oh.

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- Feis: I have one point that I'd like to raise among ourselves about period and amount. If you set an amount and if you have your 30-day clause in it, do you need a period? Is there any question of policy involved? These people plainly want to go back home; they want to set their own period before their people as part of their business of creating a central bank. They may, I think, probably go in for five years or something of that sort.
- Williams: Yes, five years.
- Feis: That may be longer than you want to write - a five-year agreement.
- H.M.Jr: With a 30-day cancellation, what do I care?
- Viner: There won't be any difficulties.
- White: Do you want to raise any question with respect to amount, because I think the amount they suggest is too small even according to their own figures.
- H.M.Jr: Listen, Harry, if I say so myself I thought I was pretty good, seeing I hadn't read anything. Were you through, Herbert?
- Feis: Yes.
- H.M.Jr: Now, can you gentlemen - 296 is where you fellows hold court - go back there and try to put down what we have said today and then.....
- Viner: Have it by noon.
- Riefler: Why not work out a tentative agreement?
- H.M.Jr: I wouldn't be ready at noon. I'll be ready about 2:30.
- Lochhead: Mr. Morgenthau, in connection with the question of a possible loan on that, the thing - we'd set it up on the same basis as a repurchase agreement.
- H.M.Jr: And if they bring up the fact President Roosevelt said one-eighth of one percent, what the President had in mind was the option to buy, which he is willing to charge them one-eight of one percent. We're

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not charging them anything; we're going him one better.

- White: In other words, their statement misunderstood the President.
- H.M.Jr: He had the idea that for the right to buy 50 million he'd charge them one-eighth of one percent. We're not going to charge them anything.
- Williams: If we - do you want us to put in five years?
- H.M.Jr: I'd make it X.
- White: X amount and X period.
- Lochhead: Right.
- Williams: Because they indicated as they were going through the door that it was five years they're interested in.
- H.M.Jr: I'd let them come back with that. Right, Herbert?
- Feis: Yes.
- H.M.Jr: Could you be back here about 2:30?
- Feis: Yes, sir.
- Opper: Now, I was just - first of all, this would probably be the Federal Reserve Bank as our fiscal agent; on the other hand, we don't know who they're going to work with on the other side; we'll have to leave that blank, because they're talking about creating a central bank but they haven't got one yet.
- H.M.Jr: May I answer that question? It is between the Treasury of Brazil and the Treasury of the United States - through them or whoever they designate. Like the Belgian thing; make it like the Belgian thing.
- Lochhead: That's all right; we just wanted to get that set-up.
- H.M.Jr: Like the Belgian.
- Viner: Now, this legal price is the price less a quarter of one percent, or plus a quarter of one percent.

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White: That's the legal price. It isn't the legal price plus; the legal price includes the plus or minus.

Lochhead: Opper has the phrases all worked out for that.

H.M.Jr: Which Opper agrees is all right.  
Shall we say definitely 2:30?

Williams: That's all right. Really very simple.

## RE BRAZILIAN AGREEMENT

July 14, 1937  
2:45 p.m.

Present: Mr. Lochhead  
Mr. White  
Dr. Viner  
Mr. Riefler  
Mr. Williams  
Dr. Feis  
Mr. Opper

H.M.Jr: Where is the piece of paper?

White: We've got one that we made some last minute changes on.

H.M.Jr: Good God, I'd like once to have a piece of paper that - they just want to change two words, they say.

White: This is the meat of it.

Viner: None of them are ever any good until the last minute, if then.

White: This is the meat of it.

H.M.Jr: Where's the gravy?

White: It's coming - being warmed up.

H.M.Jr: What's this?

Opper: I understood this was the outline of the agreement.

H.M.Jr: Did Oliphant talk to you since I've seen him in the last 15 minutes?

Opper: Not the last 15 minutes.

H.M.Jr: You better go out in Kieley's room and talk to him on the phone.

(Opper goes out)

H.M.Jr: Don't you think we ought to charge the Federal Reserve something for the publicity we give them and all the business we give them? I mean here we use the rediscount rate and...

-2-

Viner: For occupying the time of their staff.

H.M.Jr: Huh?

Viner: We ought to charge them for giving their staff an occupation.

H.M.Jr: Useful occupation.

Williams: That's a thought - a thought in that.

(Opper returns)

H.M.Jr: Did you talk to him?

Opper: Yes.

H.M.Jr: (After reading draft) O.K. with me.

Feis: A suggestion. If you're going to show them a copy of this....

H.M.Jr: Yes.

Feis: ...you might consider this, that last phrase after the comma in Number One - "the gold will become the property of Brazil upon sale." I might raise a slight smile....

H.M.Jr: It's unnecessary?

Feis: Yes, unnecessary - and it might provoke thought.

Viner: Of course the agreement will have to say that.

Lochhead: The agreement will say a lot of things by the time Mr. Opper gets through.

Feis: "Undertake to sell it to Brazil." You sell it to Brazil, it becomes Brazil's property.

White: I think you're right.

Williams: That's right; that could go off, I think.

Feis: Unless you want to say "the dollars to become the property of the United States and the gold to become the property of the Brazilians."

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- H.M.Jr: He's in a better humor this afternoon. I felt sorry the way he went after you this morning for not having done any homework.
- Viner: He was trying to get back at that lecture we gave him last week at catching us cold this way, not even....
- H.M.Jr: He had to wait a week to think up a good answer.
- Viner: It wasn't a good one.
- H.M.Jr: It's all right.
- Lochhead: Trouble is, they never should expect a professor to do homework.
- Feis: Now, Number One begins by saying "The United States undertakes to sell gold to Brazil a maximum amount of \$\_\_\_\_\_ over a maximum period of \_\_\_\_\_ years." Then when you get to Three, you say "This agreement is to continue for \_\_\_\_\_ years." Well, that's the identical period, isn't it, as in Number One, and I should think you could cut Three down to "This agreement is subject to termination by either party on 30 days' notice."
- Viner: This takes some of that in - 30 days.
- Opper: Not only that; if you want to take it out of any place, you want to take it out of Number One. Number Two has no such provision in it.
- Riefler: Eliminate it from Number One, I should think.
- H.M.Jr: Why couldn't you say this - "United States undertakes to sell gold to Brazil maximum amount of \$\_\_\_\_\_ over a period of X years subject to termination by either party on 30 days' notice."
- Opper: Don't you want the same termination under Two, Mr. Secretary?
- Williams: There's a little difference, though, about Two. They might set it up in One for a period of years and plan to use it for a longer period.
- H.M.Jr: I'm surprised you put the word agreement in there.
- Viner: I wondered about that. '

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Opper: I think it is clearly an agreement, Mr. Secretary.

H.M.Jr: Is it?

Is this all right?

Feis: In substance, yes.

Williams: I would rather see the reference to the years left out of Three myself - "subject to termination....." It is defined in One. And I doubt if you want to define it in Two at this time.

Riefler: If it is subject to cancellation in 30 days....

Viner: Well, are you - is somebody watching those?

H.M.Jr: I'm watching them.

"This agreement is....."

Feis: "...subject to termination...."

H.M.Jr: "...subject to termination...." - "of any part"? - can't say that. "This agreement is subject to termination...."

Feis: If you say what is meant by that phrase - "in whole or in part." But I don't think I'd....

H.M.Jr: No.

Feis: "This agreement is subject to termination by either party on 30 days' notice."

H.M.Jr: (Handing revised draft to Miss Chauncey) Bring in three or four copies please, Miss Chauncey.

Williams: I don't think it's very good English the way it is. "This agreement is subject to termination by either party....."

H.M.Jr: I'm going to tell them this is very rough and you fellows had a very bum lunch.

Feis: And we were translating from Portuguese.

Viner: Of course, this is just the outline of the agreement. It doesn't....

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H.M.Jr: Well now, if they agree to this, Mr. Opper, how long do you want to do your legal work?

Opper: Well,.....

H.M.Jr: When would you have something more than this?

Opper: I think we can have something ready as far as we're concerned here, depending on how long it takes to check it around, by tomorrow afternoon.

H.M.Jr: What? How long since you've worked all night?

Opper: All night?

H.M.Jr: Well, half a night. One o'clock in the morning.

Opper: June 30th.

Viner: 1934?

Opper: Well, I have a group of witnesses.

H.M.Jr: June 30th. What's today? Well, it's just about time you did it again.

Opper: I was thinking of our checking it in New York.

H.M.Jr: What?

Opper: I was thinking about checking it in New York.

H.M.Jr: Well, I want to get this baby fixed up.

Viner: Also, if this is acceptable, we ought to start working immediately afterwards on the public statement, and we have some things...

Feis: There is a question - we have a joint statement under consideration on other matters; now, whether we want to get out two joint statements or one joint statement is something we might talk about. And then whether you'd want it - if you want to get out two, which I imagine might be best, whether we couldn't arrange to get them out simultaneously.

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- H.M.Jr: That's all right. But, if you remember, up to now we have kept our financial and trade agreements separate, and I would lean towards the Treasury getting out its own statement, if it is entirely agreeable; and it could get out the statement at the same time as the State Department
- Feis: Might get them out late in the evening for use in the morning newspapers.
- H.M.Jr: Quite all right. But how long will it be before you people are ready?
- Feis: I'll be disappointed if we are not ready by tomorrow night, and seriously disappointed if we shouldn't be ready by Friday night.
- H.M.Jr: That means you'll be ready Monday. Jake Viner just can't stick around here that long.
- Viner: Waiting for the State Department? I should say not.
- Feis: They've got our text, which they're revising; it depends on them.
- H.M.Jr: I'd like - now mind you, I'm willing to be overruled, but I'd much, much prefer to have a separate Treasury statement.
- Feis: Oh sure, all right.
- H.M.Jr: But more than pleased to do it the same time as the State Department. How's that?
- Feis: Swell.
- Williams: I think we better put - this Number Two has a funny sound. Couldn't you say "For purposes of exchange stabilization the United States agrees to furnish upon request up to a maximum....."? There's such a break between "furnish" and what you furnish. I read it over two or three times to see what it meant.
- Viner: Well, remember, this is just so that they can have something a little more specific as a basis of talking. It is not - I don't think it matters much.

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- H.M.Jr: Well, would you have a statement as to policy ready for tonight?
- White: I think so.
- Viner: We could have it from our side.
- H.M.Jr: I mean show them.
- Viner: Show them.
- H.M.Jr: To show them.
- Feis: Another point you should consider - do you want to put in a sentence here saying that we are extending our facilities for earmarking purposes in.....
- White: Well, they have that already. They have that.
- Lochhead: We extend that to any foreign government or central bank - government or division.
- H.M.Jr: Over 30 central banks have got that now.
- Viner: I think one thing, too, to tell them is that the facilities of the Treasury, Federal Reserve Bank in New York, Federal Reserve Board - technical facilities, whatever, they may be, are available to them....
- H.M.Jr: No charge.
- Viner: ...with respect to the central bank business.
- H.M.Jr: You mean we are offering them Williams' services free.
- Viner: Yes, but we oughtn't to specify because we want to make it sound big.
- Williams: You better keep that part dark.
- Viner: But you want to protect their sensibilities there, so we'll shade it - "if you wish - such use as you wish to make of our technical facilities."
- H.M.Jr: Well, I thought we'd let that go to the last minute, because we want to hold out the best until the last.

