

DIARY

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15

July 15, 1937

I called Butterworth on the telephone; told him if he did not understand the cable of last night and wanted to see the letter from Switzerland, he could call up Cochran on the telephone and tell him to read it to him and I wished him to tell the English and told Cochran to tell the French that I wanted an answer on my desk if possible not later than Monday morning.

JR

GRAY

Paris

Dated July 15, 1937

Rec'd 9:25 p.m.

Secretary of State,  
Washington.

985. July 15, 6 p.m.

SECTION ONE.

FROM COCHRAN.

This afternoon I delivered to Rueff the draft communication set forth in the Department's 339, July 14, 9 p.m., and also the introduction contained in the Department's 340, July 14, 11 p.m. I let Rueff have a copy of the letter of June 17 from the Swiss monetary authorities and gave him orally other pertinent background information. Rueff said that he would bring this matter to the attention of the Minister of Finance as soon as the latter returned from a Cabinet meeting and that he would discuss it also with the Bank of France. Rueff promised to have an answer for me on Saturday.

French control this morning offered 127.97 for sterling but got very little at that figure since the market offered a higher price and turned to such an extent that the control later yielded sterling at 128.06. French rentes were down from 1.30 to 2.75 francs. Bank of France statement as of July 8 showed no change in gold holdings

or

-2-

JR #985, July 15, 6 p.m., from Paris.

or in advances to the state. Deposits were down 1,458,000 francs. Coverage 48.23 versus 47.53. Japanese continued to sell dollars. Exchange traders of two leading Paris American banks expressed the opinion that it is this Japanese selling of dollars rather than return of French capital from New York.

BULLITT

SMS:EMB

PARTIAL PARAPHRASE, SECTION TWO OF NO. 985 of  
July 15, 1937, from Paris.

to Paris or London that is most importantly responsible for the weakness in the dollar. One of them remarked that some speculation had perhaps developed as for instance on the part of a leading French bank with offices in London and New York which was selling dollars but that the intervention today of the British control to buy dollars had probably checked this. The general atmosphere on the Paris market is not good considering the dissension that was revealed in the Socialist ranks at Marseille with respect to supporting the Chautemps Government, the latest speech of Jouhaux against capital, continuing strikes in the hotel and restaurant industry, and the market rumor that Bonnet might resign if he could not shortly make more progress toward improving the French financial situation.

This afternoon while I talked with Rueff he admitted that the market was not good, but he said the Government would not intervene toward improving the situation until Bonnet had taken action which is contemplated for the near future toward improving the situation of the Treasury. My contact explained that so far the decrees had been toward balancing the ordinary budget. Reducing the extraordinary expenditures would be the next step above envisaged. Rueff thinks that after this is done the market will be more  
respective

- 2 -

respective toward steps envisaged for intervention therein  
by the Government if this may prove necessary to start  
a pickup in the securities of the Government.

END OF MESSAGE.

BULLITT.

RECEIVED  
JUL 21 1951  
U.S. DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

EA:LWW

JUL 21 1951

DDM

GRAY

LONDON

Dated July 15, 1937

Rec'd 9:50 a.m.

Secretary of State

Washington

474, July 15, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

I have obtained a copy of the note which Bonnet sent to Simon on July 6th in reply to Simon's note of July 1st (text of which is to be found in the latter half of my 424, June 30, 11 p.m.). Simon's note of yesterday contained in my 473, July 14, 3 p.m., is in response to Bonnet's note of July 6th, a translation of which is as follows: "The Minister of Finance thanks the Chancellor of the Exchequer for the two messages which he was good enough to send, and for the declaration made by him in the House of Commons on June 30.

He is fully prepared to proceed with the consultations which Sir John Simon suggests and hopes that the British Government will make known to him the date which they consider opportune. (END SECTION ONE).

BINGHAM

GW

KLP

JR

PLAIN

London

Dated July 15, 1937

Rec'd 10:05 a.m.

Secretary of State,  
Washington.

474. July 15, 1 p.m. (SECTION TWO).

The Chancellor of the Exchequer has noted (A D ores et deja pu observer) that the equalization fund intended to maintain its regulating influence on the movements of the franc; it will do the same in the future, this action will be facilitated by the healthy financial measures which the French Government has in view and which have as a result the practically complete re-establishment of the budgetary position, this situation should thus permit maintenance of the greatest possible equilibrium in the movements of the franc, the French Government considers that in this way it will have done all it possibly could in order to prevent the decisions which the Government has been compelled to take from having an adverse effect on foreign exchange in international markets.

However the Minister of Finance is not in a position to reply in a precise manner to the question put in the last sentence of the communication from the Chancellor of the Exchequer. French monetary policy is entirely directed towards maintaining the greatest possible stability of the franc

-2-

JR #474, July 15, 1 p.m. (SECTION TWO) from London.

franc but it is not possible to make a commitment in this matter which would impose upon that policy restrictions analogous to those which the French Government has just abolished. The Minister of Finance cannot foresee the factors which will influence the exchange market in the future nor in what sense these factors will make themselves felt and he does not feel justified in exposing the French Government to the risk of finding itself one day in the position of having again to modify the limits imposed on the fluctuations of its currency taking particularly into account the needs of its economy and the international situation.

The French Government is convinced that these assurances will constitute a more sound and practical basis of cooperation than would arise out of a precise engagement. M. Georges Bonnet proposes however as soon as his financial decrees shall have been promulgated to come and salute Sir John Simon in order to be able to discuss with him the problems which arise out of the tripartite declaration".

BINGHAM

HPD

July 15, 1937. 9  
9:49 a.m.

H.M.Jr: Yes

Mr. Knoke: Good morning. I just spoke to Paris. There wasn't much said but I thought it might interest you. They told me they had been able since reopening to sell a total of 3 billion francs.

H.M.Jr: Just a minute. 3 -

K: 3 billion francs and about one hundred and fifteen million dollars.

H.M.Jr: One hundred and fifteen million.

K: Yes.

H.M.Jr: Dollars, that they had sold.

K: They had sold or they had accumulated that many in the foreign exchange to that extent.

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

K: Yes, - I'm satisfied.

H.M.Jr: Yes.

K: Today there is nothing - so far nothing doing.

H.M.Jr: Uh-huh.

K: I thought you'd be interested in the following: That it was generally believed in Paris, Carigeul said that the market - that all markets would be very quiet during the summer.

H.M.Jr: Good.

K: Yes, I thought you would like that.

H.M.Jr: Yes.

K: That was about all he had to say, the connection was very poor so I thought I'd let it go at that.

H.M.Jr: That's right.

K: The second was the point that you raised the other day, - the reason for the strength of sterling.

-2-

H.M.Jr: Yes.

K: I've asked - I've told Lockheed what I have been able to find out here, there's been nothing new, nobody has furnished anything more satisfactory in the way of an explanation, but the market has acted more quietly, so maybe those were flurries that had no particular significance.

H.M.Jr: Yes. Nothing doing today?

K: Nothing doing today, so far.

H.M.Jr: Well, you people are working on this Brazilian thing, aren't you?

K: Oh, yes. I just turned it over - the lawyers are working on it at the moment.

H.M.Jr: All right.

K: But there's one more thing I want to mention, an editorial in the Sun.

H.M.Jr: Yes.

K: You asked me at the time to get in touch with them. Well - so I took it upon myself to talk to the Sun and the following day I talked to - at the Press conference here, explained to them that the editorial was based on entirely misleading information.

H.M.Jr: Yes.

K: It was misleading in its whole meaning and I think everybody agreed that it was.

H.M.Jr: I see.

K: But that doesn't mean that the Sun will come out with another editorial.

H.M.Jr: No, but they stopped it.

K: Yes, but - they haven't referred to it all since.

H.M.Jr: Well, that's all right. Thank you - no that's all right. That's for instance like the editorial

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in today's Tribune, I don't ask you to try to get that corrected.

K: Well, I haven't read it yet. They haven't mentioned it to me.

H.M.Jr: Well, that's just political but this other thing they are technically wrong.

K: Yes.

H.M.Jr: And there's quite a difference between asking and trying to - all I want you to do is to give them the right information, and then they can do as they please.

K: Well, we discussed it at great length at the meeting and I think everybody agreed.

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

K: O.K.

H.M.Jr: Goodbye.

K: Goodbye, sir.

RE YUGOSLAVIAN GOLD DEALINGS

July 15, 1937  
11:35 a.m.

Present: Mr. Lochhead  
Mr. White  
Mr. Riefler  
Mr. Williams  
Dr. Viner  
Mr. Opper

Opper: The letter (to the Brazilians) is to be signed by you.

H.M.Jr: Now?

Opper: You can either sign it in advance or hand it to them, or have the thing sent.

H.M.Jr: We'll sign it here at three o'clock when they come in.

Opper: I see. Now, I haven't prepared any letter in reply for them, because the whole thing is set up on the basis of your making an offer to them and delivering this letter. We could prepare just an acknowledgment on their part of having received the letter, which....

Riefler: Which would give them something to sign.

Opper: ...would give them something to sign. It would have no....

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

Opper: I'll give them something to sign.

H.M.Jr: Well, who's this boy Carneira?

Opper: Let him prepare something like that?

H.M.Jr: Sure.

I just signed a document to send you to England in October.

Opper: I have it right here, but I'm still not counting on going.

H.M.Jr: Why?

-2-

Opper: Well, they can't apparently agree on a date.

Viner: I'll go with you.

Opper: You'll go - oh, with me? Oh, I want to have some fun over there.

H.M.Jr: (Laughs) That's strike one.

Viner: Want to keep an eye on you.

H.M.Jr: That's strike one for Clarence.

Viner: I'll show you how to have fun over there.

Opper: Your kind of fun and mine aren't the same.

H.M.Jr: You ready to do the Slavs? And don't suggest any more countries around here. Who pulled that brilliant one last night - "How many countries are there left?"

Viner: Opper; he would. We ought to be doing the preparatory work on Nicaragua; you know they're under way.

H.M.Jr: It's too late; they missed the boat.

(Group reads proposed letter to Knoke re Yugoslavian inquiry about gold purchases, copy attached)

H.M.Jr: Did anybody ever see their diplomatic representatives here?

Lochhead: Never came in on the Yugoslavs.

H.M.Jr: Well, I don't want to argue with them; it's all right with me.

Lochhead: The only thing I would say is that Number Two is a little bit incomplete. You say "the purchase of gold in this country, whether for export or earmark, is regularly permitted only to treasuries or central banks of those countries that have stated their adherence to the tripartite declaration." I'd say their adherence to the tripartite declaration, and to have signified their readiness to furnish gold to us on terms satisfactory to us. They couldn't just say they adhere to the declaration and then purchase gold automatically. They also....

-3-

H.M.Jr: Don't tell me Harry's slipping.

Opper: Well, I really don't think it's - while what Archie says is true, you - if you don't do that, it doesn't make any difference if you do Number Two.

Lochhead: But supposing they just came along and said they subscribed to the tripartite.

Viner: If they offer to subscribe, we tell them what the conditions are.

Opper: Then I should think you might very well want to make that arrangement with them.

H.M.Jr: What do you come in here and fight for? This isn't the place to fight. Well, get that any way you want it. That's all right; I'll sign it.

Lochhead: The main thing - go through diplomatic channels.

Viner: And conform to supplementary arrangements. How about that, Opper?

H.M.Jr: Well, bring it back here at 2:30 and I'll sign it. But get it right.

Viner: Was that necessary?

H.M.Jr: No, but I just want to fool you; I'd like to have you bring in something where I don't make any suggestions.

How are you coming, Clarence? Going to be ready at three?

Opper: Well, that's up to the Brazilians now; we're all set. We don't have anything else.

Dear Mr. Knabe:

I refer to your letter of June 30, 1937, enclosing a letter to you from the National Bank of Yugoslavia dated June 18, 1937, requesting information with respect to the privilege of purchasing gold in the United States.

You might appropriately call their attention to the following: (1) earmarking privileges are already available to the Bank of Yugoslavia; (2) the purchase of gold in this country, whether for export or earmark, is regularly permitted only to treasuries or central banks of those countries that have stated their adherence to the tripartite declaration; (3) by special arrangements with the Treasury, negotiated through appropriate diplomatic channels, other countries may be granted similar privileges.

Sincerely,

Mr. L. W. Knabe, Vice Pres.,  
Federal Reserve Bank of New York,  
New York, New York.

July 15, 1937.

Dear Mr. Knoks:

I refer to your letter of June 30, 1937, enclosing a letter to you from the National Bank of Yugoslavia dated June 18, 1937, requesting information with respect to the privilege of purchasing gold in the United States.

You might appropriately call their attention to the fact that (1) the privilege of depositing gold with the Federal Reserve Bank of New York for retention by it under earmark is already available to the Bank of Yugoslavia; (2) the purchase of gold in this country, whether for export or earmark, is regularly permitted only to treasuries or central banks of those countries that have stated their adherence to the tripartite declaration and who have made acceptable reciprocal arrangements with this country.

With respect to any special arrangements which they might wish to seek, you have already stated in your cable to Belgrade of November 13 that: "...we are advised by the Treasury that it would be necessary for the matter to be taken up by the Treasuries of the respective governments through diplomatic channels".

Sincerely,

Mr. L. W. Knoks, Vice President,  
Federal Reserve Bank of New York,  
New York, New York.

JV:AL:CO:WR:JW:HDW:fa

July 15, 1937.

Dear Mr. Knocks:

I refer to your letter of June 30, 1937, enclosing a letter to you from the National Bank of Yugoslavia dated June 18, 1937, requesting information with respect to the privilege of purchasing gold in the United States.

You might appropriately call their attention to the fact that (1) the privilege of depositing gold with the Federal Reserve Bank of New York for retention by it under earmark is already available to the Bank of Yugoslavia; (2) the purchase of gold in this country, whether for export or earmark, is regularly permitted only to treasuries or central banks of those countries that have stated their adherence to the tripartite declaration and who have made acceptable reciprocal arrangements with this country.

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Sincerely,

Mr. L. W. Knocks, Vice President,  
Federal Reserve Bank of New York,  
New York, New York.

JV:AL:CO:WR:JW:HDW:fa

July 15, 1937.

Dear Mr. Knokes:

I refer to your letter of June 30, 1937, enclosing a letter to you from the National Bank of Yugoslavia dated June 18, 1937, requesting information with respect to the privilege of purchasing gold in the United States.

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With respect to any special arrangements which they might wish to seek, you have already stated in your cable to Belgrade of November 13 that: "...we are advised by the Treasury that it would be necessary for the matter to be taken up by the Treasuries of the respective governments through diplomatic channels".

Sincerely,

Mr. L. W. Knokes, Vice President,  
Federal Reserve Bank of New York,  
New York, New York.

JV:AL:CO:WR:JW:HDW:fa

July 15, 1937.

Dear Mr. Knoke:

I refer to your letter of June 30, 1937, enclosing a letter to you from the National Bank of Yugoslavia dated June 18, 1937, requesting information with respect to the privilege of purchasing gold in the United States.

You might appropriately call their attention to the fact that: (1) the privilege of depositing gold with the Federal Reserve Bank of New York for retention by it under earmark is already available to the Bank of Yugoslavia; (2) the purchase of gold in this country, whether for export or earmark, is regularly permitted only to treasuries or central banks of those countries that have stated their adherence to the tripartite declaration and who have made acceptable reciprocal arrangements with this country.

With respect to any special arrangements which they might wish to seek, you have already stated in your cable to Belgrade of November 13 that: "...we are advised by the Treasury that it would be necessary for the matter to be taken up by the Treasuries of the respective governments through diplomatic channels".

Sincerely,

Mr. L. W. Knoke, Vice President,  
Federal Reserve Bank of New York,  
New York, New York.

JV:AL:CO:WR:JW:HDW:fa

FEDERAL RESERVE BANK  
OF NEW YORK

20

June 30, 1937.

S I R :

I enclose copy of a letter dated June 18, 1937, received from the National Bank of Yugoslavia, requesting that we obtain a license for that bank to purchase gold in the United States for subsequent sale here or free export from here.

A similar request was made of us by the bank by cable of November 13, 1936, reading "No. 18 Please buy gold bars for about \$120,000. Charge our account and deposit with you gold bars", in reply to which we cabled to Belgrade on November 13, "Referring your cable No. 18 we are advised by the Treasury that it would be necessary for the matter to be taken up by the Treasuries of the respective governments through diplomatic channels" .

There is enclosed herewith a brief memorandum prepared by our Research Department, setting forth some data regarding the bank, our relations with it and details of foreign exchange regulations now in force in Yugoslavia.

If the request of the National Bank of Yugoslavia is complied with, the gold would be earmarked in its name in our vaults. It is requested that your decision be communicated to us at your early convenience.

Respectfully,

(Signed) L. W. Knoke  
L. W. Knoke,  
Vice President.

The Honorable,  
The Secretary of the Treasury,  
Washington, D. C.

Encs.

C O P Y

Belgrade.  
June 18, 1937.

21

TRANSLATION  
FROM Banque Nationale du Royaume de Yougoslavie  
Federal Reserve Bank of New York  
Ref. No. 150694

We beg to inform you that we expect to have occasion to buy and sell in America from time to time gold against dollars, with the privilege of being able to dispose of and export it freely.

As we are aware that special legislation concerning gold transactions exists in America, we take the liberty of asking that you obtain for us from the competent authorities the necessary authorization pertaining to the purchase and sale of gold, with the privilege of freely disposing and exporting each parcel purchased.

We hope that you will obtain this authorization without trouble, especially since the transactions which we might have to carry out in America would not be considerable in comparison with the gold transactions of other countries in your market.

If, however, you should not be in a position to obtain this authorization for us, we should appreciate your letting us know to whom we should turn in this matter.

For your guidance, transactions in foreign exchange and gold in our country are not free, but are subject to the restrictions laid down by regulations of the Finance Ministry.

Will you kindly let us know as soon as possible the results of such steps as you take in this matter.

NATIONAL BANK OF YUGOSLAVIA

The National Bank of Yugoslavia is the central bank of Yugoslavia and has had an account on our books since 1927. Up to the time when exchange control was established in Yugoslavia in October 1931, the Bank was on the gold exchange standard. The cover for its sight liabilities (notes and deposits) is still held in gold metal and in convertible foreign exchange, subject to a present minimum required reserve of 25 per cent in these assets. At last report (June 8, 1937) its actual reserve ratio was 28.1 per cent. As against a further requirement that 50 per cent must be held in gold metal, nearly the whole of the reserve was so held at last report.

For several years past the National Bank of Yugoslavia has been paying a premium of 28.5 per cent in dinars for gold and gold exchange, the latter including United States dollars. Although the gold content of the dinar has not been redefined since the establishment of exchange control, a decree dated January 15, 1935 permitted the Bank to write up its stock of reserve assets in accordance with this premium for purposes of calculating the ratio of reserves to liabilities.

During the year 1935 the National Bank of Yugoslavia lost \$10 million of gold metal. It regained \$5 million of gold in the course of the year 1936, and acquired an additional \$2 million of gold in the first four months of 1937.

The exchange control law requires that all export transactions be subject to governmental license, and that certain imports from countries with which Yugoslavia has no clearing or compensation agreements be also subject to license. (The United States has no

- 2 -

exchange agreement with Yugoslavia.) Exporters are required to offer to the National Bank one-third of the exchange proceeds of their exports, the other two-thirds to be sold in the open market. It is understood that the open market rate closely approximates the official rate, which is nominally quoted in New York at 2.33 cents. Parity is 2.982 cents since January 1934.

June 30, 1937.

OFFICE CORRESPONDENCE

DATE *July 15, 1937*

24

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knobe

BANK OF FRANCE.

I called Mr. Carigual at 10:30 today. They had not operated at all so far today, he said. The market was a little perturbed over the external political situation. I asked whether he was satisfied with the amount of gold and foreign exchange they had been able to get in since July 1. Carigual replied that the three billion francs they had managed to sell looked to him pretty good. As regards the future, he stated that it was generally thought over there that their markets would be very quiet during the summer.

I made reference to the continued discount on francs for forward delivery. Carigual stated that they were not disturbed over that although naturally they were not particularly pleased with it either. However, it could be readily explained, firstly, by the tightness of the money market, secondly, by the fact that they had recommended to the French banks to refrain from operations in forward francs except for strictly commercial purposes, which necessarily meant that sellers of forward francs found it difficult to find buyers, thus depressing the forward rate. It seemed to him that this state of affairs was bound to continue as long as their trade figures showed such a heavy excess of imports over exports.

I commented that recent developments in the London gold market to me were very encouraging. Carigual replied that the fact of the matter was that it was extremely difficult to buy gold in London, the supply there having practically dried up.

The connection being very poor, I suggested that we had better cut short and promised I would call him again in a few days.

LNK:ZEC

JR

GRAY

London

Dated July 15, 1937

Rec'd 1:40 p.m.

Secretary of State,  
Washington.

475. July 15, 6 p.m.

CONFIDENTIAL.

FOR TREASURY FROM BUTTERWORTH.

I delivered this morning the message to the Chancellor of the Exchequer contained in your 300 July 14, 9 p.m., and 301 July 14, 11 p.m.

At a meeting this afternoon which had been previously arranged with Philipps and Waley I found occasion to mention that you would appreciate it if an answer could conveniently be made by Monday. (In accordance with your telephonic instruction I also telephoned Cochran in order that a similar request be made of Bonnet).

Philipps stated that with the French Parliament out of the way and given the decree making powers which would be in force until the end of August in his opinion the Chautemps Government should with any luck be safe until October. He said that from what they saw of French exchange operations they estimated that the French fund had only obtained between 20 and 25 million pounds of gold; that in their opinion this did not represent returned capital but

was

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JR #475, July 15, 6 p.m., from London.

was almost entirely the result of covering operations.

Philipps' plans are still somewhat indefinite but his general intention is to leave England the latter part of August and go straight to Lake Louise where he expects to meet his sister who is returning to England from the Far East via Canada. She is to sail from New York on September 22 and therefore Philipps assumes that he will make his way from Lake Louise to Chicago and thence direct to Washington arriving there during the week-end before the 20th of September, the date of your meeting with him.

BINGHAM

CSB

Approved by the President

July 15, 1937

27

Draft.

The following joint statement is made by the Secretary of the Treasury and the <sup>Minister</sup> ~~Finance~~ 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.

RE BRAZILIAN AGREEMENT

July 15, 1937  
2:45 p.m.

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

H.M.Jr: Have they seen this (letter to Brazilians)?

Opper: They have a copy of it, yes, sir. That is, Mr. Carneira has. I think by this time he's probably shown it to the Minister.

H.M.Jr: Did you find out which Carneira?

Opper: I don't think it's Primo.

H.M.Jr: As a matter of fact, you take - (on phone) tell Mr. Gaston we're waiting for him - as a matter of fact, their idea was quite different. They expected to take gold and give us a note for it, something like that. This is the Williams plan - not Harvard, but Williams.

White: It's the plan consisting that when they buy something you expect them to pay for it.

Viner: If the press start asking you questions about it, don't expand on it.

H.M.Jr: You mean don't laugh?

Viner: That would be all right. But I still think we haven't had our innings with Feis yet, who still says this is an important agreement.

H.M.Jr: He thinks this is an important agreement.

Riefler: We said so in the statement, didn't we?

H.M.Jr: Well, I'll tell you this; it didn't take Sumner Welles very long to catch on. They think it's very

-2-

important - enough that he called me up and said he got their agreement through based on this one. I mean, you know, they expected all this trouble, and I spoke to him and suggested, "Say, now, we're going to do this" - or rather, wouldn't do it unless they came through on the other one; and they're all finished, cleaned up.

- Williams: Well, I think the central bank part is important, and I think it is very important for us to have a connection with the creation of that bank. I think that is important for our standing in Latin America.
- Riefler: More than that.
- H.M.Jr: Do you fellows want to go over with me, just for fun? Would you enjoy it?
- Gaston: Would you care to have either Naster or Frank King go over there, or do you think they would make a.....
- H.M.Jr: Oh, absolutely. And my personal photographer, a la Kung.
- Now, what's this?
- White: That Yugoslavian letter.
- H.M.Jr: Oh. (Signs letter)
- What would we do if the Brazilians asked for technical assistance?
- Viner: I'd send Williams down, and somebody else from the New York Bank, and somebody from the Board.
- Williams: Getting good all right.
- White: They did say that they would leave some economists here.
- Opper: "hat, no lawyer?
- H.M.Jr: Did you hear what Clarence said? Clarence said they want to get something done.

Viner: I don't see what we have against the Brazilians.

H.M.Jr: I'll say this, you came through - kidding the lawyers - you're on time today.

Lochhead: You don't realize how he had to get other lawyers to come through.

Opper: They gave us some swell cooperation.

Lochhead: They did.

H.M.Jr: Who's going to let these fellows know abroad what this amounts to? Anything we can tell them? Taylor usually lets them know. They get the press release.

You still haven't done any business, Archie?

Lochhead: Not a thing.

H.M.Jr: Marvelous, isn't it?

(Brazilians arrive; rest of transcript written up separately)

## MEETING WITH BRAZILIANS

July 15, 1937  
3:00 p.m.

Present: Dr. Arthur de Sousa Costa  
Ambassador Caffrey  
Mr. Carneira  
Mr. Lochhead  
Mr. White  
Mr. Opper  
Mr. Williams  
Dr. Viner  
Mr. Riefler  
Mr. Gaston  
Dr. Feis

H.M.Jr: Has the Minister had a chance to see this?

Costa: Yes, I have.

H.M.Jr: Is it acceptable?

Costa: Yes.

(Secretary signs letter and hands to Costa)

H.M.Jr: Well, I hope it brings both of our countries prosperity.

Costa: Thank you, with all the kindness I have.

H.M.Jr: Now, who's going to read this (Brazilians' acknowledgment)?

Carneira: As a matter of fact, it is the English translation....

Opper: I have what should be the translation of the reply.

H.M.Jr: Well now, this is in force now, isn't it, the minute I sign it.

Opper: Yes. We're communicating it to the Federal Reserve Bank today.

H.M.Jr: Now the only other thing we'll have to do is have our pictures taken.

Costa: All right.

H.M.Jr: How long will the Minister be in the United States?  
How long will you stay?

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Costa: I think a week more, or ten days more.

Carneira: The Minister will go tonight to Dallas.

Costa: Next Tuesday I think we go to New York.

H.M.Jr: I leave here Monday.

Costa: Yes?

H.M.Jr: This is my last business now for a month. No more business for a month.

Costa: When are you going out?

H.M.Jr: I leave here Monday.

Costa: Monday.

H.M.Jr: I think the lawyers did very well to get this through.

Costa: Yes.

Carneira: Much quicker than....

H.M.Jr: We have to have lawyers here and lawyers in New York to do it.

Well, when do you report down there, Mr. Caffrey?

Caffrey: I'm leaving here tomorrow, but I'm sailing - next boat is the 31st; it gets there the 12th. I'm going to try to catch two or three days of cool weather before I move into - I like the tropics, but I like a few days of this too.

H.M.Jr: Rio isn't really the tropics, is it?

Caffrey: Oh yes, I would say so.

H.M.Jr: I've never been in the tropics; I've got that yet to do.

Carneira: We're looking forward to next year.

H.M.Jr: I hope so.

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Caffrey: Glad to have you come down, Mr. Secretary.

H.M.Jr: Well, I told them I'd like to come down in January, February.

Caffrey: That's the worst time of the year; that's mid-summer.

Carneira: This time would be preferable. It's our time - it's our good season.

H.M.Jr: You see, there's five in my family and it's quite a big family to move, and they don't all fly; that's the trouble.

Costa: I want to ask you another favor, to express for myself to all the technicians and all the lawyers my appreciation for the kindness which they have shown. But I do not leave until the technicians - I ought to talk with them.

H.M.Jr: You want to talk with them; you mean this afternoon?

Costa: No, not this afternoon; but next week in New York, I think, I can meet with that Williams. You (Williams) are in New York next week.

Williams: What day will you be getting there?

Costa: I'll be getting there next Tuesday.

Williams: I have to give a lecture at Wellesley Institute Tuesday morning and be there Wednesday morning.

Costa: Wednesday morning.

Williams: That be all right?

Costa: What time?

Williams: Any time.

Costa: In the Bank?

Williams: In the Bank.

H.M.Jr: We can go to Mr. Hull's, but I thought it was cool here and we have another five or ten minutes. He said

to be there at 3:30. And I don't think the State Department is air-cooled, is it?

Costa: No, it's not air-cooled.

Feis: Two offices - one office, the Secretary's office.

H.M.Jr: We have another five minutes; we might as well sit here.

My dear Mr. Ministers:

As a result of recent conversations with you and other representatives of the United States of Brazil, I am today authorizing the Federal Reserve Bank of New York, as fiscal agent of the United States of America, with the object of building up the monetary stocks of gold and stabilizing the currency of the United States of Brazil and of supplying the United States of Brazil with United States of America dollar exchange from time to time as may be required, to enter into the following arrangement with you, or such fiscal agent of the United States of Brazil as may be designated for that purpose:

1. We, the Federal Reserve Bank of New York, as fiscal agent of the United States of America (hereinafter called the United States), undertake to sell to you, from time to time, in such amounts and at such times as you request, upon payment of the price provided by section 44 of the Provisional Regulations issued under the Gold Reserve Act of 1934, as the same may be in effect at the time of each such sale, gold in the maximum amount of \$60,000,000, computed at the price at which such gold is so purchased by you. Immediately upon the consummation of each such sale the gold so sold will be earmarked by us for your account.

- "2. We, as fiscal agent of the United States, will purchase from you, from time to time as requested by you, Brazilian milreis, the milreis 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 Brazilian milreis, we shall in turn credit you on our books in a special account to be opened in such name as you may designate in an amount in United States dollars equal, at the then prevailing buying rate of exchange in New York for cable transfers in milreis on Rio de Janeiro, to the amount in milreis so credited to us on your books. Interest on such special milreis 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.
- "3. The total amount of milreis 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

- 3 -

equivalent of United States \$60,000,000 computed at the rate at which such milreis are to be repurchased from us by you pursuant to the provisions of the next succeeding paragraph hereof.

- \*4. You agree that any or all milreis 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 such times as may be mutually agreed upon when such milreis are purchased from you by us, at the same rate or rates of exchange at which such milreis were purchased from you by us. Milreis in the amount of the interest accrued on, and whether or not credited to, such special milreis 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 milreis upon which such interest has accrued were purchased from you by us. In the absence of any such request milreis 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.

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5. 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 provided by section 42 of the Provisional Regulations hereinabove referred to) to the dollar equivalent of the milreis 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 5 (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 milreis (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 hereinabove referred to, 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 loss by reason of any failure on your part to repurchase said milreis (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 milreis 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 agreement.

"6. 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.

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- "3. The total amount of milreis 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

- 3 -

equivalent of United States \$60,000,000 computed at the rate at which such milreis are to be repurchased from us by you pursuant to the provisions of the next succeeding paragraph hereof.

- 2). You agree that any or all milreis 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 such times as may be mutually agreed upon when such milreis are purchased from you by us, at the same rate or rates of exchange at which such milreis were purchased from you by us. Milreis in the amount of the interest accrued on, and whether or not credited to, such special milreis 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 milreis upon which such interest has accrued were purchased from you by us. In the absence of any such request milreis 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.

"5. 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 provided by section 42 of the Provisional Regulations hereinabove referred to) to the dollar equivalent of the milreis 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 5 (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 milreis (including interest) as hereinabove provided, you do further authorize us, as pledge aforesaid, to call

to the United States, at the price provided by section 42 of the Provisional Regulations hereinabove referred to, 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 loss by reason of any failure on your part to repurchase said milreis (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 milreis 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 agreement.

- "6. It is understood that you will take such further action as may be reasonably requested by us to effectuate the purpose and intent of this arrangement.

"7. Our obligations hereunder shall terminate on July 15, 1942, subject to earlier termination at any time on 30 days' notice with respect to paragraphs 1 or 2 hereof, or the entire agreement, as specified in such notice. Any 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."