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That sounds like quite a mouthful - you offer them all the technical facilities of the Federal Reserve System.

Harry, have you talked to Marriner Eccles?

White: I did speak to him. He had been tied up last night and this morning for very excellent reasons. He was up on the Hill this morning and last night.

H.M.Jr: Discussing our sterilization program.

Viner: What program?

H.M.Jr: Sterilization.

White: Steagall called him.

Lochhead: And inflation.

White: He promised to call back this afternoon as soon as he had gone over it.

H.M.Jr: I know Steagall has had nothing to do, so I guess he got Eccles up there.

White: But that Swiss letter - we changed it, added something to it; so there's nothing else to do if you want to look at that.

Viner: It's a good letter now.

H.M.Jr: Have you people read about the latest Swiss move, what they're asking?

White: Yes, it's included in this letter.

Viner: "e've taken care of it in the letter.

H.M.Jr: No! You read what Cochran said, but not what the State Department says.

Viner: Well, Cochran sends his things here in time to be read.

\* (Miss Chauncey brings in new draft,  
copies of which are distributed)

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Feis: What time are they due here?

H.M.Jr: Three.

Viner: Just received all that Canadian stuff, if you want it.

H.M.Jr: Don't you jinx me, now. The President, as a matter of fact, ordered me to proceed into the Pacific to be near the scene of warfare so in the absence of Dr. Kung, he said, I could become Acting Minister of Finance of China, so I came back and said, due to the illness of General Chiang Kai-shek, did Mr. Roosevelt want to take his place?

(Messrs. Costa, Aranha, and  
Carneira arrive; rest of transcript  
written up separately)

## MEETING WITH BRAZILIANS

July 14, 1937  
3:00 p.m.

Present: Dr. Arthur de Sousa Costa  
Ambassador Aranha  
Mr. Carneira  
Mr. Lochhead  
Mr. White  
Dr. Viner  
Mr. Riefler  
Mr. Williams  
Dr. Feis  
Mr. Opper

H.M.Jr: My experts are not very good this afternoon. They all had too much lunch.

Aranha: Yes.

H.M.Jr: And so we all tried to write something out and it's - I think it expresses the idea but it may not be very good English.

(Brazilians read outline of agreement)

H.M.Jr: That isn't 10 years, that's an X; it isn't a 10.

Aranha: It's too big to be.

Costa: I think half X is sufficient. But what do you understand by this expression "to be paid on request"? At the end of the second....

H.M.Jr: I see what you mean.

White: It's a demand loan.

Lochhead: You don't want to put any termination on that; it's a demand loan, to be terminated on request.

H.M.Jr: Mr. Lochhead says it will be the same as a demand loan.

Lochhead: Just keeps running until we decide to terminate it. You don't fix - no fixed period as a general thing - those loans don't run for a fixed period.

H.M.Jr: But if that isn't agreeable, it can read to run for a fixed period.

Carneira: (Explains to Costa)

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- H.M.Jr: We can change that.
- Costa: It's all right.
- H.M.Jr: This has been done very quickly, just to have something. I mean the idea is that we will have to have something, some way of terminating it. Now, you could say for a definite period, or for a fixed period, or something.
- Feis: Would I be wrong in thinking that the period would naturally be fixed at the occasion of the transaction?
- Lochhead: I doubt it very much. If they needed exchange under this, it would probably be for some emergency that came up. It might be three or four days; they might want to pay it off. Might run for several months. But they wouldn't - it would keep going until.... They get the money right away; they can pay it off any time they want. And we have to have some way so we can terminate it some time.
- (Brazilians confer at length)
- - - -
- H.M.Jr: This has been done in a hurry, and after you're through I have all day and up to tonight. I have the rest of the day and the evening free. I have plenty of time.
- Costa: That's fine; I have nothing to....
- Carneira: Mr. Secretary, may I ask your Excellency what is the normal period for such....
- Lochhead: No such thing as a normal period.
- H.M.Jr: The only time we had anything like that was with China and Mexico; sometime they might want it for three days; you might want it for three months.
- Viner: As a demand loan.
- H.M.Jr: As we understand it, it is for foreign exchange purposes.
- Carneira: Not a fixed period.

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- H.M.Jr: You might have a raid on your exchange over a, say, the first of January, over the New Year, if that's the time, or the first of July - I don't know when your period - and for three days you might need dollar exchange to tide you over the first of January. Or you might need it for three months. The only time we have ever had such arrangements is with Mexico and with China, and we're working it out the same way. We don't know, it might be....
- Carneira: The circumstances, yes.
- H.M.Jr: You might just need it over the first of January on settlement; you might need it for a week.
- Williams: Would they like it better if it were "repayable on demand"? Is it the matter of words? That would make it read more like a demand loan.
- H.M.Jr: We have plenty of time.
- Viner: Archie, didn't we once have an arrangement of that sort for copper dealings with France?
- Lochhead: (Nods no)
- Viner: What was it?
- (Lochhead explains to Viner privately)
- Feis: (Jokingly) If the Treasury doesn't want to do it, bring the gold around to me and I'll loan it.
- Aranha: We have only one doubt here, this "to be repaid on request." That makes us depending on this request.
- H.M.Jr: Well, how else would you say it?
- Aranha: Which is something that would trouble our people.
- H.M.Jr: How would you like to have it?
- Aranha: Oh, that's a question - "to be repaid on understanding" or "at the time of the end of the obligation."
- H.M.Jr: Clarence, can you say something - "terms to be arranged at the time"?

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Opper: That can be done very easily.

H.M.Jr: Would that satisfy you legally?

Opper: Oh yes.

H.M.Jr: "Terms to be arranged at the time."

Opper: "...time of repayment to be arranged...."

H.M.Jr: "...time of repayment to be arranged...."

Opper: "...to be mutually agreed to at the time of the...."

H.M.Jr: Yes.

Opper: That can be done.

H.M.Jr: Write it out and let me see how it looks. "Time of repayment to be arranged when transaction takes place" - something like that.

(Opper hands sentence to Secretary)

H.M.Jr: "Time of repayment to be mutually agreed upon at the time the dollars are furnished." Well, that - can't you improve on that?

Opper: Of course, that isn't the language we'll put in the agreement.

H.M.Jr: (Handing to Brazilians) This is what Mr. Opper wrote; this is the spirit, but not - but not - I think we'll want to change it.

Aranha: "Time of repayment to be mutually...."

H.M.Jr: It's not very good.

Aranha: Yes, that's all right.

H.M.Jr: Yes, but he'll want to make it....

Costa: "here is a limit for these operations, a legal limit?"

H.M.Jr: Have we any legal limit?

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Opper: No, there would be no time limit required by law.

Aranha: It's all right. And now we have only to discuss the amount, and the Minister said 60 million dollars.

Costa: Well, but you must understand before if these dollars are gold or not. I think by the - how it is written that it is gold, a maximum amount of dollars gold.

H.M.Jr: Gold dollars, yes.

Costa: And so not so much. When I spoke about 60 million dollars, I meant 60 million paper dollars.

Williams: It is covered in the first line, - "sell gold."

Aranha: 60 million dollars now - we'll invest now, buying gold, and we will have in gold just the conversion of the 60 million dollars paper in buying gold.

Viner: You will have 60 million dollars.

Aranha: 60 million dollars gold would be too much.

H.M.Jr: How much does the Minister.....

Costa: What is now the paper.....

Feis: That now means what you mean. You've been a little bit thrown off just by a chance juxtaposition of words - you know what I mean - but the meaning of One is the meaning that the Minister has in mind.

Costa: Yes?

Feis: Yes.

Aranha: "The United States undertakes to sell gold to Brazil to a maximum amount of \$60,000,000."

Costa: Paper dollars.

Feis: Present dollars.

Aranha: Present dollars. "...over a maximum period of five years, as and when requested by Brazil...."

Costa: That's all right.

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- Aranha: "...the gold to be paid for in dollars at the time of sale at the mint selling price prevailing at that time."
- Feis: When you get the actual phraseology....
- Aranha: At the rate now, how much gold will produce 60 million dollars?
- White: \$35 an ounce, plus one-quarter.
- H.M.Jr: You mean how many ounces? You want it in ounces?
- Aranha: Yes.
- Costa: Not dollars; we want how many gold dollars.
- White: It's the same thing. It's identical, not more or less.
- H.M.Jr: Exactly the same. We have only one kind of dollar.
- Feis: By the expression "gold dollar" they mean the previous....
- Viner: They mean the old gold dollar.
- White: That's out.
- H.M.Jr: But, Mr. Ambassador, in talking here it is always one kind of dollar, 35 ounces of gold to the dollar. We don't - we only talk - if you say 60 million dollars, it's 60 million dollars, and whether it's figuring the dollar at 35 ounces - \$35 to the ounce - we only have one kind of dollar now. We don't talk of the present dollar and the original dollar. Legally we only have one kind of dollar.
- Aranha: But you reduced the value of the dollar 40 percent.
- H.M.Jr: That's right. But when you're talking about 60 million, you're talking about 60 million of our paper dollars, and we're talking the same thing.
- Aranha: That's correct.

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H.M.Jr: Well then, we'd loan a maximum - we loan up to 60 million, don't we?

Viner: No, it depends on, I should say, what they would like, because they might acquire gold otherwise than by this procedure, and there is no reason we shouldn't lend them for a larger amount of gold. Do you see? We would here agree to contract to sell them gold up to 60 million dollars, but they might acquire gold from other sources for another, say, 40 million dollars. There is no reason why we shouldn't lend them for a larger amount of gold than that which they had purchased from us.

H.M.Jr: I would want a subsequent agreement on that. I think this agreement should simply cover that we'll lend them up to the maximum amount that they have here.

Viner: Yes, that would be here too.

H.M.Jr: We'd have to - if they decide - if it comes to the period..... Jake, if it comes to the period that they have more gold here, we can give them....

Viner: Supplementary agreement.

H.M.Jr: ....a supplementary agreement, because I don't want it to read for the American public as though we were willing to loan them - they were going to buy 60 million dollars and we were going to loan them a hundred million. This makes sense. If they deposit more gold here, we'll give them a supplementary agreement.