Very truly yours,

(Signed) H. Morgenthau, Jr.  
Secretary of the Treasury.

JWP:GVO:BJ 7/15/37

Hon. Arthur de Souza Costa,  
Minister of Finance of Brazil.

- 6 -

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Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

JWP:CVO:BJ 7/15/37

Hon. Arthur de Sousa Costa,

Minister of Finance of Brazil.

JUL 15 1937 (IN Secretary's handwriting)

TREASURY DEPARTMENT

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Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Friday, July 16, 1937.  
7/15/37

Press Service  
No. 10-78

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- 2 -

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.

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# TREASURY DEPARTMENT

51

INTER OFFICE COMMUNICATION

DATE JUL 15 1937

TO Secretary Morgenthau  
FROM Herman Oliphant

Re: Neutrality Act of 1937.

A question has arisen concerning the applicability of section 3 of the Neutrality Act of 1937 (Pub. Res. No. 27, 75th Congress) to the Government of the United States. More specifically, does the phrase "it shall thereafter be unlawful for any person within the United States to purchase, sell, or exchange bonds, securities, or other obligations of the government of any belligerent state or of any state wherein civil strife exists, \*\*\* or to make any loan or extend any credit to any such government, \*\*\*\*" apply to this Government whenever the President shall have issued a proclamation under the authority of section 1 of the Act? It is believed that such prohibition does not apply to the Government of the United States.

It may be stated at the outset that the definitive interpretation of the Neutrality Act, being a question of law which would necessarily involve several Departments, is a matter which would be appropriate for the determination of the Attorney General. Sections 354, 356 and 361 of Revised Statutes of 1878, (U.S.C., title 5, sections 303, 304 and 306). The following discussion is intended for the use of the Treasury Department, pending such definitive interpretation.

The prohibition in section 3 of the Neutrality Act relating to the purchase, sale or exchange of securities of belligerent governments and the making of loans to such belligerents, is a prohibition upon "any person within the United States." The term "person" is defined in section 13 to include "a partnership, company, association, or corporation, as well as a natural person." There is nothing in the Act to indicate that Congress intended to include the Government of the United States within that definition. Indeed, the fact that Congress also specifically set forth in section 13 of the Act a definition of the term "state" as including "nation, government, and country", is a rather clear indication that there was no intention to include a government within the definition of the word "person."

There is good authority for the principle of statutory construction that the sovereign is not bound by statutes that may tend to diminish any of its rights and interests unless the sovereign is named in the statute by special and particular words. The rule was well stated in Dollar Savings Bank v. United States, (1873) 86 U.S. 227, 239, as follows:

"It is a familiar principle that the King is not bound by any act of Parliament unless he be named therein by special and particular words. The most general words that can be devised (for example, any person or persons, bodies politic or corporate) affect not him in the least, if they may tend to restrain or diminish any of his rights and interest. He may even take the benefit of any particular act, though not named. The rule thus settled respecting the British Crown is equally applicable to this government, and it has been applied frequently in the different States, and practically in the Federal courts." (Under-scoring supplied.)

In United States v. Herron, (1875) 87 U.S. 251, 283, it was stated:

"\* \* \* when a statute is general and any prerogative, right, title,

- 5 -

or interest would be divested or taken from the king, in such a case he shall not be bound unless the statute is made by express words to extend to him, \* \* \*.

"Sanctioned as that principle is by two express decisions of this court, it would seem that further discussion of it is unnecessary, as it has never been questioned by any well-considered case, State or Federal, and is founded in the presumption that the legislature, if they intended to divest the sovereign power of any right, privilege, title, or interest, would say so in express words; and where the act contains no words to express such an intent, that it will be presumed that the intent does not exist."

See also Davis v. Pringle, (C.C.A. 4th, 1924) 1 F. (2d) 860, 865; affirmed, (1925) 268 U.S. 315.

To adopt a construction of the general terms of the Neutrality Act which would divest the sovereign power of a right or privilege which it otherwise possess, would be contrary to the rule of statutory construction above mentioned.

Not only is the Government not specifically mentioned in section 3 of the Neutrality Act, but, as above pointed out, the word "person", as contrasted with "state", has been so defined as to preclude the possibility that the prohibition was meant to apply to the Government of the United States.

Section 3 of the Neutrality Act as finally enacted is couched in language somewhat different from that in the House bill (H.J. Res. 242, 75th Congress), but means the same thing, and covers all of the House bill. (Conference Report No. 723, 75th Congress, page 12.)

Section 5 (that pertaining to financial transactions) of H.J. Res. 242 is practically a restatement of section 2 of Public Resolution No. 74, 74th

Congress (49 Stat. 1152), which extended and amended the Joint Resolution, approved August 31, 1935 (49 Stat. 1081). The prohibition against financial transactions with belligerents first appeared in Public Resolution No. 74. When that legislation was under consideration the Committee stated:

"We feel that this will safeguard and prohibit any credits or transactions undertaken to be carried on in this country by a belligerent country during any warfare. \* \* \*" (House Report No. 2001, 74th Congress, underscoring supplied.)

However, it should be pointed out that the phraseology now under consideration is clear and unambiguous and resort may not be had to committee reports and congressional debates in an effort to impart a different meaning to the words. Duplex Printing Press Co. v. Deering (1920) 254 U.S. 443, 474; Penn R. R. Co. v. International Coal Co. (1912) 230 U.S. 184, 199. Such aids are only admissible to solve doubt and not to create it. Railroad Commission v. Chicago B. & Q. R. Co. (1922) 257 U.S. 563, 589. The phrase "any person within the United States" presumably was used deliberately by the Congress in the statute, and also the word "person" was defined in section 13 thereof. Nevertheless, the foregoing statement by the Committee on Foreign Affairs, while not admissible under strict rules of evidence in a court of law, is indicative of the spirit of the legislation, and it might possibly be contended that, when Congress enacted the legislation, it had in mind an absolute prohibition of financial transactions of every character in the United States (except ordinary commercial and relief transactions) including those of the Government.

The Johnson Act (48 Stat. 574) by its terms specifically exempts a public corporation created by or pursuant to special authorization of Congress, or a corporation in which the Government of the United States has or exercises

- 5 -

a controlling interest through stock ownership or otherwise. The neutrality legislation contains no such specific exemption and, accordingly, the contention might be made that a government created or controlled corporation would be subject to the prohibition contained in section 3. Such question, however, is not herein considered and no opinion is rendered thereon.

*Herman Chyba*

TO:

Miss Chauncey

56

7-15-37

As you probably know, the Secretary saw the attached memorandum from Mr. Oliphant and signed the letters referred to - to the Attorney General and one to Admiral Peoples. Copies of these letters are also attached. They were sent out by special messenger tonight, 9:50 PM.

If you should desire a copy of the General Counsel's opinion referred to in the first paragraph of the letter to Admiral Peoples, please let us know. The original of this opinion was sent to the Secy. May 19, 1937.

From: MR. OLIPHANT

*L.H. Backe*

INTER OFFICE COMMUNICATION

DATE JUL 15 1937.

TO Secretary Morgenthau  
FROM Herman Oliphant

I have before me, by reference from your office, the letter of the Attorney General on June 30, asking your approval of the publication of his opinion to you of June 30, 1937, concerning the duty of the Director of the Procurement Division with respect to the rejection of collusive bids. I recommend that the Attorney General be advised that there is no objection to the publication of this opinion, and a draft of a letter to the Attorney General to this effect and for your signature is attached hereto.

The portion of the Attorney General's opinion material in this connection reads as follows:

"I think I may go so far, however, as to say that if the Director should be convinced that all bids received in response to an invitation therefor are the result of collusion on the part of bidders and that the Government thereby has been deprived of benefits conferred upon it by Section 3709 of the Revised Statutes, supra, and his convictions are supported by evidence so clear and convincing as to lead a man of ordinary judgment and prudence definitely to the same conclusions, it would be his duty to reject all of the bids."

It is to be observed, parenthetically, that the duty to reject all bids implies also, of course, the absence of legal power in the Director of the Procurement Division to bind the United States by contracts sought to be consummated by an acceptance of such identical bids.

- 2 -

It is to be further noted that the Attorney General, after concluding that the Director of Procurement has the right to reject bids when he is convinced that all bids received are the result of collusion, states:

"Whether it is his duty to reject all bids in every instance in which he is convinced that they represent collusive action between the bidders is a question difficult to consider in the abstract. It has been the uniform practice of the Attorneys General to decline to render opinions on abstract questions and one of the reasons underlying it is the impossibility of attempting to anticipate every specific set or combination of facts which the future may present. The duty of the Director of Procurement in a particular situation in large measure would depend upon the facts peculiar to it, and no definite rule should be laid down in advance binding him in all possible future factual contingencies."

In view of this opinion of the Attorney General, instructions to the Director of the Procurement Division are necessary, and, from the foregoing review of the opinion, the instructions consonant with it should provide for the reference of cases to the Department of Justice whenever evidence of collusion is present.

*Herman Chisholm*

JUL 15 1937

Secretary Morgenthau

Herbert Oldphant

I have before me, by reference from your office, the letter of the Attorney General on June 30, asking your approval of the publication of his opinion to you of June 30, 1937, concerning the duty of the Director of the Procurement Division with respect to the rejection of collusive bids. I recommend that the Attorney General be advised that there is no objection to the publication of this opinion, and a draft of a letter to the Attorney General to this effect and for your signature is attached hereto.

The portion of the Attorney General's opinion material in this connection reads as follows:

"I think I may go so far, however, as to say that if the Director should be convinced that all bids received in response to an invitation therefor are the result of collusion on the part of bidders and that the Government thereby has been deprived of benefits conferred upon it by Section 3709 of the Revised Statutes, *SMITH*, and his convictions are supported by evidence so clear and convincing as to lead a man of ordinary judgment and prudence definitely to the same conclusions, it would be his duty to reject all of the bids."

It is to be observed, parenthetically, that the duty to reject all bids implies also, of course, the absence of legal power in the Director of the Procurement Division to bind the United States by contracts sought to be consummated by an acceptance of such identical bids.

It is to be further noted that the Attorney General, after concluding that the Director of Procurement has the right to reject bids when he is convinced that all bids received are the result of collusion, states:

Whether it is his duty to reject all bids in every instance in which he is convinced that they represent collusive action between the bidders is a question difficult to consider in the abstract. It has been the uniform practice of the Attorney General to decline to render opinions on abstract questions and one of the reasons underlying it is the impossibility of attempting to articulate every specific set or combination of facts which the future may present. The duty of the Director of Procurement in a particular situation in large measure would depend upon the facts peculiar to it, and no definite rule should be laid down in advance binding him in all possible future factual contingencies.\*

In view of this opinion of the Attorney General, instructions to the Director of the Procurement Division are necessary, and, from the foregoing review of the opinion, the instructions consonant with it should provide for the reference of cases to the Department of Justice whenever evidence of collusion is present.

(Regraded Unclassified)

HOIVON  
7/24/37  
5  
Enc. 1

JUL 15 1937

My dear Mr. Attorney General:

Receipt is acknowledged of your opinion under date of June 30, 1937, relating to the duty of the Director of the Procurement Division in relation to the rejection of collusive bids and your letter of even date asking approval of the publication of this opinion.

There is no objection to such publication. For your information, I enclose copy of the instructions which have been given to the Director of the Procurement Division in accordance with your opinion.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

The Honorable

The Attorney General of the United States

Enc. 1

HO:VOM  
8/7/37  
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JUL 15 1957

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Regraded Unclassified

My dear Admiral Peoples:

For your information and guidance, I transmit herewith copy of my request to the Attorney General for his opinion on the matter of collusive bidding on Government contracts, the opinion of the General Counsel which accompanied that request, and the opinion of the Attorney General in response to my request.

On reference to the General Counsel, I was advised as follows:

"The portion of the Attorney General's opinion material in this connection reads as follows:

"I think I may go so far, however, as to say that if the Director should be convinced that all bids received in response to an invitation therefor are the result of collusion on the part of bidders and that the Government thereby has been deprived of benefits conferred upon it by Section 3709 of the Revised Statutes, quarta, and his convictions are supported by evidence so clear and convincing as to lead a man of ordinary judgment and prudence definitely to the same conclusions, it would be his duty to reject all of the bids."

"It is to be observed, parenthetically, that the duty to reject all bids implies also, of course, the absence of legal power in the Director of the Procurement Division to bind the United States by contracts sought to be consummated by an acceptance of such identical bids.

"It is to be further noted that the Attorney General, after concluding that the Director of Procurement has the right to reject bids when he is convinced that all bids received are the result of collusion, states:

"Whether it is his duty to reject all bids in every instance in which he is convinced that they represent exclusive action between the bidders is a question difficult to consider in the abstract. It has been the uniform practice of the Attorney General to decline to render opinions on abstract questions and one of the reasons underlying it is the impossibility of attempting to saddle upon every specific set of combination of facts which the future may present. The duty of the Director of Procurement in a particular situation in large measure would

- 2 -

depend upon the facts peculiar to it, and no definite rule should be laid down in advance binding him in all possible future factual contingencies.'

"In view of this opinion of the Attorney General, instructions to the Director of the Procurement Division are necessary, and, from the foregoing review of the opinion, the instructions consonant with it should provide for the reference of cases to the Department of Justice whenever evidence of collusion is present."

In accordance with the Attorney General's opinion, you are instructed to proceed as follows:

Hereafter, all cases in which there is evidence that bids, otherwise acceptable, are the result of collusion, should, before any bid is accepted, be referred through the usual channels to the Department of Justice for determination whether a finding of collusion by the Director of the Procurement Division would be supported by evidence so clear and convincing as to lead a man of ordinary judgment and prudence definitely to that conclusion.

All cases of identical bids would, in the absence of satisfactory affirmative evidence that no collusion was present, fall within the foregoing instruction.

Very truly yours,

(Signed) H. M. ... .., Jr.

Secretary of the Treasury.

Rear Admiral Christian J. Peoples,  
Director of Procurement,  
Washington, D. C.

ED:hhk  
7/15/37

Office of the Attorney General

Washington, D. C.

June 30, 1937.

The Honorable,

The Secretary of the Treasury.

My dear Mr. Secretary:

Reference is made to your letter of May 19, 1937, in which you state that "In the administration of the Procurement Division in the Treasury Department, the Director of Procurement is faced, from time to time, with a situation in which all the bids on a Government contract are identical and the Director is convinced, in view of the surrounding circumstances, that the price offered was arrived at as a result of collusive action upon the part of the bidders," and request my opinion upon the question "whether, under such circumstances, the Director is under a duty to reject all of the bids."

Section 5709 of the Revised Statutes (U.S.C., Title 41, Sec. 5) requires that all purchases and contracts for supplies or services of the Government shall be made "by advertisement a sufficient time previously for proposals respecting the same." The purpose of this statute is to secure to the Government the benefits which flow from competition and to prevent collusion and fraud in the letting of contracts. 21 Ops. A. G.

3045 22 Id. 1, 6j 36 Id. 33, 37.

Collusion between bidders, the consequence of which is to deprive the Government of the benefits flowing from competition, is, therefore, in violation of this Act, Mohr v. Hoffman, 174 U. S. 639j and when the Director of Procurement

is convinced that all bids received are the result of such collusion, unquestionably he has the right to reject them. In re Salmon, 145 Fed. 649, 652-653.

Whether it is his duty to reject all bids in every instance in which he is convinced that they represent collusive action between the bidders is a question difficult to consider in the abstract. It has been the uniform practice of the Attorney General to decline to render opinions on abstract questions and one of the reasons underlying it is the impossibility of attempting to anticipate every specific set or combination of facts which the future may present. The duty of the Director of Procurement in a particular situation in large measure would depend upon the facts peculiar to it, and no definite rule should be laid down in advance binding him in all possible future factual contingencies. This is especially true in view of the consideration that the Director clearly has the right and the power to reject all bids when, in his opinion, the interest of the Government so requires. I think I may go so far, however, as to say that if the Director should be con-

vised that all bids received in response to an invitation therefor are the result of collusion on the part of bidders and that the Government thereby has been deprived of benefits conferred upon it by Section 3709 of the Revised Statutes, FOUR, and his convictions are supported by evidence so clear and convincing as to lead a man of ordinary judgment and prudence definitely to the same conclusions, it would be his duty to reject all of the bids.