I mean that's all you can ask for or expect - is that we would simply loan you one dollar for every dollar of gold. If what Dr. Viner was saying - you should decide later, after you bought 60 million, that you wished to deposit more gold here that you may have acquired in England or somewhere else, and wished to have the right to borrow beyond the 60 million because you have more gold here, why, we'd just give you an additional agreement later on. That would be easier.

Aranha: This is a beginning.

H.M.Jr: This is a beginning.

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- Aranha: Yes, the first step. Afterwards we can do much more.
- H.M.Jr: The three of us will still be here for a few years.
- Aranha: Yes.
- H.M.Jr: We'll still be here for a couple more years.  
Now, is that all right?
- Costa: (Nods yes)
- H.M.Jr: Looks all right.
- Aranha: All right, absolutely all right.
- H.M.Jr: Now, what we'd like to do is to put this now in the legal language.
- Aranha: All right.
- H.M.Jr: And that - they ought to have something tomorrow morning - the legal agreement, you see, that you can sign and I can sign.
- Costa: Yes, yes.
- H.M.Jr: And then in the meantime what we'd like to work on, with your help, is a communique that we could give out.
- Aranha: (Explains to Costa) That's all right.
- H.M.Jr: Now, as I - the matter which we haven't mentioned yet is this question of your central bank, and I wanted to say that in behalf of the Government we are ready to lend you any experts that we may have in the Federal Reserve or in the Treasury to assist you - to go to Brazil to be of any assistance that you may want.
- Aranha: (Explains to Costa)
- Costa: I thank you so much.
- H.M.Jr: Now, do you gentlemen think you could have something by this evening in the way of a communique?

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(Treasury people nod yes)

Aranha: We can write it just now - very easy.

H.M.Jr: These people don't work quite so quickly as that. You see, they're all professors, and it takes them - it takes them a little time, and they have a lot of fun out of it, you see, and if I wouldn't let them go into a room and have some fun arguing, why, they'd stop working for me, you see.

You see, even Dr. Feis enjoys that, because he likes to get in an argument with people.

Aranha: Dr. Feis is from the other side.

H.M.Jr: No, he enjoys coming here and we enjoy having him. But I don't - I don't think it would go quite so quickly.

Aranha: I have one doubt here - "The United States agrees to furnish upon request....."

H.M.Jr: 60 million.

Aranha: 60 million. Thank you.

Feis: I suppose when that is drafted it would read something like this: "The United States furnishes at such times and in such amounts as the Brazilian Government may request up to a maximum of \$60,000,000." I mean that's the way, when we got to actual drafting, it would read, which would be much clearer than this - the actual draft.

H.M.Jr: Would it be agreeable to you gentlemen to come back at 9 o'clock tonight?

Costa: Yes.

Aranha: Yes.

H.M.Jr: Here?

Costa: All right.

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- H.M.Jr: And then we'll have something. Do you want to say about the question of timing - do you want to talk about that?
- Feis: No, I should think if it's convenient, if we're going to have a statement to give out at the State Department and a statement to give out here - if it is convenient, you might give them out at the same time, but it is not essential.
- Aranha: I just want - now, in our statement, which is more or less - it is too long.
- Feis: Well, Mr. Hull thought it was too long too, as I told him.
- Aranha: You know that it's just - we have to transmit to Brazil and all, and when it's too long - it's too far, Brazil, and they can misunderstand the thing.
- Costa: This statement is perhaps the most important statement we have ever made.
- H.M.Jr: Well, would you prepare one too?
- Costa: No, no, I'd like for you to prepare it.
- Aranha: We are all - we're sure that it will improve the monetary conditions, the same as with the Chinese.
- H.M.Jr: That's why I wanted.....
- Aranha: One word from you and it's a great help for us.
- H.M.Jr: But - I mean if you have it tonight, then you can take it back, you see, look at it, work on it, you see, and that's - I want to push so that we can do it well. You understand?
- Aranha: Yes, I know.
- H.M.Jr: I hate to ask him to give up his trip to Texas.
- Aranha: But we are here; we will go tomorrow night.
- H.M.Jr: We will be through - be finished.

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Costa: Yes, I like it better.

H.M.Jr: We'll do it at 9 o'clock. We'll take our time, then look at it again tomorrow morning.

Aranha: Yes.

H.M.Jr: And by tomorrow afternoon we ought to be ready to give it out.

Aranha: I think maybe we could have something like that Chinese - a statement like the Chinese will be very good.

H.M.Jr: Something like that.

Aranha: That's correct.

Well, goodbye and thank you, Mr. Morgenthau.

H.M.Jr: We'll keep at it until we get through.

(Brazilians leave)

H.M.Jr: Now, do you gentlemen want to go down to 296?

(Gaston comes in)

H.M.Jr: Herbert, they want to draft a Brazilian communique, see?

Gaston: There's a bunch of newspapermen out here. I told them you're still conferring.

H.M.Jr: Is there quite a bunch? Say that we're conferring and we meet again tonight and tomorrow, and we hope for something by Thursday or Friday.

time of repayment to be mutually agreed upon at the time the dollars are furnished.

1. The United States undertakes to sell gold to Brazil ~~for~~ a maximum amount of \$ 60 million<sup>5</sup>, over a maximum period of ~~5~~ years, as and when requested by Brazil, the gold to be paid for in dollars at the time of sale at the mint selling price prevailing at that time.
2. The United States agrees to furnish upon request for exchange stabilization purposes up to a maximum of \$ 60 mil against gold, at rate of interest 1/2 percent above the rediscount rate of the Federal Reserve Bank of New York, to be repaid on request.
3. This agreement is subject to termination by either party on 30 days' notice.

July 14, 1937.  
3:39 p.m.

H.M.Jr: Hello.

Mr. Constantine Oumansky. Hello, How's our Mr. Secretary.

H.M.Jr: How are you?Mr. Oumansky.

O: Yes.

H.M.Jr: I want to ask you to do me a little favor.

O: Yes, please do.

H.M.Jr: I am going to need the services tonight of Dr. Feis, on this Brazilian matter we are working on.

O: Yes.

H.M.Jr: And I wondered if he could be excused and then if you would like it, why when we get through here, Mr. Feis and I would be delighted to drop in and have coffee with you.

O: That's very good, I regret that you - that it can't be earlier, but to make a bargain Mr. Secretary, I accept that - in the case that you and Dr. Feis will come out for dinner.

H.M.Jr: Yes.

O: That's fine.

H.M.Jr: That's a bargain.

O: Yes.

H.M.Jr: Well, then we are meeting here at nine o'clock and I imagine by ten we'll be through and if you'd like us to, we'd be glad to drop in and have -

O: You'll be most welcome.

H.M.Jr: It's not a big affair, is it?

O: No, it's a very informal - well, it will be Army people, Navy people - some explorer - you see my guest of honor today is the man responsible for all this flying.

-2-

H.M.Jr: I see.

O: Among other things.

H.M.Jr: I see.

O: He is the director of it.

H.M.Jr: I see.

O: So that there will be Army people, Assistant Secretary , a few Senators and Congressman - I think you will enjoy it here and I am looking forward to the pleasure of seeing you here.

H.M.Jr: Well, we'd be delighted to drop in around ten or a little after. - And Dr. Feis is here and he wants me to say to you personally he is so sorry he can't come.

O: I see.

H.M.Jr: But I - I have demanded his services.

O: Yes.

H.M.Jr: So, if you don't mind.

O: All right, thank you Mr. Secretary.

H.M.Jr: Thank you.

July 14, 1937.  
4:19 p.m.

Mr. M.  
Eccles: Good afternoon, are you all tied up?

H.M.Jr: I'm tired out, but I'm not tied up.

E: Tired out?

H.M.Jr: But if it's something I don't have to argue -

E: No, I won't argue.

H.M.Jr: I mean - you've got me down.

E: No, I don't - I won't argue. I just wanted -  
I was up on the Hill this morning and I've  
got to go up again in the morning, on one  
matter.

H.M.Jr: Are you coming right over?

E: Yes.

H.M.Jr: Right away.

E: I'll come right now.

H.M.Jr: All right.

RE BRAZILIAN AGREEMENT

July 14, 1937  
8:30 p.m.

Present: Mr. Lochhead (At 9:15 - see page 17 -:  
Mr. Gaston Dr. Arthur de Sousa Costa  
Mr. Riefler Ambassador Arenha  
Mr. Opper Mr. Carneira )  
Dr. Viner  
Mr. Williams  
Mr. White  
Miss Chauncey  
Dr. Feis

H.M.Jr: Now, have you got something for me? One more word.  
changed now?

Lochhead: Oh yes, a whole lot.

H.M.Jr: Come on, come on, Clarence.

White: This is a suggested - this is the draft that we had.

H.M.Jr: And it isn't agreed on yet?

White: I'm sorry I haven't the original.

Viner: It isn't agreed on yet. You haven't attached your  
signature - your O.K. yet, and it won't come out the  
same.

White: And this is a version that Herbert Gaston just pre-  
pared.

Gaston: After leaving those gentlemen, I wasn't entirely  
satisfied with the latter half of that, and I  
undertook a rewrite of it. That's just the latter  
half, it isn't complete.

H.M.Jr: Now, where does it start? Tell me when to start  
reading?

Lochhead: Why don't you read the first one all the way through?

Gaston: The first one is complete, and then you pick up from  
this point on - you pick up there.

H.M.Jr: "The following joint statement is made by the  
Secretary of the Treasury and the Minister of Finance  
of Brazil:

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"The Secretary of the Treasury of the United States of America and the Minister of Finance of the United States of Brazil, representing their respective governments, have entered into an agreement under which:

"1. The United States undertakes to sell gold to Brazil, as and when requested by the Brazilian Government, to a maximum amount of \$60,000,000."

That's the....

White: We didn't want to put any sum. They did.

H.M.Jr: No - "The United States undertakes to sell gold to Brazil as and when requested...." - "requested"?

Riefler: (Nods yes)

H.M.Jr: That's a funny - "as and when requested" - that word "requested" is what I stumble over.

White: Well, otherwise we either put a time limit in there....

Viner: The word "requested".....

H.M.Jr: No, it's just the word "requested" - "The United States undertakes to sell gold to Brazil" - I don't like the word "requested."

Williams: You might say "at such times as Brazil may request"; give it a different meaning.

Viner: "...at such times and in such amounts as the Brazilian Government requests, but to a maximum amount of \$60,000,000."

H.M.Jr: That's all right, but just that sentence... What did you say? "...at such...."

Viner: "...times and in such amounts...."

H.M.Jr: "time" or "times"?

Viner: ".....times and in such amounts...."

H.M.Jr: "...at such times and...."

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Viner: ".....as the Brazilian Government may request...."  
H.M.Jr: ".....and in such amounts...."  
Viner: "...as the Brazilian Government may request..."  
H.M.Jr: Yes.  
Viner: "...to a maximum total amount - a maximum aggregate amount of \$60,000,000."  
H.M.Jr: Is somebody keeping writing this besides me?  
Chauncey: I am.  
White: "...maximum of," I think, is sufficient.  
Riefiler: Why not "to an aggregate amount of"? Leave out the "maximum."  
H.M.Jr: ".....may request, to an aggregate amount of...."  
White: That's all right.  
H.M.Jr: "...to an aggregate amount of \$60,000,000."  
White: Would you say "up to"?  
Williams: "....up to the maximum...."  
H.M.Jr: "....up to \$60,000,000."  
White: That's the simplest way.  
H.M.Jr: "....may request, up to \$60,000,000."  
Gaston: That's indefinite; that might indicate they might buy 60 million at a time. "....up to a total of \$60,000,000."  
H.M.Jr: What?  
Gaston: "....up to a total of \$60,000,000."  
H.M.Jr: O.K.  
Riefiler: That's good.

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- H.M.Jr: "...up to a total of \$60,000,000."
- "2. The United States will make dollar exchange available to the Government of Brazil or its fiscal agent, under conditions which safeguard the interests of both countries, for the purpose of promoting exchange equilibrium."
- Williams: The Brazilians are very keen on that last phrase.
- Viner: They are keen against any substitute we can think of.
- H.M.Jr: Well - "under conditions which safeguard the interests of both countries" - that's the thing I raise.
- White: That's the phrase we used in the Chinese agreements twice.
- H.M.Jr: O.K.
- "This agreement is designed to facilitate the establishment by the United States of Brazil of a Central Reserve Bank...." - that's the bunk.
- Viner: No more so than the rest of it.
- Williams: That's their suggestion.
- White: They are very eager to have that.
- Gaston: I don't like the idea of making the primary object of the agreement a Central Reserve Bank in Brazil. I think there ought to be some general statement affecting both countries, such as I had in my revision.
- H.M.Jr: I think that's the bunk. I wouldn't sign that.
- Viner: What did I tell you.
- H.M.Jr: Listen, I'm like you; I've got to live up to your (Viner) expectations.
- (Reading Gaston's suggested substitute)  
 "The agreement is designed to promote the development of conditions favorable to the maintenance of

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monetary equilibrium between the two countries, and particularly to facilitate the establishment by the United States of Brazil of a central reserve bank as a part of the program of the Brazilian Government for improving the financial structure of the nation to meet the needs of its expanding economy."

White: That's a non-secular.....

H.M.Jr: That's a which?

White: I don't think the second part followed from the first.

Williams: Say "and also."

White: That will do it.

Viner: How would this change be: "This agreement is designed, by facilitating the establishment by the United States of Brazil of a central reserve bank, to promote the development of conditions favorable to the maintenance of monetary equilibrium between the two countries."

Gaston: That puts the whole thing on the central reserve bank.

White: This is in deference to their wishes.

H.M.Jr: But I'm giving it out.

Williams: Joint.

H.M.Jr: May I read this through once, to get the sense? Thank you!

"To further this program the Government of the United States of America has undertaken to supply such technical assistance and advice as the Government of Brazil may request.

"Both the Secretary of the Treasury and the Minister of Finance are pleased to have had this opportunity to extend the field of cooperation between their countries and both express their gratification that improvement in the Brazilian economy in the last few

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years enables the Government of Brazil to undertake with confidence the financial measures it has in view."

That sounds pretty good to me.

"The agreement is designed to promote the development of conditions favorable to the maintenance of monetary equilibrium between the two countries, and particularly to facilitate the establishment by the United States of Brazil of a central reserve bank as a part of the program of the Brazilian Government for improving the financial structure of the nation to meet the needs of its expanding economy.

"To further this program the Government....."

(Feis comes in)

Well, we released the statement.

"To further this program....."

Feis: Good evening.

H.M.Jr: What the well-dressed man will wear when he goes to the Soviet Embassy!

"To further this program the Government of the United States of America has undertaken to supply such technical assistance and advice as the Government of Brazil may request.

"Both the Secretary of the Treasury and the Minister of Finance are pleased to have had this opportunity to extend the field of cooperation between their countries and both express their gratification that improvement in the Brazilian economy in the last few years enables the Government of Brazil to undertake with confidence the financial measures it has in view."

(Miss Chauncey and reporter leave to rewrite statement, and return)

Opper: (Suggests substitution of "are entering" for "have entered" in second paragraph - suggestion accepted)

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- H.M.Jr: Gentlemen, on this word here, top of page 2 - please, may I have your attention. "The agreement is designed to promote the development of conditions favorable to the maintenance of monetary equilibrium between the two countries, and to facilitate the establishment...." - just "and to."
- Gaston: That makes them two separate objects, whereas we want to tie....
- Viner: "...and, with this end...."
- Gaston: "...and with this end...."
- H.M.Jr: "...and with this end..."
- White: They definitely objected to that.
- Feis: "...to this end" is all right in the United States but not in Brazil.
- H.M.Jr: Why not say "to facilitate"?
- White: "...and also..." - either "and also" or "to..."
- Williams: "...particularly" I think is not bad.
- H.M.Jr: You know the reason he's given. Our only legal justification for this is the Stabilization Fund, and Oppen doesn't feel that he can justify it legally.
- Gaston: I maintain that word "particularly" does definitely hang it on to the maintenance of monetary equilibrium.
- Oppen: "...to that end" would take care of it.
- Gaston: "...to that end..."
- Oppen: I don't understand the opposition to it.
- H.M.Jr: Anything else?
- Oppen: That's all.
- Williams: How about "to this end"? Have you rejected that?

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Viner: I'd try it out.

Williams: Why would they object? I don't understand.

H.M.Jr: (To Kieley) Would you tell them would they mind waiting for a few minutes? I'm not quite ready.

Williams: I should think they would welcome it.

H.M.Jr: Have you tried it? Has somebody tried it - "and to this end"?

Viner: I'd try it. They can strike it out.

H.M.Jr: Do you object to it, Herbert?

Gaston: No, I want it.

H.M.Jr: O.K. - "and to this end."

White: Now, the last five words of that paragraph.

H.M.Jr: Yes.

Feis: I may point out that if you use "and to this end," besides the fact that it seems to subordinate the bank to the object - the purpose of the monetary stability, you've got a long clause in there in which you explain this action beginning in one way by the phrase "and to this end" and you explain it at the end in another way; you're giving two explanations of the same action in the same clause.

H.M.Jr: Well, Herbert (Gaston) wouldn't be satisfied if it just read "and to facilitate."

White: Those last five words I'd like to see cut out, because it isn't true.

H.M.Jr: "...Brazilian Government for improving the financial structure of the nation to meet the needs of its expanding economy."

White: They needed this central reserve bank and they would need it if it didn't expand.

H.M.Jr: Who put it in?

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Gaston: I put it in.

H.M.Jr: I don't see - what's the matter?

Feis: Little harmless advertising.

Gaston: That's what I thought - putting a good face on it for Brazil.

H.M.Jr: That's all right; I like it.

White: O.K.

H.M.Jr: You say it isn't true that they need it for their expanding....

White: They need it in any case.

Viner: What they need is to balance their budget.

Gaston: They need it even more, as Archie says.

H.M.Jr: Now, may I read it once.

"The following joint statement is made by the Secretary of the Treasury and the Minister of Finance of Brazil:

"The Secretary of the Treasury of the United States of America and the Minister of Finance of the United States of Brazil, representing their respective governments, are entering into an agreement....." I have never said that in any - about "representing their respective governments" and - but I'm perfectly willing. Who put that in?

Riefler: I guess I did.

Gaston: That was in the outline of the agreement on the basis of which we wrote this.

H.M.Jr: It wasn't in the Chinese.

White: No.

H.M.Jr: Herbert, do you think it should be in?

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- Feis: I think it's a matter of indifference.
- H.M.Jr: Or is it a matter of importance?
- White: Somebody mentioned the fact that this was an outgrowth of a conversation between Presidents, and so on.
- Riefler: Well, I think the only point would be that with respect to Brazil this is the Brazilian Government that is back of it, and not just the credit of the central bank they may set up. But that isn't explicit in here.
- H.M.Jr: I'm just raising it because it sort of....
- Williams: Sounds better for Brazil if they're thinking of the effect down there.
- H.M.Jr: I mean did they put it in?
- Riefler: No, I think it was taken over from a draft which I made, and I didn't have it in there for any particular purpose at all.
- Viner: Is the word "representing" bothersome? Would "on behalf of their respective governments" be better?
- Feis: Indifferent.
- H.M.Jr: The question I raise....
- Feis: They wouldn't think that the Secretary of the Treasury has 60 million dollars of gold in his own account, so I think they would assume it's the government.
- H.M.Jr: The thing I am raising - doesn't it sort of crowd the thing? Somebody may raise the point, "Well now, isn't this something that should be confirmed by the Senate?" See?
- Riefler: Don't see any reason.....
- H.M.Jr: That's the reason; you've always kept me away from that thing.

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- White: I don't see that it's necessary.
- Viner: It's an executive agreement.
- Feis: Every single day in the year, in notes or communications, we use something similar, because it's something in the sphere of the executive.
- H.M.Jr: That's different. If I were you in the State Department, I would object to that. I'm not doing this representing the Government.
- Gaston: Oh, now.....
- H.M.Jr: Let me put it this way. Does anybody want to see it in? Does anybody think it's important? Then I'm going to take it out. That's fair enough, isn't it?
- White: With this one exception, Mr. Secretary, that hitherto when you haven't mentioned that fact, it hasn't been an agreement, it's been either a statement or a declaration of something.
- H.M.Jr: Well, if you don't mind....
- White: O.K.
- H.M.Jr: I mean if anybody wants to argue that it must go, I'll listen. Harry?
- White: No, I'd just as soon see it out, if it's all right with the lawyers.
- Viner: It's a lawyer's question.
- Opper: I think it would be all right either way, because in fact you are entering into it as a representative of the Government.
- H.M.Jr: But I think it's just as well not to say so. Instinctively I feel I'm getting a little bit beyond my territory. Now, I can talk for the Treasury. Now, the next question is, I'm doing this in behalf of the President. I just instinctively back off, and as long as I feel that way - Herbert, see what I mean? - I'm so careful to keep in my own back yard.

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When I begin to talk for the Government as Secretary of the Treasury, I don't like it. Now, certainly nobody can object to that, can they? I mean it's a sense of....

Riefler: Well then, under One and Two, not the United States undertakes to sell gold, but the Treasury of the United States undertakes to sell gold.

H.M.Jr: No, I don't think so; I don't have any objections....  
 "The United States undertakes to sell gold to Brazil at such times and in such amounts as the Brazilian Government may request, up to a total of \$60,000,000.