The question whether the Director of Procurement, if he should be convinced in a specific instance that some of the bids received are collusive and others are not, should reject all of the bids or should reject only those deemed to be collusive and weigh the others, is not presented in your letter and is not passed upon herein. This question, also, would be difficult, if not impossible, to consider in the abstract, being susceptible of decision only in the light of the facts presented by particular cases as they arise.

Respectfully,

(Signed) Homer Cummings  
Attorney General.

## GROUP MEETING

July 16, 1937  
9:30 a.m.

Present: Mr. McReynolds  
Mr. Bell  
Mr. Lochhead  
Mr. Upham  
Mr. Gaston  
Mr. Gibbons  
Mr. Haas  
Miss Roche  
Miss Chauncey

H.M.Jr: Mac?

McR: Nothing.

H.M.Jr: I'm just going to say again - I mean you people will hear about it - that no one should even think they're going to put anybody on the Stabilization Fund without first going to Mac and then having them come to me and the person come with them in person. I won't go any further than that - I've had my morning blow-up - so Mac will see some of you later. And Archie watches that for me very carefully. All right.

Dan, when you going to be ready to talk to me?

Bell: Right after this meeting if you want.

H.M.Jr: Swell. You (Lochhead) and I have had our talk.

Lochhead: You got the note; your bonds are moving along nicely this morning.

H.M.Jr: Yes. If you and Bell will stay a minute afterward, I'll talk to you.

What are you (Upham) doing in between the tax things?

Upham: I believe you told me I wouldn't have any spare time. I'm going to the funeral this morning.

H.M.Jr: I still say, what are you doing between the tax things?

Upham: Oh, a number of things.

H.M.Jr: Catching up?

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Upham: Yes.

H.M.Jr: I want to tell you now, publicly, in this room, I think we got a very fine press, and I think a lot of credit goes to you for handling them on the Hill.

Upham: Well, we had a very fine press, but I don't think it's attributable to me.

H.M.Jr: At least, you made them - you were nurse to them. After all that time, we've got to credit that to somebody, don't we, Herbert?

Gaston: Yes, I think Cy is the victim.

McR: Cy says he is always the victim.

Gaston: He's the fellow that's been making all kinds of trouble out in my shop, bossing my people, making them work overtime, so he's the fellow to blame.

Upham: Without authority, too.

Gaston: No, ample authority.

H.M.Jr: Now, Mac, if after I've seen Bell and Lochhead I could have a little talk with you, maybe we could fix Miss Roche up by turning her down or approving, one way or the other. Right after I see these people. You want to argue with me alone or before Miss Roche? Or how do you want to do it?

McR: No, I'm delighted to have Miss Roche present. We want Miss Roche present.

H.M.Jr: We'll give Bell whatever time he needs; then if you'll come back.

Gibbons: You're going to Honolulu. We haven't reappointed the Collector of Customs out there yet - little trouble, but I think he's clear.

H.M.Jr: Wouldn't that be a good excuse for me to charge my expenses to the Government?

Gibbons: That's perfect.

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H.M.Jr: Go out there to clear up the situation.

Gibbons: But you leave it to Mac and Harold Graves and myself. I haven't had a chance to dissect the report.

H.M.Jr: Why didn't we pay - I already paid for my ticket. Who am I leaving it to?

Gibbons: Mac and Harold Graves and I.

H.M.Jr: Well, for gosh sakes do it before I get out there. Please settle it before I arrive.

Gibbons: He's just a crazy fellow, but nothing on him, you know.

H.M.Jr: Just crazy! (Laughs)

Gibbons: He's absolutely - I'm warning you now. You've met him, haven't you, Herbert?

Gaston: No, I didn't meet him.

Gibbons: He's a newspaperman, by the way.

H.M.Jr: He's not one of these economists, huh?

Gibbons: He's not an economist. He's not that crazy.

(Hearty laughter)

McR: George (Haas) thought he was crawling out from under.

H.M.Jr: You're all right.

Haas: I can take it; I've had a vacation.

H.M.Jr: All right.

Gibbons: That reminds me of Wayne Taylor one night; the women were talking bridge and Wayne said, "They sound like economists, don't they?"

H.M.Jr: Well, I'll leave it to you and Mac and who else?

Gibbons: And Graves.

H.M.Jr: All right.

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Gibbons: He gave out a lot of stuff. He just likes to give out statements about that coordination out there - supposed to be confidential.

H.M.Jr: I should worry!

Gibbons: Nothing to...

H.M.Jr: Any other big problems?

Gibbons: Not a thing

H.M.Jr: I see you lost - they've got a candidate in New York.

Gibbons: They picked him out apparently.

H.M.Jr: All right. Well, in a pinch I'm for Gibbons for Mayor.

Gibbons: Anybody take that job is crazy.

H.M.Jr: All right.  
George?

Haas: I have nothing this morning.

H.M.Jr: Herbert?

Gaston: Can't think of anything.

Roche: Did Mr. Hopkins tell you about our conference yesterday? He said he would. It was very interesting. We had a conference with practically all the people - all the representatives - that is, in the Federal Government - on health, and some of the outside people. It was really very gratifying to find what a change had come about in the year since we had called a conference particularly for trying to work out a national health program on which all these different factions could get into agreement, and we succeeded in doing so - practically the first time it's ever happened. Everybody's had a different angle of approach. We felt quite cheerful.

H.M.Jr: Did Harry talk about more taxes?

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- Roche: No, we aren't going to have any more taxes.
- H.M.Jr: You'd be interested that Harry Hopkins spends most of his time now telling us that we should balance our budget.
- Roche: Harry's got a perfect formula. He says not to run any more taxes and he thinks we've got to balance the....
- Bell: That's the reason there is perfect agreement; all the money came out of the Treasury.
- Roche: He was fine about it.
- H.M.Jr: The only part of Harry's program that I can't understand - in one breath he talks about raising about ten billion dollars for taxes, and in the next breath he says, "Of course, no matter how much you appropriate, they will always spend it. So you can't economize as long as you appropriate or raise the money." The two things just don't "gee." But, in the meantime....
- Roche: Barring out the economics of the situation, we were all in agreement.
- H.M.Jr: In the meantime, I think we might say that Bell and I feel more comfortable than we have at any time heretofore. Isn't that right?
- Bell: That's right.
- McR: Harry's all right, if there wasn't any such thing as arithmetic; that's the only thing that troubles Harry.
- H.M.Jr: You didn't happen to read Mrs. Roosevelt's column last night?
- Roche: I did.
- H.M.Jr: Wasn't that nice?
- Roche: Lovely. There have been several very nice ones. I loved the one the other evening about the children.

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H.M.Jr: Sure, she's partial to the family. Funny thing, the New York Telegram didn't run that; they just dropped that. Too often.

You'll get another chance at me all Monday.

Bell: You'll be here Monday?

H.M.Jr: Oh yes.

Did you hear the funny message the President sent over? I wanted to know if there would be a Cabinet meeting this afternoon. They told Gaston - how did he put it?

Gaston: Well, Mac (McIntyre) first told me he wasn't sure, he thought there wouldn't be any; then he talked to the President and he said he was wrong, that the President wasn't fully certain, but he thought there would be, but so far as the Secretary was concerned that there would be one.

Roche: Oh, lovely.

H.M.Jr: As far as I was concerned, there was a Cabinet meeting.

Roche: Preferential treatment.

H.M.Jr: All right.

July 16, 1937.  
9:55 a.m.

H.M.Jr: Hello.

Operator: Mr. Burgess.

H.M.Jr: Good morning.

W.R.Burgess: Are you enjoying your last day?

H.M.Jr: What's that?

B: Is this your last day?

H.M.Jr: No, I'll be in again Monday.

B: I see.

H.M.Jr: Now, just gave me that schedule  
of yours.

B: Yes.

H.M.Jr: And - the first schedule sounds like the sensible  
one, and that is - barring some unforeseen  
incident that we try to make up our mind Saturday  
and Sunday.

B: Yes.

H.M.Jr: The 4th and the 5th and get on

B: Well, I'm very glad that you feel that way,  
because I'm very - I believe I can talk about  
it.

H.M.Jr: Well, - there's no question in my mind barring  
something unforeseen eventually we can have it.

B: Well, we've always got a little leeway on it.

H.M.Jr: I get back on the 2nd, I'm going to have a plane  
there so I ought to get into Washington - I  
ought to get into Washington Saturday afternoon.

B: Yes.

H.M.Jr: Now, and I think the suggestion that Taylor go up  
to New York - spend a couple of days there -

B: Yes.

H.M.Jr: Is good.

B: Yes.

H.M.Jr: Now if it's an easy one and everything looks in good order then I don't see any sense in bringing down any of these Government bond fellows hello

B: Any of these so-called experts.

H.M.Jr: So-called experts. Now I'm on the steamer and got a code and two or three days before I land you can begin to send the stuff so I can sort of - get the feel of it, you know.

B: Yes, that's a good idea. Yes.

H.M.Jr: And if it looks a little tricky we might ask some of those Government bond dealers to come down here Saturday night,

B: Sure, we can do that.

H.M.Jr: If it doesn't look tricky, why you and Bell and Taylor and myself can fix it.

B: Yes.

H.M.Jr: See.

B: Yes. But I can stay up here until they close the market on Saturday or nearly that, and then plan to be in Washington Saturday night.

H.M.Jr: That's right.

B: Yes.

H.M.Jr: And I'm allowing myself an extra day's time on account of not getting in here, you see.

B: Yes.

H.M.Jr: I mean I'm counting on from Thursday to Friday and of course if they can't come through - you know in fifteen or sixteen hours if necessary.

B: Yes.

H.M.Jr: So, I think that that's the way to do it.

-3-

B: Well, I agree and I'm very glad you feel that way.

H.M.Jr: Right.

B: And I think that's a good schedule and we can work it out very nicely.

H.M.Jr: Yes. Now I want to give you an order to sell some Government bonds.

B: Yes.

H.M.Jr: You know, we've got in the Stabilization Fund twenty million of those 2 and 7/8ths and I'd like to - sell five million.

B: Yes.

H.M.Jr: I want to get a net to us of one hundred and one, or better.

B: Yes, a hundred one or better.

H.M.Jr: I'm in no particular hurry.

B: Yes.

H.M.Jr: But when there's a demand I just kinda - let them go out, see.

B: That's a good idea.

H.M.Jr: We've got twenty of those and ten of the two and a half.

B: Yes.

H.M.Jr: And that's a little bit more than I need.

B: Yes.

H.M.Jr: So, as the market is hungry, see - why I'd sell five million, - so that it'll net us a hundred one or better.

B: Yes. Well - I think that's a very good thing to do - as far, in view of the market as well as your organization.

H.M.Jr: Well - I'm glad to be able. There's no particular - I mean, there's no excuse for us having that many, you see.

B: Yes.

H.M.Jr: And the - as the market is hungry for them, why I'd feed it out.

B: The market has been much better the last few days. It looks as though it were getting on its feet really.

H.M.Jr: You want to watch that daily statement of merchant expenditure, if you see it. It's away off, you know, compared to last year.

B: Yes.

H.M.Jr: Have you noticed it.

B: Yes, I have.

H.M.Jr: You might draw attention of some people to it, because under the new set up it stands up - you see it's -

B: Yes.

H.M.Jr: And it's running about forty per cent less than last year at the same time.

B: Yes.

H.M.Jr: The merchant's expenditure.

B: That's a good sign.

H.M.Jr: What?

B: That's a good sign.

H.M.Jr: And the fellows haven't caught on to it particularly.

B: No. Well I'll be taking

H.M.Jr: Well, you get out the daily statement and you'll see it.

B: Yes.

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H.M.Jr: I haven't got it before me. Wait a minute - let me show you just exactly what I mean - just a second. Hold on a minute.

B: Yes, I'll have one in front of me in just a second.

H.M.Jr: Sub-total of the emergency expenditure - see through the 13th, is eighty five million - Hello.

B: Yes, I'm opening it up.

H.M.Jr: And last year same thing was one hundred and thirty two million. - Hello.

B: Yes.

H.M.Jr: See.

B: Yes. Recovery and relief.

H.M.Jr: Pardon me.

B: It's recovery and relief - eighty five and a hundred and thirty two.

H.M.Jr: Yes.

B: Yes.

H.M.Jr: Shows a big drop.

B: That's right.

H.M.Jr: And there's no revolving fund to speak of in that, you know.

B: No, and when you look at the total, of course it's revolving fund.

H.M.Jr: It's depleting.

B: That's just like the revolving fund.

H.M.Jr: But this is the thing, recovery and relief eighty five against a hundred and thirty two.

B: That's right, and the recovery in accordance with the revolving fund will - that's just the way it happens to fall.

H.M.Jr: It happens to fall.

B: As it goes on during the year that will build up.

H.M.Jr: Yes.

B: Probably better than last year, won't it.

H.M.Jr: We hope so, very much so.

B: I should think it would.

H.M.Jr: But that thing, you might happen to call their attention to it.

B: Yes, well I will. I'll take it in.

H.M.Jr: All right, thank you. If you've got anything Monday, give me a ring.

B: O.K.

H.M.Jr: And we'll leave it this way. Dan is sitting right here with me now.

B: Yes.

H.M.Jr: So we'll leave it on that basis.

B: Well, that's very nice. I'm very much pleased about it.

H.M.Jr: And as a matter of fact whether I was in Hawaii or Timbuctoo we couldn't handle it any differently.

B: That's right.

H.M.Jr: What?

B: That's right.

H.M.Jr: We couldn't handle it any differently.

B: We could still function.

H.M.Jr: What?

B: We could still function.

H.M.Jr: I hope so.

B: Even if you're in Hawaii.

H.M.Jr: Yes. Well, it's that things are so different than they were - I mean, after all from the 15th of March until to date it's three months, we've just been through hell down here.

B: I'll say so.

H.M.Jr: And - I think everything is coming our way now and I think we could - we've earned a little of it.

B: Well, that's fine. Say, what does the Argentine attache want to see me about, do you know?

H.M.Jr: He most likely wants to ask you about Brazil.

B: I see.

H.M.Jr: See.

B: What'll I tell him.

H.M.Jr: Why, you can tell him -

B: Tell him it's in the press.

H.M.Jr: As Will Rogers says all you know is what you see in the papers.

B: That's right, yes.

H.M.Jr: All right.

B: All right.

H.M.Jr: Goodbye.

B: Goodbye.

July 16, 1937  
Between 1:05 & 1:30 p.m.

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H.M.Jr: Good morning Knoke.

Mr. Knoke: Yes, Mr. Secretary.

H.M.Jr: The French seem to be having a little tough time of it.

K: Yes, I understand the market has turned because of considerable opposition to Blum at the recent Socialist Congress.

H.M.Jr: Opposition by Blum?

K: To Blum

H.M.Jr: To Blum

K: By the Socialist Congress.

H.M.Jr: I see.

K: That is given as the internal reason, externally the peak of the Spanish situation, -

H.M.Jr: The Spanish

K: nervousness, yes - the Spanish.

H.M.Jr: Oh, we just got a cable in here saying there's<sup>a</sup>/lot of Japanese selling of collars.

K: Why that of course is a continuation.

H.M.Jr: Yes.

K: That has continued now for weeks already, I don't think that affects the sturdy franc rate.

H.M.Jr: Uh-huh.

K: I think that explains the strength of sterling which again is up to 4 - above 4.97.

H.M.Jr: What would the Japs be doing, selling dollars, buying sterling to settle

K: Yes, - yes, they are converting the proceeds of their gold shipments to us into sterling and used the sterling in connection with their foreign trade requirements.

-2-

H.M.Jr: Well that's all right for us, is it?

K: Oh yes, there is nothing - it is perfectly proper - employment of those funds. We are just giving an order to the market here to sell sterling at  $7 - \frac{3}{8}$

H.M.Jr: Uh-huh. Can you sell any of that?

K: Why it's a bit too early - I gave the order about five minutes ago - the market at  $7 - \frac{1}{8}$  just now.

H.M.Jr: I see. Tell me - any gossip on our Brazilian deal.

K: None at all - but - none at all - but I must say, I've been terribly busy on our Hungarian troubles and -

H.M.Jr: Yes

K: You've got Hungarian troubles.

H.M.Jr: You've got Hungarian troubles. You will go into foreign field.

K: Yes. - Well, that is - no, that is simply we are collecting at the rate of five percent per annum.

H.M.Jr: Well, you are doing better than we are on the War debt anyway. The only difference is I don't worry about the War Debt, I forgot about it.

K: Yes, but we have stockholders you see.

H.M.Jr: I see.

K: and Board of Directors.

H.M.Jr: O.K.

K: Thank you, sir.

H.M.Jr: Goodbye.

JULY 16, 1957

HON. CHARLES F HURLEY

GOVERNOR

BOSTON MASSACHUSETTS

CONFIRMING OUR TELEPHONE CONVERSATION THIS MORNING  
AS YOU REQUEST IT BEING EVIDENT THAT THE STATE  
AUTHORITIES ARE NOT POWERLESS TO COPE WITH THE  
SITUATION THE UNITED STATES COAST GUARD IS WITHOUT  
AUTHORITY IN LAW TO TRANSPORT SUPPLIES TO NANTUCKET  
AND MARTHA'S VINEYARD

*OK  
MAG*

This was read to the President over phone by  
Col. McIntyre, in my presence, and I heard  
the President instruct Col McIntyre to appropriate.  
The wire was then signed by Adm. Wallace & dispatched  
to Gov. Hurley.

*MWC*

16 July 57

Treasury Department

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TELEGRAPH OFFICE

1937 JUL 16 AM 7 44

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BOSTON MASS 1244A JUL 16 1937

HON HENRY MORGENTHAU JR

BOSTON MASS AT THE PRESENT TIME THE ISLANDS OF NANTUCKET AND MARTHAS  
VINEYARD OFF THE MASSACHUSETTS COAST ARE SERIOUSLY HANDICAPPED BY  
A LABOR CONTROVERSY WHICH HAS RESULTED IN THE DISCONTINUANCE OF  
STEAMSHIP SERVICE FROM THE MAINLAND STOP TRANSPORTATION AT THE  
PRESENT TIME IS BY AIRPLANE AND SMALL CRAFT STOP I AM ADVISED BY  
THE ATTORNEY GENERAL OF THE COMMONWEALTH THAT OWING TO THE FACT  
THE NY NH AND H RAILROAD COMPANY IS IN PROCESS OF REORGANIZATION

Treasury Department

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4w/2

TELEGRAPH OFFICE

BY VIRTUE OF A PETITION FILED IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF CONNECTICUT AND SINCE THE NEW ENGLAND STEAMSHIP COMPANY OPERATING STEAMSHIPS BETWEEN THE MAINLAND AND THESE ISLANDS IS CONTROLLED BY THE SAID RAILROAD IT IS IMPOSSIBLE FOR ME TO TAKE ADEQUATE MEASURES TO RELIEVE THE SITUATION WITHOUT INTERFERING WITH THE PROPERTY NOW UNDER CONTROL OF THE FEDERAL COURT STOP IN ORDER TO AVERT A POSSIBLE FOOD SHORTAGE AND TO PROTECT THE PUBLIC THERE MUST BE PROMPT RESUMPTION OF PUBLIC TRANSPORTATION FACILITIES FOR THE SHIPMENT OF FOODSTUFFS MEDICINE AND OTHER ESSENTIALS STOP THEREFORE I WOULD RESPECTFULLY URGE THAT COAST GUARD BOATS BE STATIONED AT WOODSHOLE NANTUCKET AND MARTHAS VINEYARD FOR

**Treasury Department**

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TELEGRAPH OFFICE

4w/3

PUBLIC TRANSPORTATION AND THE TRANSPORTATION OF FOODS MEDICINE AND  
OTHER ESSENTIALS VITAL TO THE EXISTENCE OF THE PEOPLE OF THESE  
ISLANDS

CHAS F HURLEY GOVERNOR OF MASSACHUSETTS

722A

TREASURY DEPARTMENT  
WASHINGTON

CHARGE TREASURY DEPARTMENT, APPROPRIATION FOR

**Coast Guard**

(The appropriation from which payable must be stated on above line)

U. S. GOVERNMENT PRINTING OFFICE: 1925 2-14117

# TELEGRAM

OFFICIAL BUSINESS—GOVERNMENT RATES

Hon. Charles F. Harley  
Governor of Massachusetts  
Boston Massachusetts

July 18, 1937.

Telegram addressed to Secretary referred to me stop This is to advise you an  
studying matter and will either telephone or telegraph you this afternoon.

(Signed) Stephen B. Gibbons

**STEPHEN B. GIBBONS**  
Assistant Secretary Treasury.

SBG:ME

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 16, 1937, noon

NO.: 988 RUSH

FROM COCHRAN.

This morning at 10 o'clock I called at the Bank of France. A strong pressure against the franc developed during the half hour I was there. The French control was obliged to yield over six hundred thousand pounds sterling in spite of raising after the opening rate for sterling to 128.36 from the previous 128.06. My contact told me that since the change in Policy on the first of July the stabilization fund has acquired slightly more than three billion French francs of gold and foreign exchange on balance. They could give no particular reason for the franc's weakness today beyond those factors mentioned yesterday in the final sentence, second paragraph of my telegram No. 985.

My market contact telephoned me at 11:40 to tell me that the rate had moved to 128.60 and that (?) control unable to stop the franc decline appeared to have withdrawn from the market for the present at least.

BULLITT.

EA:LWW

July 16, 1937  
Between 1:05 & 1:30 p.m.

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H.M.Jr: Good morning Knoke.

Mr. Knoke: Yes, Mr. Secretary.  
*france ?*

H.M.Jr: The banks seem to be having a little tough time of it.

K: Yes, I understand the market has turned because of considerable opposition to Blum at the recent Socialist Congress.

H.M.Jr: Opposition by Blum?

K: To Blum

H.M.Jr: To Blum

K: By the Socialist Congress.

H.M.Jr: I see.

K: That is given as the internal reason, externally the peak of the Spanish situation, -

H.M.Jr: The Spanish

K: nervousness, yes - the Spanish.

H.M.Jr: Oh, we just a cable in here saying there's a lot of Japanese selling of dollars.

K: Why that of course is a continuation

H.M.Jr: Yes.

K: That has continued now for weeks already, I don't think that affects the sturdy franc rate.

H.M.Jr: Uh-huh.

K: I think that explains the strength of sterling which again is up to 4 - above 4.97.

H.M.Jr: What would the Japs be doing, selling dollars, buying sterling to settle

K: Yes, - yes, they are converting the proceeds of their gold shipments to us into sterling and used the sterling in connection with their foreign trade requirements.

H.M.Jr: Well that's all right for us, is it?

K: Oh yes, there is nothing - it is perfectly proper - employment of those funds. We are just giving an order to the market here to sell sterling at  $7 - 3/8$

H.M.Jr: Uh-huh. Can you sell any of that?

K: Why it's a bit too early - I gave the order about five minutes ago - the market at  $7-1/8$  hit just now.

H.M.Jr: I see. Tell me - any gossip on our Brazilian deal.

K: None at all - but - none at all - but I must say, I've been terribly busy on our Hungarian troubles and -

H.M.Jr: Yes

K: You've got Hungarian troubles.

H.M.Jr: You've got Hungarian troubles. You will go into the foreign field.

K: Yes. - Well, that is - no, that is simply we are collecting at the rate of five percent per annum.

H.M.Jr: Well, you are doing better than we are on the War debt anyway. The reason we didn't because I don't worry about the War Debt, I forgot about it.

K: Yes, but we have stockholders you see.

H.M.Jr: I see.

K: and Board of Directors.

H.M.Jr: O.K.

K: Thank you, sir.

H.M.Jr: Goodbye.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 16, 1937, 6 p.m.

NO.: 991 FROM COCHRAN

Reference my 988, July 16, noon.

French control had not reentered exchange market by 3:30 this afternoon. Francs seemed to be finding its own level between 128.80 and 128.85 to the pound. Forward francs offered at 6 1/2 for three months against sterling. Rentes heavily down from 2.50 to 2.90 francs.

I have had discussions about the movement today with the Bank of France, with Pennachio, and with officers and traders of two Paris-American banks. The movement is attributed by all to be due to actual flight of French Cabinet from political situation revealed by Marseilles Convention and from social situation revealed by renewed threats of labor and growing strikes. In view of such financial conditions my contacts do not see that measures which Bonnet has undertaken so far can accomplish much. There is practically an end to short covering of francs. An official of the Bank of France estimated that 90 percent of French capital abroad is gaining no interest. This amount represents the remnants of French fortunes which owners are not willing to risk back in France while there is trouble in the streets and threats of Left political disturbances.

At 5:00 o'clock my market contact reported that

sterling

- 2 -

sterling had jumped from 128 3/4 to 129 1/2 without a single offer. The French control entered the market at that point to sell pounds. The late evening thus witnessed a very nervous condition on the Paris exchange market.

BULLITT.

EA:LWW

LMS

GRAY

London

Dated July 16, 1937

Rec'd 2:02 p. m.

Secretary of State,  
Washington.

480, July 16, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

City has been somewhat perplexed concerning the sudden outward flow of funds from France today, which has been accompanied by a decline in the spot rate and a rapid widening in the forward rates. The demand from Paris was for sterling not dollars; the great volume of trading occurred in the forenoon.

Reliable estimates obtained from exchange brokers in a position to know indicate that Japanese sales of dollars for sterling in this market during the past five weeks aggregate between 30 and 35 million dollars. Incidentally, there is considerable discussion in the city of the causes of the recent weakness of the dollar, but in contrast to such previous periods of the weakness it has occasioned little unfavorable comment.

BINGHAM

GW:CSB



DEPARTMENT OF STATE  
WASHINGTON

July 17, 1937.

My dear Mr. Secretary:

I enclose one copy of paraphrase of telegram  
No. 990 of July 16, 1937, from the American Ambassador,  
Paris, containing a strictly confidential report of  
a conversation which he had with the French Minister  
of Finance.

Sincerely yours,

Enclosure:  
No. 990 of July 16  
from Paris.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 16, 1937, 5 p.m.

NO.: 990

STRICTLY CONFIDENTIAL FOR THE SECRETARY OF THE  
TREASURY.

Today I asked Bonnet how he could explain this morning's sudden fall in the franc. Bonnet explained that he thought its weakness was caused unquestionably by the conclusion which people had reached regarding the Marseille vote of the Socialist Congress, which actually meant that one-third of the Socialist party favored immediate deposing of the present Government, the others favored waiting for three months before doing so, unless their program should be accepted by the present Government. It was impossible, under these conditions, to expect Frenchmen to have sufficient confidence in the franc's future to repatriate large amounts of capital.

Bonnet said that so far as he was concerned he would never be a part of a Government which because of Treasury difficulties could be overthrown. It was his intention to continue increasing taxes and reducing expenditures. If the Socialists would not accept this program he would fall on the political ~~administration~~ issue.

He was confident that the Government could count on being able to continue until October or later, because every one in France wanted their summer ~~leave~~ holiday.

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I questioned Bonnet as to what he expected direct and indirect expenditures for military purpose would be this year and mentioned a figure of 30 billion francs; Bonnet's reply was that it would not be that much, but it would be well over 25 billion.

He continued by saying that the French people today had to recognize one fact, and that was that the only way the present financial expenditures could be kept up was by diminishing the franc's value so that there was no gain to anyone.

Bonnet expressed the belief that the 40-hour law had been premature and in its present form could not be applied to France without bringing ruin to the country. He explained that owing to the workings of this law it would not be possible in France this year to produce sufficient coal for the needs of France, and it would be necessary for the country to purchase approximately 3,000,000,000 francs worth of coal abroad in spite of the much higher prices of foreign coal.

From my conversation with Bonnet I gathered that he intends to try to make himself the successor of Poincaré as the franc's defender and perhaps succeed Chautemps if some day the Socialists should withdraw from the Government on the political issue of lower expenditures and higher taxes.

EA:LWW

BULLITT.



DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
861.6341/82

July 17, 1937

STRICTLY CONFIDENTIAL.

My dear Mr. Secretary:

With reference to my previous letters forwarding to you certain information which has been received from the Embassy in Moscow concerning the Soviet gold industry, I am enclosing a copy of a strictly confidential despatch forwarding a memorandum of statements made by an American mining engineer formerly employed by the Soviet Gold Trust in regard to conditions in the Soviet gold industry.

Sincerely yours,

Enclosures:

From Moscow, No. 401,  
June 23, 1937,  
with enclosure.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

**Department of State**

BUREAU  
DIVISION

**Eu**

**ENCLOSURE**

**TO**

Letter drafted **7/15/37**

**ADDRESSED TO**

**Secretary of the  
Treasury**

No. 401

Moscow, June 23, 1937.

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

STRICTLY CONFIDENTIAL.

The Honorable

The Secretary of State,  
Washington.

Sir:

1/ I have the honor to forward as an enclosure to this despatch a memorandum regarding production difficulties in the Soviet gold industry as outlined by Mr. Harry R. Wilson, an American mining engineer who has been employed by the Soviet Gold Trust. Reference is made in this connection to the Embassy's telegram No. 127 of June 22, 11 p.m.

Mr. Wilson has been employed by the above-mentioned trust since March 1930, and has worked in most of the important precious metal mining districts in the Soviet Union.

- 2 -

Union. He has spent two years in Kazakhstan at two different mining enterprises; over a year and a half at Darasum in the Eastern Siberian Oblast, as well as a considerable time at Ridder, and other mines near the Sinkiang-Mongolian border.

Mr. Wilson, together with Mr. J.D. Littlepage, also an American mining engineer who has worked in the Soviet Union for a number of years, have been for the last two years the only foreign engineers employed by the Soviet Gold Mining Trust. It is interesting to note in this connection that during this last year Mr. Littlepage, who was previously connected with gold mining operations, has been transferred to the base metal division of the Soviet mining industry, thus indicating that the authorities are endeavoring to clothe the gold industry in still further mystery.

Mr. Wilson has been known to a number of the officers of the Embassy since 1934, and it is believed that his judgment in regard to the present situation may be given considerable weight.

Respectfully yours,

A true copy of  
the signed original  
hla

Loy S. Henderson  
Chargé d'Affaires ad interim

Enclosure:

1. Strictly Confidential Memorandum of Statements made by Mr. Harry R. Wilson, an American Mining Engineer, to Mr. Durbrow, Third Secretary of Embassy, June 18, 1937.

863.4

ED/hla

Regraded Uclassified

Enclosure No. 1 to Despatch  
No. 401, dated June 23, 1937,  
from the American Embassy,  
Moscow, U.S.S.R.

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STRICTLY CONFIDENTIAL.

MEMORANDUM OF STATEMENTS MADE BY MR. HARRY F.  
WILSON, AN AMERICAN MINING ENGINEER, TO MR. DUREROW,  
THIRD SECRETARY OF EMBAASY, JUNE 18, 1937.

Mr. Harry R. Wilson, an American mining and metallurgical engineer, who has been working for the Soviet Gold Trust since March 1930, called today to advise the Embassy that he was leaving the Soviet Union permanently.

The following is a summary of the statements made by him in regard to the latest developments in the Soviet mining industry:

Although I returned to the Soviet Union only about six weeks ago after a four-months' holiday in the United States, I have learned from many sources, and particularly from friends of mine with whom I have worked during my long stay in this country, that because of the arrests, trials, and executions which have taken place during the last six to twelve months, the mineral production in General, and particularly the gold production, has been gradually but steadily falling off. Before my departure in January 1937 for my vacation in the United States, I had been working for almost a year in the arsenic gold combine at Dzhetysayra, Kazakhstan, where I had an opportunity to learn something about the activities of the so-called Trotskyists.