"The United States will make dollar exchange available to the Government of Brazil or its fiscal agent, under conditions which safeguard the interests of both countries, for the purpose of promoting exchange equilibrium.

"The agreement is designed to promote the development of conditions favorable to the maintenance of monetary equilibrium between the two countries, and to facilitate the establishment by the United States of Brazil of a central reserve bank as a part of the program of the Brazilian Government for improving the financial structure of the nation to meet the needs of its expanding economy." My god, that's some sentence.

"To further this program the Government of the United States of America has undertaken to supply such technical assistance and advice as the Government of Brazil may request."

How can you undertake something that they haven't requested?

Riefler: It is offered.

H.M.Jr: "...has undertaken...."

Gaston: Well, this is a joint statement; this is a joint statement; they have indicated - it is quite plain they have indicated to us that they are likely to ask, and we say that when they request it specifically we will give it to them.

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Viner: We told them our answer would be "Yes" when they request such assistance.

H.M.Jr: You say the United States has undertaken to supply such technical assistance as the Government may - how can you undertake something that they.... You would say "The United States Government will undertake...."

Gaston: No, no, it's just as if....

Viner: The agreement isn't signed.

Gaston: It's just as if Clarence said to me, "Now, any time you want any legal advice, you ask me and I'll give it to you." He is undertaking to give me legal advice whenever I ask for it.

Viner: I'd say "undertakes" instead of "has undertaken."

H.M.Jr: I'd say "will undertake."

Viner: No, "undertakes." The agreement isn't signed yet.

Riefler: You can say "will supply."

Opper: I should think "will supply" would be all right. So far as I know, there is not going to be a specific term.

H.M.Jr: "...will supply..." O.K., gentlemen?

Williams: Little weak, though.

H.M.Jr: No - "will" - that's definite.

Gaston: I think it is.

H.M.Jr: Huh?

Gaston: I think it is.

H.M.Jr: We'll all get a crack at it. The weak part of the thing is that Brazil may request; that's the weak part. We say we will supply, but they only say they may request.

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- Williams: But my point is we ought to indicate not only willingness, but gladness to help out - a little additional....
- H.M.Jr: Well, "will gladly supply...."
- Viner: I think the sentence there in the original draft was better.
- Williams: How did we have that before?
- Gaston: I don't see that, because I don't think you want to involve what you are agreeing to do with your expression of gratification.
- Williams: This is the way we had it before, anyway: "The Government of the United States is glad to have this opportunity to indicate its desire to cooperate with the Government of Brazil, and has offered to supply such technical assistance as Brazil may care to avail itself of in connection with the organization of the bank."
- H.M.Jr: No, if you don't mind, I'd like them to say - I don't like to offer this stuff.... Why won't they tell us? Ask them. "The Brazilian Government has requested...." Why not say they have requested?
- Gaston: ".....will supply technical assistance and advice to....."
- Opper: "...as requested by the Government...."
- Viner: "...in conformity...."
- H.M.Jr: "....will supply such technical assistance and advice as the Government of Brazil has requested."
- Viner: "....in conformity with the request of the Brazilian Government."
- Opper: "...made by the Brazilian Government."
- Viner: "....made by the Brazilian Government."
- H.M.Jr: "....will supply such technical assistance and advice as the....."

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- Opper: Leave out the word "such" - "...will supply technical assistance and advice in conformity with the request made by the Brazilian Government."
- Gaston: "...will supply technical advice and assistance in response to the request of the Government of Brazil."
- H.M.Jr: "...in response..." - what did you say, Herbert?
- Gaston: "...in response to the request of the Government of Brazil."
- Opper: If you say "made by" don't you make it definite that they have already made it?
- H.M.Jr: Now, the reason I didn't want that "may request" - this goes out and the English or Germans get busy and say, "Is this closed? Well, we'll give this to you. Why take this from the United States?" They say, "All right, we'll take the gold from the United States, we'll take the advice of the Germans and the English, so we'll keep them happy." This closes it.
- Williams: I think this is - that's a good idea.
- H.M.Jr: This closes it. The Germans say, "Gentlemen, this is terrible." "All right, Schacht, you send us down advisors. We'll take the gold from the United States and we'll take the advice from Dr. Schacht."
- Feis: They are sending down there Ritter, who has been one of Schacht's primary assistants. He's becoming the new Ambassador to Brazil; it was announced today.
- H.M.Jr: I take it you want to have us get our foot into that situation, don't you? Well, let's make it definite, let's close it. Herbert?
- Feis: Yes, sir, very desirable.
- H.M.Jr: Do you see what I'm getting at. This goes out and the Germans and the English are going to get mad. "All right, we didn't close that part. We'll take the advice from you and fix the gold up with the United States."

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Opper: It seems to me, Mr. Secretary, that "made by" makes it definite that they have already asked; "of" makes it possible to.....

H.M.Jr: "To further this program the Government of the United States of America will supply technical assistance and advice in response to the request of the....."

Williams: Wait a minute - "which has been made by..."

Opper: No, "the request made by the Government of Brazil." The "request of the Government of Brazil" might mean the future, but the "request made by..." ....

H.M.Jr: Now let me read it again. "To further this program the Government of the United States of America will supply technical assistance and advice in response to the request made by the Government of Brazil." Is that agreeable to you (Gaston)?

Gaston: Yes, that's all right.

H.M.Jr: What?

Gaston: Yes, that's all right.

H.M.Jr: What? Do you want to put it some other way?

Gaston: I was going to simplify it by saying "will supply technical assistance and advice as requested by the Government of Brazil."

Viner: Doesn't indicate the time.

Gaston: Yes, all right.

H.M.Jr: Won't you think that's a good point, to close that thing now? What?

"Both the Secretary of the Treasury and the Minister of Finance are pleased to have had this opportunity to extend the field of cooperation between their countries and both express their gratification that improvement in the Brazilian economy in the last few years enables the Government of Brazil to undertake with confidence the financial measures it has in view."

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Now, you don't want to say something about his coming here in person, the way we did... No?

Viner: You can say that to the press if you like.

(Miss Chauncey and reporter leave to rewrite statement and return, during which time Brazilians come in)

(Brazilians confer at length re statement)

Aranha: I think it would be better to say, "The United States undertakes to sell gold to Brazil at such times and in such amounts as the Brazilian Government may request," and to finish here and say, "The United States will make dollar exchange available to the Government of Brazil or its fiscal agent to the amount of \_\_\_\_\_ under conditions which safeguard the interests of both countries"; because that states just the general idea that you had before.

H.M.Jr: Well now, in the first place, as I understand, it is your wish that we state the amount.

Aranha: Yes, but it wouldn't refer....

H.M.Jr: Gentlemen, please - the first question that the Brazilian Ambassador raises is this. He raises the point that where you say "up to a total of \$60,000,000" in Paragraph One, he wants to drop that down into Paragraph Two.

Aranha: After "fiscal agent."

H.M.Jr: "The United States will make dollar exchange available to the Government of Brazil or its fiscal agent up to a total amount of \$60,000,000" - it would read that way. Of course that changes the whole thing.

Viner: I think it would be all right if the \$60,000,000 appeared in both paragraphs.

H.M.Jr: Well, let's just think that over; it's terribly important.

Aranha: I must clear - just that - that here we did not refer to five years in the first paragraph and that that is why I thought it would be better to transfer that to

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the other. You say, "The United States undertakes to sell gold to Brazil at such times and in such amounts as the Brazilian Government may request." And your idea and the idea of these gentlemen when we talked to them was just not to fix that (amount). We said it would be preferable to fix it, because the psychological effect would be better, in our opinion, in Brazil and in foreign countries. But if we will say "Brazil at such times and in such amounts" and we will not say the number of years, why will we say here the amount? It would give the idea that we will have that for 10 years or 12 years or any other time that....

- Williams: You might put in the number of years along with the amount.
- H.M.Jr: Well, there are two things here, Mr. Ambassador, which I don't think - I think either we have to put it in both places or in - or not at all, because we couldn't make available to you \$60,000,000 worth of dollar exchange unless you first bought the gold.
- Costa: Yes.
- H.M.Jr: So I think that you have to put it either in Paragraph One and Paragraph Two or in either place - I mean you first have to buy the gold.
- Aranha: I think we can put it in Two.
- White: Keep it out of Two did he say?
- H.M.Jr: Put it in both.
- Feis: If you put it in both, Mr. Secretary, I think when you use it in Two you would have to accompany it with certain other phrases, for the reason you have just made. Otherwise it would be misleading.
- H.M.Jr: Well, it is pretty important.
- Feis: If you said, "The United States will make dollar exchange available to the Government of Brazil or its fiscal agent up to the amount of gold acquired under their arrangement by the Bank of Brazil....."

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- Williams: "....against an equivalent amount of gold."
- White: Otherwise it will appear as though you're making a loan without that collateral.
- H.M.Jr: What's that you say? "...against..."
- Williams: "....against an equivalent amount of gold."
- Opper: Why is it necessary to say that?
- Riefler: Yours (Feis) was better.
- Feis: Now I've forgotten it.
- Aranha: The Minister says to keep it as it is.
- Costa: But "under conditions which safeguard" - and here's all the measures to safeguard it. I think normally it would be that if you....
- H.M.Jr: Well, what I am afraid of is if we brought it down here we'd have to put it....
- Costa: I think it's better.
- H.M.Jr: As it is?
- Costa: Yes.
- H.M.Jr: Now, gentlemen, the Minister of Finance says that he'd like to leave it just as it is.
- Williams: I think that's the best.
- H.M.Jr: He now - you're satisfied the way it's written?
- Costa: Yes.
- H.M.Jr: The way it is there. Well, I am.
- Aranha: And now we would prefer to eliminate this other chapter here and to go direct to "Both the Secretary of the Treasury and the Minister of Finance....."
- H.M.Jr: What do you want to leave out, sir?

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Aranha: Just this part here.

H.M.Jr: Leave out this sentence?

Aranha: Yes, all of this. And we'd like to convert it in the way suggested before.

H.M.Jr: How was it before?

Aranha: Because that's a.....

H.M.Jr: How was it?

Aranha: With another wording, but at the end of that.

H.M.Jr: If we did this, where would you put this sentence, at the end?

Aranha: At the end, yes. At the end, because it is just the end. (Hands Secretary suggested revised paragraph)

H.M.Jr: What do you think, Herbert? I guess it would be better at the end, wouldn't it? See, what he wants to do is lift this paragraph and put this at the end.

Feis: I think it's better too.

H.M.Jr: I think it's better at the end.

Aranha: That will reflect in our public opinion very well - your offering and saying that you will do that.

Gaston: Of course, that in a way repeats what is in there.

Feis: What's the difference?

H.M.Jr: Show this down there to those people at the other end. They want that to come at the end. We have to give our experts a little time. They want time.

Do you when you're in Brazil, in your own office - do you have to work in the evening?

Costa: Yes, sometimes.

(Treasury people confer on changes in statement)

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H.M.Jr: Are the Minister and I going to see it? I thought they already cabled it, they work so fast around here.

(Miss Chauncey leaves to rewrite statement)

H.M.Jr: I think if we're ready for our statement - I don't like the idea of putting it off until next Monday.

Aranha: No, we can....

H.M.Jr: No, I mean if we're ready why should we wait until next Monday?

Costa: No, I think it's best to do it tomorrow.

H.M.Jr: I mean - now the newspapermen are outside now; they know you've been here three times. If we don't get together, they'll think something went wrong. Three times you've been here; now if we can't agree, then there's something the matter, you know. They'll say, "What's the matter? Why can't Brazil and America get together? There's something wrong." Huh?

Aranha: I think it's good.

H.M.Jr: And I said this morning I'd work until we got through.

Aranha: And we are.

H.M.Jr: I mean it's the only way to do.

Aranha: Yes.

H.M.Jr: Now, I'll show this the first thing in the morning to President Roosevelt. I mean I'll get him early tomorrow morning, so that by - I'll have an answer by 11 o'clock. I'll see him the first thing in the morning. By 11 o'clock I'll have his answer. I'm sure it will be all right, but I want him to read it because it's his idea.

Aranha: We went to see him the other day.

H.M.Jr: But he's so interested that before I do anything I'd like to have him read it and see if we have

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carried out President Vargas's idea and President Roosevelt's.

Aranha: Yes, I think it would be good.

We are producing gold and we have more or less 10 or 12 tons every year that we are compelled to buy just to help the....

H.M.Jr: Producers?

Aranha: Yes.

Feis: (To Aranha) We'll meet at 12 o'clock at Welles' office and I hope we can have both things ready by tomorrow evening. Is that possible?

Aranha: Yes.

Feis: 12 o'clock. I may before that call Mr. Carneira and do some preliminary work on this with him.

Aranha: I am also available to you.

Feis: All right, it may be that I'll come out to the Embassy.

H.M.Jr: Now, I'll get President Roosevelt to clear this by 11 tomorrow morning. I really think, Herbert - I said this while you were out - the Minister of Finance and the Ambassador have been here three times; if we hold up this announcement until Monday, it might be misunderstood.

Feis: Well, Mr. Welles agrees.

H.M.Jr: It might be misunderstood. They've been here three times.

Feis: We've both torn up our calendar of engagements, and I hope if we start at 12 we can work it out. We may have to get the joint statement out 20 past 12.

Aranha: No, 20 past 2.

Feis: We may have to get out the joint statement and then there might be a few details about the exchange on the bank, on the commission, that we might have to leave until you return.

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H.M.Jr: Well, if you work the State Department as hard as you worked the Treasury, you'd get it out.

Feis: (Laughs) For a man that works as hard as I do, to get the reputation for idleness - I do not understand how it comes to me.

H.M.Jr: I didn't say - I say if you will work - not you work, but if you work the State Department as hard as you have worked us - that's what I said.

Feis: Oh.

H.M.Jr: I said if you will work, meaning the people in the State Department, as hard as you work the people in the Treasury. No, I wasn't implying - after all, you're here.

(Miss Chauncey brings in rewritten statement)

H.M.Jr: Where's the first page?

Chauncey: No corrections on the first page.

H.M.Jr: I haven't got any first page. O.K., here we are.

White: There is a suggestion here as to improvement on that - simple.

H.M.Jr: "...in accordance with their conversations" - cut out this?

White: No.

H.M.Jr: This is it. (To Aranha) We have changed this here.

Aranha: "...their conversation..." - we noticed that.

H.M.Jr: And cut out....

Aranha: That's correct. We have - we have no fears, you see; we do not pay attention.

H.M.Jr: All right, I'll read this.

Herbert, I don't like that "at this time the taking of this important step."

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Feis: Leave out "the taking."

H.M.Jr: Leave out the words "the taking" - "makes feasible at this time this important step."

Aranha: Yes.

H.M.Jr: Now is this all right the way I have it written? I'll have it written once more. Do you mind doing it a second time?

(Miss Chauncey leaves to rewrite statement)

Costa: When will we have another meeting? Tomorrow?

H.M.Jr: Tomorrow with us - 11 o'clock?

Carneira: To sign the agreement.

H.M.Jr: Clarence, when do you think you'll be ready with the legal papers?

Opper: Well, I hope that we'll be ready with something final by about noon tomorrow.

H.M.Jr: Well, they're going to State Department at 12. Could you have something at 11?

Opper: I'll try very hard.

H.M.Jr: Well, let's say 11.

Opper: Unfortunately, it is not entirely in our control, Mr. Secretary, on account of word from New York.

H.M.Jr: Supposing I call you at 10:30, Mr. Ambassador. You see, the reason that it isn't entirely in the Treasury - we have to do it with New York by telephone and telegraph. It makes it a little bit difficult. But I'll telephone you by 10:30.

In any event, you (Opper) walk in here at 10:29 and let me know, see? Are the lawyers up at the Federal Reserve working tonight?

Opper: They're not working tonight, no, sir, but I have made arrangements for them to start work the very first thing tomorrow morning. Fortunately, they start an

hour before us.

H.M.Jr: They start an hour ahead.

Opper: Yes, sir, so I hope we may have something by then.

H.M.Jr: But surely tomorrow.

Opper: Yes, sir.

H.M.Jr: We'll surely have it tomorrow. Maybe we can't have it by 11; if we cannot have it by 11, then we can have it right after lunch.

Feis: They're flying at 2:20.

Aranha: But we can postpone....

H.M.Jr: Where are they flying?

Aranha: I'm going; the Minister will stay if that is necessary.

Costa: Yes, that's no problem.

H.M.Jr: Have you done - you have lawyers in Brazil. You can't hurry them; you can't hurry them, you know. And if you don't listen to the lawyers....

Costa: Then we send them away as Ambassadors.

Aranha: They cannot live without the lawyers, but that's why they talk always about and against them.

(Miss Chauncey returns with finally approved draft of statement)

H.M.Jr: (To Feis) There's a corrected copy.

Feis: O.K.

H.M.Jr: Now we'll leave it this way; if the lawyers have the dish ready at 10:30, we telephone, but if they're not ready you'll stay after 2:20, because it's pretty important.

Costa: To finish by tomorrow.

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H.M.Jr: We can finish, but I wouldn't - I wouldn't be sure that we can be through by 2:20. I wouldn't be sure. And I'd like very much to do it tomorrow, because, you see, Friday is Senator Robinson's funeral and we have Cabinet in the afternoon, and Friday there will be a lot of different things.

Well, I'll see you tomorrow.

(Brazilians leave)

You've got the correct one now, have you? Does anybody want a correct second?

Feis: What's this cable?

H.M.Jr: It's very simple.

Miss Chauncey has a full thing there. Miss Chauncey has the correct ones.

Now let's do this Swiss thing now; that's more important.

(Remainder of conference re Swiss matter written up separately, time: 10:30 p.m.)

*final*

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*O.K.*

The following joint statement is made by the Secretary of the Treasury and the Minister of Finance of Brazil:

The Secretary of the Treasury of the United States of America and the Minister of Finance of the United States of Brazil are entering into an agreement under which:

1. The United States undertakes to sell gold to Brazil at such times and in such amounts as the Brazilian Government may request, up to a total of \$60,000,000.
2. The United States will make dollar exchange available to the Government of Brazil or its fiscal agent, under conditions which safeguard the interests of both countries, for the purpose of promoting exchange equilibrium.

The agreement is designed to promote the development of conditions favorable to the maintenance of monetary

equilibrium between the two countries and to facilitate the establishment by the United States of Brazil of a central reserve bank as a part of the program of the Brazilian Government for improving the financial structure of the Nation to meet the needs of its expanding economy.

In recent years there has occurred a notable improvement of the trade and financial position of Brazil. It is a matter of gratification both to the Secretary of the Treasury and the Finance Minister that this favorable development of the Brazilian economy makes feasible at this time this important step.

Both the Secretary of the Treasury and the Minister of Finance are pleased to have had this opportunity to extend the field of cooperation between their countries and, in accordance with their conversations, the Secretary of the Treasury stands ready to supply such technical assistance as Brazil may care to avail itself of in connection with the organization of the new bank.

The following joint statement is made by the Secretary of the Treasury and the Minister of Finance of Brazil:

The Secretary of the Treasury of the United States of America and the Minister of Finance of the United States of Brazil, ~~representing their respective governments, have~~ <sup>are</sup> <sup>ing</sup> entered into an agreement under which:

1. The United States undertakes to sell gold to Brazil at such times and in such amounts as the Brazilian Government may request, up to a total of \$60,000,000.
2. The United States will make dollar exchange available to the Government of Brazil or its fiscal agent, under conditions which safeguard the interests of both countries, for the purpose of promoting exchange equilibrium.

The agreement is designed to promote the development of conditions favorable to the maintenance of monetary equilibrium between the two countries, and ~~particularly to~~ <sup>this end</sup> facilitate the establishment by the United States of Brazil of a central reserve bank as a part of the program of the Brazilian Government for improving the financial structure of the Nation to meet the needs of its expanding economy.

To further this program the Government of the United States of America ~~has undertaken to~~ <sup>will</sup> supply ~~such~~ technical assistance and advice <sup>in response to</sup> ~~as~~ the Government of Brazil ~~may request~~ <sup>the request</sup> ~~made by~~ <sup>made by</sup>

Both the Secretary of the Treasury and the Minister of Finance are pleased to have had this opportunity to extend the field of cooperation between their countries and both express their gratification that improvement in the Brazilian economy in the last few years enables the Government of Brazil to undertake with confidence the financial measures it has in view.

The following joint statement is made by the Secretary of the Treasury and the Minister of Finance of Brazil:

The Secretary of the Treasury of the United States of America and the Minister of Finance of the United States of Brazil are entering into an agreement under which:

1. The United States undertakes to sell gold to Brazil at such times and in such amounts as the Brazilian Government may request, up to a total of \$60,000,000.
2. The United States will make dollar exchange available to the Government of Brazil or its fiscal agent, under conditions which safeguard the interests of both countries, for the purpose of promoting exchange equilibrium.

The agreement is designed to promote the development of conditions favorable to the maintenance of monetary

equilibrium between the two countries and to facilitate the establishment by the United States of Brazil of a central reserve bank as a part of the program of the Brazilian Government for improving the financial structure of the Nation to meet the needs of its expanding economy.