For instance, when I arrived in Dzhetysayra I found a new director, a man about 35 years of age, who had been sent by the Gold Trust from Moscow to build up the production at the combine which at that time was in a very disorganized condition. I found this director to be one of the

- 2 -

the most capable and efficient engineers that I had ever encountered in my seven years in the Soviet Union. In less than a year he reorganized the combine, substantially increased the production, and in general bent every effort to make the plant as efficient as possible. I know that he often worked sixteen hours a day and gave every indication of not only being loyal to the organization for which he was working, but of being anything but a "wrecker". Finally, after the combine at Dzhetysay had been organized properly, this director was transferred to a mining combine under the Volga Gold Trust. Two months after he had taken up his new duties he was arrested and sentenced to ten years' imprisonment "for being a Trotskist wrecker". His brother was arrested a short time before him in another part of the country and shot for the same reason. Although it is possible that during the short time he was in his new post he may have come under the influence of so-called wrecking organizations, I do not believe that he was connected in any way with such an organization, and I know from my own experiences with him that he was not only extremely capable but an apparently loyal Soviet citizen.

I give this example as one which I know of personally, but from conversations I have had with many of my colleagues since my return to Moscow, I have learned that there have literally been hundreds of arrests throughout the mining industry about which nothing has been mentioned in the press, and that many of the persons arrested have actually been executed as alleged Trotskists. My friends have informed me that these arrests have definitely affected the gold production during the past six or eight

months; I can well believe that this is true if the authorities have arrested certain of the persons whom my friends allege have met with this fate, since most of these persons were some of the most efficient engineers in the Gold Trust.

Although I realize that there may be many contributing factors to the present epidemic of arrests, I feel, on the basis of my experiences during the past year, that a certain amount of the so-called wrecking activities have been due, at least in part, to the resistance of the workers to the Stakhanov movement.

I was in Darasun in the fall of 1935 when attempts were first made to popularize the movement there. At the first meeting organized at the mine to inaugurate the Stakhanov movement I was surprised to learn that not one of the workers raised his hand when the Party leader first asked for volunteer Stakhanovites. Finally, by appealing to the actual Party members in the meeting, who were thus more or less forced to volunteer, the chairman of the meeting was able to enlist the consent of a large part of the workers to join the movement.

I was at Dzhetysay in the spring of 1936 when the final steps in the organization of the Stakhanov movement, the raising of the norms, were put into effect. From that time on I was continuously aware of the fact that many, if not a large majority, of the workers were extremely dissatisfied with the attempt to speed up production. On the basis of these observations I feel that many of the so-called acts of sabotage on the part of workers and higher officials are really due to the latent resistance to the Stakhanov movement.

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Not only have many persons in the various trusts throughout the country been arrested or dismissed, but I have now learned, contrary to the information I obtained six weeks ago, that Mr. Serabrovski, the former head of the Gold Trust and now Vice Commissar for Heavy Industry in Charge of the Non-ferrous Metals Industry, is again being attacked, and it is quite possible that he will be forced out of his present position. When I first returned to Moscow about six weeks ago I learned of the attacks in the press against Mr. Serabrovski, and made inquiry through many of my acquaintances here whether because of such attacks Mr. Serabrovski would be relieved of his post. I was assured at that time that such was not the case and that he had been able to explain satisfactorily the shortcomings of which he had been accused. It appears, however, that in the last two or three weeks the attacks have been resumed and efforts are being made to force Mr. Serabrovski to resign his position.

In this connection I have also learned that the new head of the Gold Trust has been doing everything in his power to discharge or have transferred to other work all of the keymen who had been the assistants to Mr. Serabrovski.

In regard to my own case, I was informed a few days ago that the Soviet authorities had decided that they would no longer need my services and, therefore, desired to break the contract which I had signed in December 1936 prior to my departure for the United States. At that time I told the officials of the Gold Trust that it was possible I would not return to work in the Soviet Union. However, despite the expression of my desires

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in this regard the officials begged me to reconsider my decision and return for at least one more year. I finally advised them that if they so desired I would sign a contract which would contain provisions to the effect that I could break the contract in the event that I decided not to return to this country. While I was in the United States the Gold Trust officials communicated with me on several occasions urging me to hurry back to assume my duties. I arrived in Moscow the first week in May and since that time have been awaiting orders. Finally, approximately two weeks ago, I was told that the Gold Trust had decided that they could no longer use my services. I have therefore been making arrangements to return to the United States. Under the stipulations of my contract the authorities are to pay my expenses on the return trip to the United States, as well as my salary until my arrival at my home plus an extra month's salary as penalty for having broken the contract.

Although the officials of the Gold Trust claimed that they were breaking the contract since they no longer needed my services, I am convinced that this decision was made in connection with the drive which is now being made, apparently by the People's Commissariat for Foreign Affairs, to force most foreigners to leave the country. Although the Gold Trust officials did not, of course, confirm my suspicions in this regard, they did their best to hint that this was the real reason for breaking the contract.

In the course of the conversation Mr. Durbrow asked  
Mr.

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Mr. Wilson if he had any idea as to the total gold production in the Soviet Union. Mr. Wilson replied that, although he had worked in most of the gold producing districts in the country, from Kazakhstan to the Far East, he had never been told nor had he been able to estimate in any way the total gold production. He stated that this information was perhaps more closely guarded from him than from other persons not in the same position to verify any data he might obtain. He added, however, that from such hints as he had heard and from his own personal observations, he believes that the total gold production in 1936 could not have been more than \$300,000,000. In this connection he stated that he could not state definitely whether this figure was greatly exaggerated or actually represented the amount produced.

ML

GRAY

London

Dated July 17, 1937

Rec'd 9:11 a. m.

Secretary of State

Washington

482, July 17, 1 p. m.

FOR TREASURY FROM BUTTERWORTH.

The depreciation of the franc continued today, the rate moving downward at times by 25 to 50 centimes between deals. The French authorities did not attempt to give decided support.

I had a word with Waley who stated that they had been informed by the French Financial Attache that a further set of decrees would be issued next week designed "to rectify the cash position of the Treasury" and that it was hoped that these would tend to restore confidence.

Waley also stated that a reply in support of the letter to Bachmann will be forthcoming by Monday.

BINGHAM

WWC:KLP

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 17, 1937, 2 p.m.

NO.: 998

FROM COCHRAN.

I make reference to the first paragraph of my telegram No. 985 of July 15, 6 p.m.

At noon today Rueff told me that his office had been drafting a memorandum which entirely approved the monetary principles formulated in the communications which Secretary Morgenthau contemplated sending to the monetary authorities of Switzerland. Today he had planned to make this reply available to me. However, he explained that Monick had telephoned him from London this morning to the effect that the British were preparing their memorandum in this same regard. It was thought best for the French and the British to confer on this point. According to Monick, Rueff told me, the British would hand their reply to my colleague in London on Monday at one o'clock. At the same hour, Rueff promised he would give me the French reply as it may be finally drafted after consultation with the British authorities.

BULLITT.

EA:LWW

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 17, 1937, 12 midnight.

NO.: 987

FROM COCHRAN.

Since July 14th was a holiday Paris banks excepting Bank of France and other state institutions were open this forenoon. There was no official exchange market but unofficial trading showed a very nervous and upset situation. Franc declined to 132 to the pound.

I talked with the Bank of France at 12 noon. My contact told me that yesterday the pressure against the franc had developed so strongly that it would have cost the control too dearly to hold the rate at 29. The policy therefore has been to intervene at each half point to purchase some francs and see if movement could be brought to a halt. The control lost nearly two hundred million French francs yesterday. Some four million francs were done(?) at New York yesterday evening. There was no official intervention in Paris this morning, but the Bank of England was acting for the French in London. The British reported purchases of twenty-five million francs by 12 noon. In London dollars were being offered against sterling. The sudden weakening of the franc shocked the French financial press. There have been given no further reasons for this weakening, other than those I have already submitted to you.

BULLITT.

BA:LWW

OFFICE CORRESPONDENCE

DATE July 18, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoks

BANK OF ENGLAND.

In Mr. Bolton's absence, Mr. Hawker called me at 10:10 today to keep us up to date on recent developments in France which, he thought, must look a bit mixed to us from this distance: up to last Thursday the franc had been well supported because of bear covering. There had, however, been no sign of real repatriation. On Wednesday, at a meeting at Marseilles, of the Socialist Congress, Blum received a two-third majority vote. The first impression on the public <sup>of this</sup> was a favorable one. On second thought, however, the market turned bearish and was very weak on Friday and Saturday and continued so today although yesterday Blum insisted that the Socialist party was going to do its best to get things straightened out. This latter statement did not have much effect, however. The French Control seems to be trying now to model its policy on the British policy; that is rather than to stand up like a wall, gradually to give way before pronounced tendencies. This necessarily had led to a great deal of confusion. Personally, he thought the French would do better if they tackled the problem with a little more energy. Until something constructive was done by the French Government, it was probably correct to say that no rate was the right rate. The market had not been particularly active. This morning's short-lived reaction was due entirely to covering on the part of those who had sold short on Friday and Saturday. As far as the dollar was concerned, continued rumors about the American Government's intention to report to the French Government on French holdings in this market seemed to be the dominant factor. Every time he talked to anybody on this matter, he found apprehension.

FEDERAL RESERVE BANK  
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE July 18, 1937.

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

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke \_\_\_\_\_

BANK OF ENGLAND.

- 2 -

In the gold market there was no dishoarding at the moment. The gold which came into the market was newly mined gold. They (the British) had been operating in an endeavor to keep gold prices at parity or above and had taken a good deal of metal offered by other central banks, thus preventing it from getting into the market and prices from going to a discount. At the moment there was a great deal of covering-in by people who went short of gold when the gold scare was at its height. The market was decidedly healthy now and it seemed safe to say that fear of a reduction in the price, if it had not entirely disappeared, was certainly dormant for the moment.

Dollars continued to be offered by the Japanese. In this connection, I mentioned that we had just been advised of a further shipment of 70,000,000 yen, which, we were told, was being effected for the same purpose as heretofore, that is to take care of Japan's unfavorable trade balance.

LNK:KMC

## GROUP MEETING

July 19, 1937  
9:30 a.m.

Present: Mr. McReynolds  
Mr. Bell  
Mr. Upham  
Mr. Lochhead  
Mr. Gibbons  
Miss Roche  
Mr. Haas  
Mr. Gaston  
Mr. Oliphant

- H.M.Jr: Well, 12 hours after we said "No" to Governor Hurley of Massachusetts, the shipping strike was settled. And I want to say, Steve, while I'm gone don't let the Coast Guard go into any strike area, unless - it doesn't go unless it's over the President's signature, and I don't care what anybody at the White House tells you. Do you get that?
- Gibbons: We had to decide exactly - Herman was out....
- H.M.Jr: When you get McIntyre and Jimmy Roosevelt and Steve Early all trying....
- Gibbons: I didn't pay the slightest attention. I got Bernard and Waesche in and I said the only question in my mind was that 77-B - they're in bankruptcy - I didn't know, from a legal standpoint, whether we had to go in there, whether they were under Federal jurisdiction. That was the only reason.
- H.M.Jr: I don't care whether they're under 77-B or 101-A.
- Gibbons: Well, Herman had said, of course, that we're legally responsible.
- H.M.Jr: Well, I don't want the Coast Guard to go into any strike section unless the President personally orders it.
- Gibbons: It would be running diametrically to his opinions.
- H.M.Jr: You heard what he said when he put it up to them. He said, "Let them use a rowboat." And then 12 hours afterward the thing was settled.
- Gibbons: Well, the State of Massachusetts could hire their own equipment if they wanted to. It wasn't interstate

-2-

commerce; it was intrastate, you know.

H.M.Jr: All right. Mac?

McR: Nothing but Stabilization Fund appointments whenever you want to find time. Nothing pending that amounts to anything on that.

H.M.Jr: Have they cleared with this fellow (Lochhead)?

McR: Well, he has got the adjustment on the two boys you agreed to. He's got the letters ready on those.

H.M.Jr: Well, bring them all in together.

McR: I've got the whole story whenever you want them.

H.M.Jr: 10:30.

McR: 10:30. O.K.

H.M.Jr: Bell?

Bell: I don't believe I have anything, Mr. Secretary.

H.M.Jr: If you will stay a minute behind, and if - do we get out a daily statement today?

Bell: Uh-huh.

H.M.Jr: What?

Bell: Yes, sir.

H.M.Jr: Have they seen - you haven't got one in your pocket?

Bell: No, it won't be out until about one o'clock.

H.M.Jr: (On phone) Will Mr. Bell's office send down the latest daily statement for him, whatever the latest one is, and send it into my room, please.

Did you see the editorials in the Wall Street Journal?

Bell: No.

H.M.Jr: Can't find it. - - Here it is - "Liquidated Treasury Assets." I think we ought to answer that.

Bell: (Looks at editorial)

-3-

H.M.Jr: Cy?

Upham: I have nothing.

H.M.Jr: How's the corn crop in Iowa?

Upham: Let's see, knee-high by the fourth - I expect it's just about beginning to have silk.

H.M.Jr: Good. Going out and take a look at it?

Upham: Thought I would.

H.M.Jr: Check with Magill.

Lochhead: Nothing new. I have a man over at State Department. All those cables aren't in. Butterworth's final cable isn't in yet. But I've got the man staying over there.

H.M.Jr: Your (Gibbons) candidate is having a little trouble.

Gibbons: Yes, he is.

H.M.Jr: I thought you had that all fixed up.

Gibbons: They won't let me fix it.

H.M.Jr: What?

Gibbons: They won't let me fix it. About six months ago is the time it should have been fixed.

H.M.Jr: Who's going to be the leader on the Hill in the Senate?

Gibbons: I think Barkley.

H.M.Jr: Who?

Gibbons: I think Barkley. I don't think they'll let....

H.M.Jr: Anything else?

Gibbons: I've got to settle about Doyle. Something's come up. I'm going to order him here - the Collector at Honolulu.

H.M.Jr: No you don't, no you don't.

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Gibbons: Well, I've got to talk to you before....

Olyphant: Write Mrs. Gibbons about it. Let your daughter settle it.

Gibbons: I'm ordering him on here.

Roche: Keep him away while you're there.

Gibbons: He ought to be given an opportunity to answer some charges against him.

H.M.Jr: Listen, have him come up. Let's talk it now.

Gibbons: Well, he disclosed - we sent a Customs agent out there, Sheehan - he told a woman that he'd been drinking with about this and she was very close friends - I don't know whether she's an addict - with one of the largest drug traffickers in the Islands; and she told this fellow; and Doyle had an undercover man who was going to make a buy from this large drug trafficker. The drug trafficker went around to the undercover man's house, shot him, left him for dead, then went out and committed suicide. Now, that's a nice... I'd heard about this but never knew that it was in writing.

H.M.Jr: Well, perfectly frankly, I do this thing 18 hours a day and I'm not going to do it in Honolulu.

Gibbons: Beg pardon?

H.M.Jr: I mean I'm not going to do it. I spoke to London at a quarter of six this morning. I'm not going to do this thing in Honolulu.

Gibbons: Of course.

H.M.Jr: I mean I was on the transatlantic at a quarter of six.

Gibbons: Well, it's not your problem until I make the recommendations to you.

H.M.Jr: Well, you fellows handle it. I've got the machinery here.

Gibbons: The point I want to tell you - I'm going to bring him....

McR: He didn't want you to be disappointed when you got there.

Gibbons: When you get there, you don't know anything about it; it hasn't reached you.

H.M.Jr: Well, I don't know.

Gibbons: No, you don't want to - it's not your problem at all up till I make a recommendation and you don't agree with me, one way or the other. That's the organization of it.

H.M.Jr: But you don't want to give me the name of the woman that he went drinking with?

Gibbons: Well, yes, I can.

Roche: I wouldn't be so sweeping in my statements, quite.

H.M.Jr: All right.

Gibbons: But when you get there you don't know a thing about it.

H.M.Jr: That's easy. All right, thank you. See that he sails soon, will you please.

Gibbons: I'll send a message right away, as soon as I get back.

H.M.Jr: Madam Roche?

Roche: Nothing.

H.M.Jr: Sure?

Roche: Nothing.

H.M.Jr: All right.

Haas: I have nothing this morning.

H.M.Jr: Georgie, going to give me a last shot on whether we're going to have a business slump?

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Haas: Yes, sir, at 11 o'clock.

Oliphant: That is, a slump.

Haas: That's when it's due.

H.M.Jr: All right, I'll take it personally. Here's your last chance if you're going to have a summer slump - 11 o'clock.

Haas: We've got the June index down to 115. It looks pretty good.

H.M.Jr: All right.  
Herbert?

Gaston: I don't believe I have anything.

H.M.Jr: How's your grandchild standing the heat?

Gaston: All right.

H.M.Jr: All right. They're still here?

Gaston: No, no, they went back.

H.M.Jr: They went back, huh?

Oliphant: Well, let's all root for Barkley, because otherwise we get King as head of the Finance Committee.

H.M.Jr: So I read.  
I'm not sure I'm going tonight. My oldest boy isn't feeling well. I won't go for an hour or two. I may still have to go Wednesday.

Gibbons: Are all the children going with you?

H.M.Jr: Yes.

Gaston: Will you be able to catch that same boat?

H.M.Jr: Yes, I just checked; it doesn't leave until Saturday night. I can leave here Wednesday, catch a train Thursday out of Chicago, and be in Los Angeles Saturday noon.  
All right.

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Gibbons: What seems to be his trouble here?

H.M.Jr.: Well, he took his typhoid inoculation; I don't know whether it's that; running a 102 fever.

July 19, 1937

My dear Mr. Secretary:

I want to take this opportunity to tell you how extremely useful Mr. Butterworth, of The American Embassy staff at London, was to the Treasury during the period immediately following the resignation of Mr. Blum.

Mr. Butterworth's presentation of the Treasury's instructions to the British Treasury were carried out with diligence and intelligence.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

The Honorable

The Secretary of State.

July 19, 1937

My dear Mr. Butterworth:

I am inclosing herewith a copy of my letter to the Secretary of State which I thought you might like to see.

There is nothing I can add to this letter other than to say that I was entirely satisfied with the manner in which you represented the United States Treasury before the British Treasury.

With kind regards,

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Hon. William W. Butterworth, Jr.,  
Second Secretary,  
United States Embassy,  
London, England.

July 19, 1937  
3:27 P.M.

Operator: Go ahead.

H.M.Jr: Hello

H. Merle  
Cochran: Hello

H.M.Jr: Hello, Cochran?

C: Hello Mr. Secretary.

H.M.Jr: Can you hear me?

C: Yes, very well.

H.M.Jr: All right. Now we've got your cable and we've got the British, see.

C: Yes.

H.M.Jr: Now I'd like you, tomorrow night, to go up to Switzerland, see.

C: Yes, sir.

H.M.Jr: And see the head of the Treasury and the head of the Central Bank and read them my memorandum.

C: Yes, sir.

H.M.Jr: In other words give it to them verbally, see.

C: Yes.

H.M.Jr: And tell them that if that's acceptable to them, that we're prepared to have them send any amount of gold that they want to send.

C: Yes, and tell them ....

H.M.Jr: Tell them if our memorandum meets with their approval

C: Yes

H.M.Jr: We - we'll stand ready to accept any amount of gold that they wish to send us.

C: I see, if their memorandum - if our memorandum meets with their approval.

H.M.Jr: Yes. We stand ready to accept any amount of gold they wish to send us.

C: Yes

H.M.Jr: See

C:

H.M.Jr: Pardon me?

C: That holds true of conversion.

H.M.Jr: Well, I wouldn't bring it up. I mean - we don't - we don't - a bill from the expense - the principle laid down in my memorandum, see, why they can go ahead and send any amount, at least - we don't ask anything else, see.

C: I see.

H.M.Jr: See.

C: Yes, sir.

H.M.Jr: And if they can't say here, they want to sell some of it or so forth, and so on, why that's up to them. As long as they adhere to the principle in that memorandum.

C: I see.

H.M.Jr: See.

C: Quite.

H.M.Jr: Now, do you think you can sell that?

C: Beg pardon?

H.M.Jr: Do you think you can get that across?

C: The only thing that's a little difficult with them - I might have - the fact that the memorandum ....

H.M.Jr: What's that?

C: I am afraid I might have to leave them a copy of the memorandum

-3-

H.M.Jr: Well, you decide that when you get there. I'll leave that to you.

C:

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

C: cannot advise them that would refer the message to his

H.M.Jr: Well, if you could leave it to them verbally, you could leave a copy of the memorandum or if they want it formally, you could leave it formally.

C: I think it would be best, if it's agreeable that we read it to them and then leave them a copy of the memorandum.

H.M.Jr: Well, I'll let you decide that.

C: The only thing they would have to approve the principles in that statement.

H.M.Jr: That's right.

C: Yes, sir.

H.M.Jr: Then after you've done that I would like you to go on to Belgium and do the same thing there, and do the same thing in Holland.

C: Do the same thing in each of the other countries?

H.M.Jr: Yes, - and I'll ask the State Department to send you instructions to that effect tonight.

C: All right, sir.

H.M.Jr: See.

C: Right.

H.M.Jr: And then leave - tell - inform - inform the French what our program is.

C: Right, sir.

H.M.Jr: Tell the French Treasury that this is the way we are going to proceed.

C: All right, sir.

H.M.Jr: And if you want to tell them we're taking their advice that's all right with me too.

C: All right.

H.M.Jr: What?

C: All right.

H.M.Jr: And I'm going to inform the British that you are going to go ahead and that we are taking their advice in this matter.

C: And then you want me to let them know that we with the British, or do you prefer that I did not mention that?

H.M.Jr: Oh no, that's all right. They know it anyway.

C: I see.

H.M.Jr: They should. Never any harm to tell them what they know.

C: All right. Fine.

H.M.Jr: You see, I'm all ready for my vacation.

C: Well, I'm awfully glad you're getting away.

H.M.Jr:

C: This thing I can put across all right.

H.M.Jr: Well, I think so. We had the best advice. I see your friend, the Columbia professor, passed out.

C: Yes. Oh yes, yes.

H.M.Jr: They'll have a hard job finding another one like him.

C: I think they will.

H.M.Jr: When they made him, they threw the mold away.

C: As a matter of fact, you know, they were thinking of

H.M.Jr: What's that?

C: I say, shouldn't say it now when he's gone, but that paper was thinking very seriously of naming their correspondent.

H.M.Jr: Uh-huh.

C: For one of their defendants

H.M.Jr: Yes. Well, if you'll go ahead on this trip and then send me, when you get back, a cable giving me the results, and then also write me a personal letter about it.

C: All right, a cable and a personal letter.

H.M.Jr: Right. All right Cochran.

C: And - then you'll be getting away tomorrow, will you?

H.M.Jr: No, I am going to leave in about an hour.

C: Well, best of luck to you, I hope you have a good holiday.

H.M.Jr: Thank you. This is the last piece of business that I do.

C: All right. And now - you mentioned that thing about the trip, well arrange that at any time that's suitable to you please.

H.M.Jr: What trip?

C: My trip home.

H.M.Jr: Oh - well, we communicated that to the State Department today and asked them to get off a cable at once on that.

C: I see.

H.M.Jr: Oh you've had - you've had a cable, have you?

C: No, not yet - but what I wanted you to feel that no time is preferable to do that, just as good one time as the other.

H.M.Jr: Yes, well that is, as far as I can tell now, that would be a good time for us.

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C: All right.

H.M.Jr: All right, Cochran.

C: Well, goodbye and good trip.

H.M.Jr: Thank you.

C: Goodbye.

H.M.Jr: Goodbye.

July 19, 1937.  
3:49 P.M.

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H.M.Jr: Hello

Operator: Butterworth

H.M.Jr: Right.

Operator: Go ahead.

H.M.Jr: Hello

Butterworth: Hello, Mr. Secretary

H.M.Jr: Butterworth?

B: Yes, sir.

H.M.Jr: Now, I just got through talking to Cochran.

B: Yes, sir.

H.M.Jr: And I told him that we are going to ask the State Department to send him a cable and he is going to leave tomorrow night for Switzerland and present this note of mine. Now, he can decide after he gets there whether he is going to give it to them verbally or give them a copy or formally or informally, but anyway he's going to present them that note, see.

B: Yes, sir.

H.M.Jr: And then tell them that if they agree to the principles in that note ...

B: I beg your pardon, I didn't get that.

H.M.Jr: If Switzerland agrees to the principle laid down in that note, why we stand ready to take any amount of gold they care to ship us.

B: Right.

H.M.Jr: See?

B: I see.

H.M.Jr: And then he's going on to Belgium and Holland and give them each a copy also.

B: Right.

H.M.Jr: He is also, of course, telling the French.

B: Right.

H.M.Jr: And you can tell our English friends that we've accepted their advice, we are going to do it in this manner.

B: I see.

H.M.Jr: So that ought to please them.

B: Belgium and Holland?

H.M.Jr: Belgium, Holland and Switzerland.

B: And Switzerland.

H.M.Jr: Of course, I take it that we notified England through you.

B: Right

H.M.Jr: And we've notified France, you see.

B: Right.

H.M.Jr: So that takes care of that.

B: Unquestionably, but Cochran is to use his own discretion as to whether he presents it formally or informally?

H.M.Jr: That's up to him to decide after he gets up there.

B: Right.

H.M.Jr: He thinks that the Swiss will want at least a piece of paper even though it isn't signed, see.

B: Yes, sir, I -

H.M.Jr: I think that's unimportant but we worked on that a long time and every word in that was carefully weighed and - his opinion

Operator: Hello

H.M.Jr: Hello

Operator: Washington?

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Operator: You have cut off Secretary Morgenthau.  
Operator: You are still connected  
Operator: Hello - hello - Mr. Morgenthau  
H.M.Jr: Talking  
Operator: He's still on the line operator.  
Operator:  
Operator: Well operator you are on a business circuit.

July 19, 1937  
4:42 P.M.

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H.M.Jr: Hello

Operator: Mr. Butterworth again.

H.M.Jr: All right. Hello

Operator:

H.M.Jr: Go ahead

Operator: Go ahead

H.M.Jr: Hello

B: Hello, sir.

H.M.Jr: Did you get that all, Butterworth?

B: Not it all, I -

H.M.Jr: I'll repeat it.

B: I got Belgium, Holland and Switzerland.

H.M.Jr: Yes.

B:

H.M.Jr: Pardon me?

B: Is there anything else?

H.M.Jr: No, except that you have presented the note to England, haven't you?

B: Yes, I have, sir.

H.M.Jr: What?

B: Yes, I have and

H.M.Jr: Well, I take it that after Cochran has presented it, that the United States Government has laid down a policy, as far as the United States Government is concerned.

B: Exactly.

H.M.Jr: And we consider as far as money belonging to the other Governments in the tripartite agreement,

-2-

we have announced a new policy.

B: Quite.

H.M.Jr: You see.

B: Yes

H.M.Jr: And, of course, as far as the British are concerned they have always followed that policy.

B: Yes

H.M.Jr: So, there's nothing new as far as they are concerned because they are always followed that and we have followed with them.

B: Exactly.

H.M.Jr: So, I mean, we'd always keep our money with the Bank of England and we asked the Bank of England to invest it for us.

B: That's right.

H.M.Jr: So, there's nothing new there.

B: Nothing

H.M.Jr: But we feel that in establishing this policy that over a period of time it may be a very important one.

B: Quite.

H.M.Jr: And I lay a great deal of importance on it.

B: Right.

H.M.Jr: But as I say, as far as the British Treasury and ourselves are concerned it is nothing new because all of our money is on deposit with the Bank of England.

B: Right.

H.M.Jr: And they follow the same policy with us.

B: Right.

-3-

H.M.Jr: Now, I think you'll find that after a while that they'll be very glad to be able to say to the French, why don't you do the way United States Government does, but I'm not going to worry about it.

B: Right, sir.

H.M.Jr: All right.

B: And I hope you have a very pleasant vacation.

H.M.Jr: Thank you, I'm leaving in an hour.

B: That's good. Goodbye.

H.M.Jr: Goodbye.

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

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

NO.: 1003 FROM COCHRAN

Paris exchange market very nervous and thin. Sterling rate has fluctuated between 130 1/2 and 132 7/8 with French control intervening intermittently to lower pound but apparently not willing to spend enough to hold the rate. Dollar rate has likewise varied considerably. Forward franc still discounted 5.65 francs for three months against sterling but not heavily offered. Rentes up 1.20 to 2.90 francs.

Over the week end Bonnet gave an interview announcing on Tuesday the Council of Ministers will be asked to approve another set of decrees. These will presumably effect reduction in extraordinary expenses. Bonnet also intimated that he would shortly give his attention to the Government security market. This statement was probably responsible for improvement in rentes today. Blum gave speech stressing Socialist support of Chautemps Government.

This noon at the Ministry of Finance there was little optimism about the situation. They plan to get out the second set of decrees and then try to improve the market for rentes. Fear was expressed by the official with whom I talked that before the situation improves significantly it will get worse. Higher pay demands by Government employees in the face of the new increase in cost of living are expected to cause embarrassment.

BULLITT.

EA:LWW

London, July 20, 1937.

My dear Mr. Secretary:

As requested I am enclosing, for your files, a memorandum indicating my peregrinations on behalf of the Treasury immediately prior to and during the last French "crisis".

Sincerely yours,

*Walter Dillatot*

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

M E M O R A N D U M

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Wednesday, June 23. Discussed with several British banking firms their attitude towards Chauteemps Government, the result of which may be found in my No. 401, June 23, 6 p.m.

Thursday, June 24. Likewise discussed French situation with several British and American banks and with exchange dealers and had a telephone conversation with Waley; see my 45, June 24, 7 p.m.

Friday, June 25. Waley telephoned to say that Simon would make an important statement in the House of Commons this afternoon; that Washington had been directly informed, and he offered to give me a copy of it in advance. I explained that I had already planned to hear the debate in the House of Commons; see my No. 406, June 25, 1 p.m.

Saturday, June 26. City quiet. Reported press reaction to Chancellor's announcement increasing Exchange Equalization Fund by £200,000,000; see my No. 411, June 26, 1 p.m.

Monday, June 28. Attended House of Commons to hear Simon defend proposal to increase the Exchange Equalization Fund, and later telephoned several British and American banks and exchange dealers regarding exchange movements; see my No. 412, June 28, 7 p.m.

Tuesday, June 29. Conferred separately with British Treasury and French Financial Attaché regarding French

situation

- 2 -

situation and reported results in No. 413, June 29, 1 p.m. 134

At 1:30 p.m., Mr. Morgenthau telephoned requesting that information be obtained from the British Treasury on two points: (1) Cochran had reported from Paris that the French had told him that the British had agreed to make a statement that they regarded the French as acting within the confines of the Tripartite Agreement.

Mr. Morgenthau was sceptical and wished confirmation.

(2) Although he had obtained the cooperation of New York banks in following the same procedure as they used last September, namely, only to handle legitimate commercial franc transactions, he had not been able to obtain any assurances from the French regarding conversion of any francs thus acquired into gold. He therefore wished to know what arrangements if any the British had made in this connection. Furthermore he wished to assure the British that he would not act without prior consultation.

Conferred with the British Treasury and at about 4 p.m. telephoned Mr. Morgenthau the answers to his queries, namely, first, that the British Treasury had made no commitments to the French Financial Attaché or any one else to the effect that Simon would make a statement that the French were acting within the Tripartite Agreement; furthermore, that the British had stated they certainly would not act except after consultation with us. Secondly, reported that the Bank of England had suspended quotations and dealings in spot francs and had arranged with the Bank of France that the latter should provide any francs required to meet

maturing

-3-

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maturing contracts in London at 110.55 to the pound; that the Bank of England would not on its own account buy francs until it received the same information that we desired. I likewise passed on the information that the British had made clear to the French that while they were prepared to follow the above procedure on Tuesday and Wednesday, they could not continue so to do beyond that time.

I also gave Mr. Morgenthau the two messages from the Chancellor of the Exchequer which are attached hereto as ENCLOSURE A.