In recent years there has occurred a notable improvement of the trade and financial position of Brazil. It is a matter of gratification both to the Secretary of the Treasury and the Finance Minister that this favorable development of the Brazilian economy makes feasible at this time ~~the taking of~~ this important step

Both the Secretary of the Treasury and the Minister of Finance are pleased to have had this opportunity to extend the field of cooperation between their countries and, in accordance with <sup>their</sup> ~~his~~ conversations ~~with the Minister of Finance~~ the Secretary of the Treasury stands ready to supply such technical assistance as Brazil may care to avail itself of in connection with the organization of the new bank.

②

The following joint statement is made by the Secretary of the Treasury and the Minister of Finance of Brazil:

The Secretary of the Treasury of the United States of America and the Minister of Finance of the United States of Brazil, representing their respective governments, have entered into an agreement under which:

1. The United States undertakes to sell gold to Brazil at such times and in such amounts as the Brazilian Government may request, up to a total of \$60,000,000.
2. The United States will make dollar exchange available to the Government of Brazil or its fiscal agent, under conditions which safeguard the interests of both countries, for the purpose of promoting exchange equilibrium.

The agreement is designed to promote the development of conditions favorable to the maintenance of monetary equilibrium between the two countries, and particularly to facilitate the establishment by the United States of Brazil of a central reserve bank as a part of the program of the Brazilian Government for improving the financial structure of the Nation to meet the needs of its expanding economy.

To further this program the Government of the United States of America has undertaken to supply such technical assistance and advice as the Government of Brazil may request.

Both the Secretary of the Treasury and the Minister of Finance are pleased to have had this opportunity to extend the field of cooperation between their countries and both express their gratification that improvement in the Brazilian economy in the last few years enables the Government of Brazil to undertake with confidence the financial measures it has in view.

①

The following joint statement is made by the Secretary of the Treasury and the Minister of Finance of Brazil:

The Secretary of the Treasury of the United States of America and the Minister of Finance of the United States of Brazil, representing their respective governments, <sup>out</sup> <sup>(are entering)</sup> have entered into an agreement under which:

1. The United States undertakes to sell gold to Brazil, <sup>at such times and in such amounts</sup> as <sup>may request</sup> ~~requested~~ <sup>as</sup> requested by the Brazilian Government, <sup>to a maximum amount of</sup> ~~to a maximum amount of~~ <sup>to a total</sup> \$50,000,000.

2. The United States will make dollar exchange available to the Government of Brazil or its fiscal agent, under conditions which safeguard the interests of both countries, for the purpose of promoting exchange equilibrium.

This agreement is designed to facilitate the establishment by the United States of Brazil of a Central Reserve Bank, and to promote the development of arrangements favorable to the attainment of exchange equilibrium.

In recent years there has occurred a notable improvement of the trade and financial position of Brazil. It is a matter of gratification both to the Secretary of the Treasury and the Finance Minister that this favorable development of the Brazilian economy makes feasible at this time the taking of this important step.

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The Government of the United States is glad to have this opportunity to indicate its desire to cooperate with the Government of Brazil, and has offered to supply such technical assistance as Brazil may care to avail itself of in connection with the organization of the new bank.

The agreement is designed to promote the development of conditions favorable to the maintenance of monetary equilibrium between the two countries, and <sup>out</sup> particularly to facilitate the establishment by the United States of Brazil of a central reserve bank as a part of the program of the Brazilian Government for improving the financial structure of the Nation to meet the needs of its expanding economy.

To further this program the Government of the United States of America has undertaken to supply such technical assistance and advice as the Government of Brazil may request.

Both the Secretary of the Treasury and the Minister of Finance are pleased to have had this opportunity to extend the field of cooperation between their countries and both express their gratification that improvement in the Brazilian economy in the last few years ~~has~~ enables the Government of Brazil to <sup>undertake</sup> ~~take~~ with confidence ~~on~~ the financial ~~measures~~ measures it has in view.

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*in response to the request of the Govt of Brazil*

JUL 14 1937

Dear Sirs:

Enclosed is a form of letter, which I have approved, respecting the purchase of Chinese yuan and which I authorize and request you, as fiscal agent of the United States, to write to the Central Bank of China, Shanghai, China. I also authorize and request you, as fiscal agent of the United States, to carry out the transactions contemplated by such letter.

It is understood that the terms of the Department's letter to you of September 4, 1934, regarding dealings in foreign exchange for the account of the fund established in section 10 of the Gold Reserve Act of 1934, shall apply to the action taken by you pursuant to the foregoing.

The transactions contemplated by the enclosed form of letter have been approved by the President.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Federal Reserve Bank of New York,  
New York, New York.

Enclosure

JWP:ldh 7-10-37

Dear Sirs:

The Secretary of the Treasury of the United States has, as a result of recent communications and conversations with representatives of the National Government of the Republic of China, authorized us, as fiscal agent of the United States, to enter into the following arrangement with you, for the purpose of supplying the Republic of China with United States dollar exchange, from time to time, as may be required:

1. We, as fiscal agent of the United States, will purchase from you, from time to time as requested by you, Chinese yuan, the yuan so purchased to be credited to us (as fiscal agent of the United States) on your books in a special account to be opened in the name of "Federal Reserve Bank of New York as Fiscal Agent of the United States." Upon receipt by us of advice from you by cable that this account has been credited with a stated amount in Chinese yuan, we shall in turn credit you on our books in a special account to be opened in the name of "Central Bank of China, Special Account" in an amount in United States dollars equal, at the then prevailing buying rate of exchange in New York for cable transfers in yuan on Shanghai, to the amount in yuan so credited to us on your books. Interest on such special yuan account is to be credited thereto monthly at a rate per annum one-half of 1% above the average of the Federal Reserve Bank of New York's rediscount rate during the month immediately preceding.

2. The total amount of yuan purchased by us from you and standing to our credit on your books as aforesaid, together with the interest accrued thereon whether credited or not, shall not at any time exceed in the aggregate the equivalent of United States \$50,000,000, computed at the rate at which such yuan are to be repurchased from us pursuant to the provisions of the next succeeding paragraph.
3. You agree that any or all yuan purchased by us from you and standing at any time to our credit on your books as aforesaid, shall be repurchased (in United States dollars) by you from us at any time, and from time to time, upon our request, and within 120 hours of the dispatch of our cable containing such request, at the same rate or rates of exchange at which such yuan were purchased from you by us. Yuan in the amount of the interest accrued on, and whether or not credited to, such special yuan account shall be purchased (in United States dollars) by you from us at any time, and from time to time, upon our request, at the same rate or rates of exchange at which the yuan upon which such interest has accrued were purchased from you by us. In the absence of any such request yuan in the amount of such accrued interest shall be purchased (in United States dollars) by you from us at said rate or rates of exchange at the end of each successive ninety day period from and after the date hereof and upon the termination of this arrangement.
4. As security for the performance of your agreement hereinabove set forth you agree that an amount of gold at all times equal (when calculated at the price from time to time set forth in section 42 of the Provisional Regulations hereinafter referred

to) the dollar equivalent of the yuan credited on your books as purchases by us, together with the interest thereon, and computed at your repurchasing rate specified above will be and hereby is pledged to us by you and will be left by you in our custody free of any lien or encumbrance other than that herein set forth and you agree that you will and you do hereby authorize and request us to set aside such gold from time to time and to hold it subject to the terms of this agreement.

The cost of insurance and any other reasonable and necessary expenses incurred by us with respect to any gold pledged to us under this paragraph 4 (including, but without limitation thereto, transportation and storage expenses) will be charged by us to your account on our books under advice to you.

In the event of your failure to repurchase such yuan (including interest) as hereinabove provided, you do further authorize us, as pledgee aforesaid, to sell to the United States, at the price provided by section 42 of the Provisional Regulations issued under the Gold Reserve Act of 1934, as the same may be in effect at that time, so much of such gold so held under pledge at any time, and from time to time, and to apply the proceeds thereof, less any reasonable and necessary expenses incurred by us in respect of such gold (including, but without limitation thereto, expenses of sale, transportation, storage, and insurance) in such manner, as may be necessary to save us, as fiscal agent of the United States, and the United States, harmless from any

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loss by reason of any failure on your part to repurchase said yuan (including interest) as hereinabove provided.

It is understood and agreed that our obligation, as fiscal agent of the United States, to purchase any amount of yuan pursuant hereto shall be conditional and dependent upon the prior performance by you of the obligations and things to be performed and done by you under this paragraph 4.

5. It is understood that you will take such further action as may be reasonably requested by us to effectuate the purposes and intent of this arrangement.
6. Our obligation to purchase yuan hereunder shall terminate on our December 31, 1937, unless an extension has been agreed upon before that time, and it is understood that in the event that you wish an extension of this arrangement you will give us notice to that effect, in writing or by cable, so that such notice shall be received by us at least thirty days prior to our December 31, 1937. Such termination, however, shall not affect any of our rights or any of your obligations hereunder, all of which shall continue in effect until you shall have fully performed your said obligations.

JWP:CVG:BJ 7/14/37

RE SWISS GOLD DEALINGS

July 14, 1937  
10:30 p.m.

Present: Mr. Lochhead  
Mr. Gaston  
Mr. Riefler  
Mr. Opper  
Dr. Viner  
Mr. Williams  
Mr. White  
Dr. Feis  
Miss Chauncey

H.M.Jr: Now let's do this Swiss thing now; that's more important.

Herbert, if you don't want to wait....

Feis: Is this Swiss thing going to go on cables tonight?

H.M.Jr: Yes. Now what we got on the Swiss? Now, this is gone. Where's the introductory.....

Viner: We have separate messages to the Minister of Finance and the Chancellor of the Exchequer.

H.M.Jr: You mean to Simon?

Viner: Yes. One dispatch to the Chancellor of the Exchequer and another to the Minister of Finance.

H.M.Jr: Why not simply put in the same one, and the one to London says Chancellor of the Exchequer and the French one says Minister of Finance.

Viner: "The Secretary of the Treasury is considering the dispatch of the following reply to the letter of June seventeenth of Bachmann and Schnyder in which they explained the purposes of the Swiss sales of gold in the American market in recent months. Before proceeding further, the Secretary of the Treasury would welcome any comments which the Minister of Finance may care to make with regard to the monetary principles formulated in the contemplated communication."

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

White: I think that's June 17th.

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- Viner: Well, that'll have to be checked.
- White: Did Eccles return the original letter?
- H.M.Jr: Yes, here's the whole business. I tell you what I'll ask you to do. Here's the whole thing, so as to make it easier for you, and may I give this responsibility to White; and why don't you (Feis) call up the Code Room and tell them that when Dr. White comes over there with a cable will they please send it, and you don't have to sit here while it's all typed.
- Feis: They'll say to me they won't; that's the trouble. I'll have to put my signature on the bottom of a piece of paper.
- H.M.Jr: They will if I call up.
- Viner: He can put his signature on a sheet of paper.
- Feis: And the text of this letter to Bachmann...
- Lochhead: Livesey took care - I called Livesey and sent a memorandum over to him.
- Feis: It's all perfectly simple; have that typed up. Don't have to give any instructions.
- H.M.Jr: Yes, you do, because the previous thing said to hold it. There's the one to write. Want to dictate it to Miss Chauncey?
- (Feis dictates to Miss Chauncey)
- Lochhead: I sent that over to Livesey quarter of seven.
- H.M.Jr: Now are you people ready - Harry, you ready?
- White: Just to have it typed.
- H.M.Jr: Well, we're waiting. He dictated it because he's got to sign it.
- "hite, want to go in with Miss Chauncey?
- (White and Miss Chauncey leave)

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- H.M.Jr: (On phone) Mrs. Spangler, will you call up the Russian Embassy and say is it too late if Dr. Feis and I should arrive about quarter of 11? Is it too late, and we can get there between quarter of 11 and 11 - is that too late? We can arrive there between quarter of 11 and 11.
- Feis: Better ask Oumansky.
- H.M.Jr: (On phone) Better ask for Mr. Oumansky. I mean whoever answers the phone, would they please ask Oumansky is it too late that Dr. Feis and I should arrive at that time - but they should ask that question of Mr. Oumansky.
- This Swiss thing is very important. I can't let caviar and vodka come between the Swiss cheese.
- Viner: Mr. Secretary, how do you plan to handle the Swiss affair? The replies will come in, you see, after you're gone.
- H.M.Jr: Oh, if they're favorable, just shoot it out, that's all. And I'll get - I mean I'm here Monday. I think what I'll do is....
- Viner: They won't be here by Monday. This is a weekend in England, you see.
- Opper: "ould you want to leave a signed copy?
- H.M.Jr: Just telephone Cochran to take it to Switzerland.
- (White and Chauncey return with cables)
- Viner: Shouldn't Butterworth be told that Cochran has a copy of this?
- H.M.Jr: Yes, they have that "a similar message is being sent to Mr. Simon."
- Viner: No, a copy of the letter we send to the Swiss.
- Lochhead: Butterworth clears his correspondence with Cochran.
- H.M.Jr: Supposed to. If he can't, he'll call him up.
- Are you all.....

-4-

White: That goes to Cochran and this goes to Butterworth.

H.M.Jr: Now, where's Feis?

Chauncey: He's telephoning in Mrs. Klotz's office.

(Feis returns)

H.M.Jr: This is all ready for you now. Think it's all right?

Feis: Yes, yes.

H.M.Jr: Well, Dowling knows where to take it.

Feis: Yes, perfectly.

H.M.Jr: Dowling, we want this to go to the Code Room,  
State Department.

(On phone) Get the Code Room, State Department.  
Dr. Feis wants to talk to whoever is there, please.

- - - -

**American Embassy  
Paris For Cochran  
From Secretary of the Treasury**

Please give to Minister of Finance the text of the contemplated communication to Bachmann and Schnyder which was communicated to you earlier today with the following introduction quote

The Secretary of the Treasury is considering the dispatch of the following reply to the letter of June seventeenth of Bachmann and Schnyder in which they explained the purposes of the Swiss sales of gold in the American market in recent months. Before proceeding further, the Secretary of the Treasury would welcome any comments which the Minister of Finance may care to make with regard to the monetary principles formulated in their contemplated communication.

A similar message is being sent to Mr. Simon.

**American Embassy**

**London for Butterworth**

**From Secretary of the Treasury**

Please give to Chancellor of the Exchequer the text of the contemplated communication to Bachmann and Schnyder which was communicated to you earlier today with the following introduction quote:

The Secretary of the Treasury is considering the dispatch of the following reply to the letter of June seventeenth of Bachmann and Schnyder in which they explained the purposes of the Swiss sales of gold in the American market in recent months. Before proceeding further, the Secretary of the Treasury would welcome any comments which the Chancellor of the Exchequer may care to make with regard to the monetary principles formulated in their contemplated communication.

A similar message is being sent to Monsieur Bonnet.

SPECIAL GRAY

July 14, 1937

9 p.m.

AMEMBASSY

LONDON (ENGLAND).

300.

For Sutterworth from Secretary of the Treasury.

Please hold following letter in strict confidence, not using it in any manner until further instructions.

QUOTE, Messrs. Bachmann and Schnyder:

Please accept my thanks for your letter of June 17, 1937, giving information with respect to your foreign exchange and gold policy. Such exchange of information and opinion concerning these matters, conforming as it does with the spirit of Section 3 of the tripartite declaration of September 25, 1936 to which your Government had declared its adherence on November 21, 1936, constitutes gratifying proof of the development of international cooperation in monetary affairs.

While our reply was in preparation we received, under date of July 13th, a telegram from Mr. Cochran, transmitting your query concerning your letter of June 19th and your telegram of June 30th, and also your statement to him that you had stopped shipping gold to New York and had not been converting into dollars any more of the gold held on ~~earn~~ ~~mark~~ for you at the Federal Reserve Bank of New York.

WE

EDA - 2 - #300, July 14, 9 p.m. f to London

WE appreciate very much your procedure in this matter.

At the present time, we who have joined in the tripartite accord are engaged together in an attempt to bring a greater measure of stability and of genuine equilibrium into the market for foreign exchanges. This market has, as you know, in recent years been characterized by exceptionally large movements of capital, many of which do not represent normal financial or commercial transactions. Under these circumstances, some of us are likely to be called upon, at least temporarily, to hold exceptionally large quantities of gold. I do feel, however, that the central banks and treasuries of these countries which have declared their adherence to the tripartite accord should refrain from increasing these movements by unilateral decisions to transfer their gold reserves into foreign currencies.

In our opinion, the normal function of international gold movements is to liquidate international balances of payments arising from the natural flow of international commercial and financial transactions. Governments and central banks should, we believe, in their own operations conform as closely as possible to this general principle. We believe that this principle makes it incumbent upon the adherents of the tripartite declaration to hold their reserves in the form of gold either at home or earmarked abroad

JR -3- #300, July 14, 9 p.m., to London.

abroad, and where a central bank deems it desirable to maintain foreign balances, such balances should in the main be kept with the Central Bank of the selected country and should, furthermore, be maintained essentially as working balances. We further feel, and especially in the case of those countries that have adhered to the tripartite declaration, that central banks or governments should make investments in other countries only after consultation with, and perhaps only at the invitation of, the government concerned.

We suggest that an acceptance of the above principles would be a constructive development of the spirit of monetary cooperation envisaged in the tripartite declaration, and would contribute toward enduring stability in the international monetary field. We hope that the other adherents to the tripartite declaration share this interpretation of its implications. End quote.

HULL  
(FL)

Send same telegram to Amembassy Paris as No. 339 For Cochran from Secretary of the Treasury.

JR

TELEGRAM SENT

GRAY

July 14, 1937

11 p.m.

American Embassy  
London for Butterworth  
From Secretary of the Treasury

301.

Please give to Chancellor of the Exchequer the text of the contemplated communication to Bachmann and Schnyder which was communicated to you earlier today with the following introduction quote:

The Secretary of the Treasury is considering the dispatch of the following reply to the letter of June seventeenth of Bachmann and Schnyder in which they explained the purposes of the Swiss sales of gold in the American market in recent months. Before proceeding further, the Secretary of the Treasury would welcome any comments which the Chancellor of the Exchequer may care to make with regard to the monetary principles formulated in the contemplated communication. End quote.

A similar message is being sent to Monsieur Bonnet.

HULL  
(HF)

Extra

333

JR

TELEGRAM SENT

GRAY

July 14, 1937

11 p.m.

American Embassy  
Paris For Cochran  
From Secretary of the Treasury

340.

Please give to Minister of Finance the text of the contemplated communication to Bachmann and Schnyder which was communicated to you earlier today with the following introduction quote.

The Secretary of the Treasury is considering the dispatch of the following reply to the letter of June seventeenth of Bachmann and Schnyder in which they explained the purposes of the Swiss sales of gold in the American market in recent months. Before proceeding further, the Secretary of the Treasury would welcome any comments which the Minister of Finance may care to make with regard to the monetary principles formulated in the contemplated communication. End quote.

A similar message is being sent to Mr. Simon.

HULL  
(HF)



DEPARTMENT OF STATE  
WASHINGTON

July 14, 1937.

My dear Mr. Secretary:

I enclose for your confidential information a copy of telegram No. 473 of July 14, 6 p.m., from the American Ambassador at London, with regard to the present financial situation in France.

Sincerely yours,

*Herbert Feis*

Herbert Feis,  
Adviser on International  
Economic Affairs.

Enclosure:  
No. 473, from London,  
July 14, 1937.

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

MA

GRAY

London

Dated July 14, 1937

Rec'd 3 p. m.

Secretary of State

Washington

473

July 14, 6 p. m.

STRICTLY CONFIDENTIAL. FOR SECRETARY MORGENTHAU FROM  
BUTTERNORTH.

With reference to Bonnet's proposed visit to London referred to in my conversation with Philipps, reported in number 452 July 8, 6 p. m., there is set forth below Simon's reply to Bonnet's communication of July 6th. This reply will be given this evening to the French Financial Attache here.

In supplying me with a copy the British Treasury stated in confidence that Simon arrived at his decision after consultation with Chamberlain and Eden, all of whom agreed that in the given circumstances Bonnet's visit would receive great publicity and arouse equally great expectations relating to political as well as financial matters and that unless "nothing came out of it" the reaction would be unfortunate. "The Chancellor thanks the Minister of Finance very much for his message. Since it was received Bonnet's programme for restoring budget equilibrium has been announced and the Chancellor will

during

MA -2- July 14, 6 p. m., from London

during the coming months watch with the closest interest and sympathy the measures taken to give practical effect to this programme which he trusts will lead to a revival of confidence and of economic activity. The Chancellor notes that M. Bonnet does not consider it possible to fix definite points within which the franc will be allowed to move or to indicate the level at which he estimates it may reach equilibrium. Sir John Simon quite appreciates the reasons which M. Bonnet gives and sincerely trusts that the measures announced and taken will in fact produce the steadiness which it is the object of the tripartite agreement to maintain.

As regards the suggestion that M. Bonnet should pay a personal visit to London the Chancellor of the Exchequer feels some anxiety lest the visit of so important a minister might arouse so much interest that unjustified anticipations might be formed with results which would not be favorable to the general objectives which both ministers have in mind. In these circumstances the Chancellor of the Exchequer while greatly appreciating M. Bonnet's offer and while hoping to greet his French colleague at a later time, ventures to think that the interests which we are pursuing in common might be best secured by continuing for the present the constant contact between officials and waiting for some future time for a personal meeting".

BINGHAM.

CSB