At about 5 p.m. the British Treasury telephoned and informed me that Mr. Morgenthau had telephoned Sir John Simon directly and recounted the conversation.

At about 5:30 the Overseas Telephone Service informed me that Mr. Morgenthau intended to telephone at 9:15 p.m. About 6 o'clock British Treasury telephoned to ask whether I could call at 8:30 p.m.; that they felt that a clear understanding between Washington and London had not yet been reached and that another message was necessary. In my No. 416, June 29, 8 p.m. I reported that such a message would be forthcoming. Called at the Treasury at 8:30 and discussed the position briefly with Phillips and Waley, and transmitted the message by telephone at 9:15 to Mr. Morgenthau and, at his request, telegraphed it for purposes of confirmation (No. 417, June 29, 11 p.m.).

Wednesday, June 30. Reported in No. 420, June 30, 2 p.m.

that

that London press contained reports from Paris alleging that Bonnet had stated Tuesday night before the French Finance Committee that both the British and American Treasuries had agreed that his proposed measures fell within the confines of the Tripartite Agreement. Conferred with British Treasury about this matter, who instructed Rowe-Dutton, British Financial Attaché at Paris, to investigate and later gave me a copy of his cabled reply, which I passed on to Washington in No. 423, June 30, 6 p.m. Also contained in No. 420, June 30, 2 p.m., is a summary of the French reply to the British communication to them (see ENCLOSURE A) which I obtained from Monick.

British Treasury gave me the proposed answer to a question which Sir John Simon would have to make in the House of Commons before 4 o'clock, and asked for its immediate approval by Mr. Morgenthau, and also asked that I explain to him why Simon was under pressure to make a statement. Telephoned Mr. Morgenthau, gave him the statement and explained the necessity, which was real, for Simon's statement. Mr. Morgenthau approved and requested that statement likewise be telegraphed (No. 422, June 30, 6 p.m.). Informed British Treasury of Mr. Morgenthau's approval of statement, also conferred with British Treasury and with French Financial Attaché as indicated in my No. 421, June 30, 6 p.m. Incidentally this telegram also contains a warning to our Treasury that the French have reversed their position and that it may

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be expected that the British will do likewise shortly and therefore that we must be prepared to act quickly. 137

At about 8 o'clock, called at the British Treasury, at their request, and discussed the whole position and was given a statement to forward to Mr. Morgenthau. Incidentally this statement, which had not yet been typed, was in the handwriting of Phillips, Waley and Montagu Norman in about equal parts. In Mr. Morgenthau's temporary absence from Washington in Wilmington, I talked with Assistant Secretary Taylor and confirmed the statement in telegram No. 424, June 30, 11 p.m., inasmuch as the connection was very poor. Explained to British Treasury that Mr. Morgenthau could not return to Washington before 9 p.m. their time, which is 3 p.m. London time. While I waited, Simon, Montagu Norman, Phillips and Waley conferred and decided that in view of the French representations and the precarious character of the position, it was necessary to have our decision, regardless of the fact that it could not arrive before the early hours of the morning. At the request of the British Treasury I accompanied Waley to the residence of the French Financial Attaché, and was present when Waley made a statement to him which I had previously approved. This statement may be found as ENCLOSURE B.

Telephoned Taylor about midnight and explained the desirability of having a decision that morning, and arranged that the reply be telephoned to my house.

Mr. Morgenthau telephoned at about 5:30 a.m. and gave

me a message for Simon. Briefly discussed this message with him and obtained discretionary powers to arrange about publicity should the British accept it as the basis of their reply. As instructed by Mr. Morgenthau Cochran telephoned from Paris at 6 a.m. to give me the benefit of such information as he had.

As previously arranged, I telephoned Waley shortly after 6 o'clock and read him the message; his only comment was: My goodness! my Guinness! He called shortly thereafter for the message. We discussed the matter then and again about 10 o'clock, when I called at the British Treasury at his request. On both occasions I reiterated to him his arguments regarding the desirability of quick action, and suggested as the most practical means of meeting the situation that Mr. Morgenthau's suggested text be accepted as the public statement and that the British text be sent as a personal communication from Simon to Bonnet. I pointed out how much more important the franc rate was to the British than to us, and that therefore it was in their interest to bear importantly the burden of representations in the matter of the French exchange and budgetary position. At about 12:30 a.m. the British Treasury sent for me and handed me a message from Simon to Mr. Morgenthau (ENCLOSURE C). At about 1 o'clock I telephoned this to Mr. Morgenthau, who authorized me to request Cochran, by telephone, to send the note in his name to Bonnet. This I immediately did and after two other telephone conversations with the British Treasury

and

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and with Mr. Morgenthau a compromise was reached on the question of when the two notes would be published, namely, at 3:15 London time.

Thursday, July 1. In the afternoon called on the Guaranty Trust Company, which usually acts for the French Government in such crises periods to inquire about their operations. Also had a word over the telephone with the British Treasury. The results of both inquiries are embodied in my No. 427, July 1, 6 p.m.

W. W. Butterworth.

WWB/WJK

Message from the Chancellor  
Exchequer to Mr. Morgenthau

ENCLOSURE A

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I am sending the following reply to the French Government. I have adopted this attitude in view of the serious situation in France and the uncertainty how far they can enforce that decision when gold has been abandoned. I should be very glad to learn your general feelings on the matter as soon as possible.

The Interim Reply.

I am eagerly awaiting information as to the steps which the French Government are taking to liquidate the budget deficit which our own past experience has proved to be of importance in restoring confidence.

I understand the intention of the French Government to be to abandon their present gold limits and not merely to suspend them, subject to an application to return to them later. I note also their statement that the communication was made under Paragraph 3 of the Tripartite Agreement but I do not see how there can be any effective consultation at this stage when a decision has been reached and is about to be communicated to the French Parliament. Nevertheless, I feel bound to record my regrets that the decision has taken this form. Whatever grounds may exist in present conditions for temporarily suspending the gold limits, I consider that their permanent supersession may have serious

consequences

consequences and I need time to consider the repercussions of the decision on the Tripartite Agreement in consultation with the United States Government before saying in what form and under what conditions it will be possible for it to remain in being.

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Personal Message from the Chancellor of the  
Exchequer to Mr. Morgenthau.

I may be asked in Parliament this evening whether I regard the decision of the French Government to suppress the upper and lower gold limits as a departure from the Tripartite Monetary Agreement. In that case I shall reply that events have shown that the readjustment of the franc in September, 1936 was not entirely successful in reestablishing a lasting equilibrium between the economic systems of France and those of the United States and Great Britain. I have not been informed at what limits the French Government hope to establish the franc and naturally decisions of this importance require time for thought and consultation. For the moment I limit myself to saying that I have been assured by the French Government that it is not their intention to seek any exchange advantage and that they are anxious to continue close cooperation with the Governments of the United States and United Kingdom, as called for by the Monetary Agreement.

Parliamentary reply ends.

The Chancellor will be grateful for an early reply.

The Chancellor of the Exchequer has made very special efforts to send a reply today to M. Bonnet, despite the fact that he has been on the Front Bench in the House of Commons almost continuously since he received M. Bonnet. He has tried to get in touch with Mr. Morgenthau, whom he wished to consult, but finds that Mr. Morgenthau will be absent from Washington until 9 p.m., that is, 3 a.m. London time.

The Chancellor hopes, through the agency of Mr. Butterworth, to get in touch with Mr. Morgenthau during the night and to send a reply to M. Bonnet as soon as he has done so.

Message for Mr. Morgenthau from  
the Chancellor of the Exchequer.

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

I am sending to Monsieur Bonnet a message in the terms which you suggested and am telling him that I understand that you are sending a similar message, and that I suggest that, if Monsieur Bonnet desires and if you agree, the two messages should be released simultaneously at 5 p.m. (our time) for publication. I should also like to have your consent to state in the House of Commons at any time after 3 p.m. this afternoon that I have sent this message and you have sent a similar message.

At the same time I am sending to Monsieur Bonnet a confidential, personal message on the lines of the draft communicated to you yesterday, with the substance of which, I gather, that you are in general agreement. The possibility of maintaining with the French authorities the full measure of cooperation envisaged in the Tripartite Declaration and the prestige of that Declaration in the eyes of the world must, I feel, depend on the franc being kept relatively stable at a reasonable rate, and I feel that you would agree for me to tell Monsieur Bonnet frankly of my conviction on this point.

JR

GRAY

Paris

Dated July 20, 1937

Rec'd 3:15 p.m.

Secretary of State,  
Washington.

1014. July 20, 5 p.m.

FROM COCHRAN.

Paris exchange market continued agitated today. French control is said to have lost sterling holding franc around 132-7/8. Dollar continues quite weak against sterling. French rentes are up around 1.50 francs on report that Government is constituting a fund of some three billion francs to use for boosting Government security prices through official purchase and on prospect of new economy decrees being published tomorrow.

Announcement was made this noon that Labeyrie is named honorary governor of the Bank of France, first Undergovernor Fournier is promoted to governor, second Undergovernor Guiraud becomes first Undergovernor and Boisanger who has been serving as chief of staff for Bonnet becomes second Undergovernor. Fournier has served the Bank of France long and faithfully and is known as a good technical central banker (END SECTION ONE).

BULLITT

CSB

PARAPHRASE OF SECTIONS TWO, THREE, AND FOUR OF NO. 1014  
of July 20, 1937, from Paris.

This morning Maurice Frere called on me. He had left with leading French officials, including Rueff, Alphand and Bonnet, a copy of an informal memorandum which Premier Van Zeeland had instructed Frere to submit to the French and to the British. He told me that last week while he was in London he had secured the approval of the British Treasury, Board of Trade, Economic Adviser, and even of the Prime Minister to the memorandum he had given them. The French officials are so busy this week, he said, with all their financial work, that he will have to come back to Paris to get the French reply some day next week.

The following explanation of the memorandum was offered by Frere. After returning from the United States Van Zeeland thought the appropriate procedure would be to obtain the approval of France and Great Britain, which countries requested him to undertake his present task in international economics, to a plan for initiating definite steps toward solving the <sup>international</sup> problems of an economic nature. I was privileged to glance at the memorandum, which in its introductory paragraph referred to the first paragraph of the Tripartite Monetary Agreement of last September. With this text as inspiration, the memorandum suggested that official representatives of Great Britain and France, which two countries are parties to the Tripartite Agreement  
and

- 2 -

and also they nominated Van Zeeland to his present task, should be joined by a similar United States representative to work out together after due consultation the steps toward a world program which can be taken ~~now~~ now. In the memorandum there was a reference to the trade policies of the United States, particularly reduction of barriers to international commerce as an essential part of the plan. The present plan is to submit the memorandum to the United States for approval if the French agree to it.

My contact informed me that there did not seem to be any hope of getting Italy and Germany to enter definitely as founders of the plan. However, they do not want to put Italy and Germany in a position of opposition through creating any sort of a closed organization between democracies. The original parties would be the three tripartite countries and they would keep Italy and Germany informed of developments. They do not think there will be much difficulty in procuring the adherence of the Oslo countries. In order to go further it would be necessary for certain countries to eliminate exchange control or liberate their economic systems in other ways. At first perhaps progress could be made with Austria, Hungary, Poland and Czechoslovakia. There would be particular difficulties in Italy, and the last to be ~~brandy~~ brought into the agreement would be

Germany.

- 3 -

Germany. In order to hold out some offer of assistance toward countries with closed economy entering the more liberal circle, Frere is reviving his idea of some years ago of suggesting that a small percent (say one or two) of the gold holdings of central banks or treasuries be deposited with some central institution, preferably the BIS. Such a fund could then be utilized in helping countries to reduce their artificial barriers to movements of trade and exchange. I mentioned to Frere the fact that in the United States there was a bad press reaction to the idea attributed to Van Zeeland of having the countries which hold plenty of gold, particularly Great Britain and the United States, make such gold available to such countries as Germany and Italy through the BIS. He replied that his plan is entirely different, as it is on a broad scale and includes all important treasuries or central banks.

I refer to telegram No. 350 of July 19, 6 p.m., from the Department. Tonight I leave for Switzerland, the Netherlands and Belgium. I have made appointments with appropriate officials in these countries. On Saturday morning I shall cable a report of my trip.

END MESSAGE.

BULLITT.

EA:LWW

MM

PLAIN

London

Dated July 20, 1937

Rec'd. 3:55pm.

Secretary of State

Washington, D.C.

490, July 20, 9pm.

CONFIDENTIAL FOR TREASURY FROM BUTTERWORTH.

Monick called to show me a copy of the French reply respecting the Bachmann letter and at the same time gave his personal and confidential view of the situation in France. He felt that the new decrees would, for the time being, bring back a measure of confidence but that the budgetary position was such that another period of uncertainty was bound to come especially in view of the autumn refinancing to ameliorate which Bonnet would be increasingly compelled to take steps that would run counter to the Socialist program and this in turn would create political uncertainty and react on the franc. Monick stated that he still stood by his previous remarks reported in No. 380, June 14, 6pm, and that a definitive crisis was inevitable and he believed that the battle against exchange control had not yet been completely won. In his opinion when the next crisis occurred another and yet more formidable attempt would be made to impose an exchange

exchange

mm 490, July 20, 9pm. from London. -2-

exchange control system in France. He said that unfortunately exchange control as an inevitable eventuality was gaining adherents in France. I had a word with Waley who said that they knew nothing of the new governor of the Bank of France but that any change was for the better; in any case this appointment together with the new decrees should insure a period of calm for the holidays.

BINGHAM

WWC  
CSB

Tokyo

Dated July 21, 1937

Rec'd 9 a.m.

Secretary of State,  
Washington.

215. July 21, 4 p.m.

FOR THE SECRETARY OF THE TREASURY.

Domest reports that the Government proposes to introduce <sup>the</sup> in the session of/Diet opening July 23 legislative measures to authorize the Government to revalue the specie reserve of the Bank of Japan and to set up a special account with the funds resulting from a revaluation of the specie reserve. While complete details have not been published, it is understood that the special account is to finance the Government purchase of gold bullion and export shipments of specie and will also be used to stabilize the yen.

Assuming that the Bank of Japan's specie reserve amounts to 500,000,000 yen under the statutory valuation of five yen per momme the reserve will probably be revalued at thirteen yen per momme which will bring the total value of the specie reserve up to 1,300,000,000 resulting in a book profit of yen 800,000,000. Of this amount 210,000,000 yen loaned by the Bank of Japan to the Government will be deducted from the profit of 800,000,000 and the net amount of 590,000,000 will be transferred to the Treasury. With  
this

-2-

JR #215, July 21, 4 p.m., from Tokyo.

this latter fund the Government will set up the special account.

Financial observers pointed out that the proposed revaluation is merely a formal arrangement since the Government virtually revalued the specie when it raised the gold purchase price in line with the free gold bullion market in London some time ago and consequently the plan will have no influence on the exchange law. Regarding the special account the same observers are of the opinion that there exist other basic factors affecting adversely the international position of the yen and proposed establishment of the special fund cannot be expected to operate to improve the fundamental situation.

Further details will be reported when the proposed laws are published.

GREW

KLP:CSB

RB

GRAY

Paris

Dated July 21, 1937

Rec'd 3 p. m.

Secretary of State  
Washington.

1020, July 21, 6 p. m.

FOR TREASURY.

In a statement made to the press last evening Bonnet briefly referred to the second series of financial measures envisaged which earlier in the day had been examined by a Council of Ministers and later on by different members of the Government and Fournier, the new Governor of the Bank of France. The decisions taken will probably be published in the Journal Official of tomorrow or Friday.

Bonnet recalled that the first series of measures creating eight billion francs of new resources had covered the deficit on the current ordinary budget. However, he explained this was not enough and that it was necessary to lighten the heavy burden which the Treasury had had to support during the past few years. Therefore a plan to this end covering the period up to the end of 1938 had been drawn up to which all members of the Government had agreed.

Under

RB

-2-#1020, July 21, 6 p. m. from Paris

Under this plan Bonnet said the special budget appropriations for 1938 covering national defense, public works, et cetera, would amount to fifteen one half billion francs. He pointed out that this plan reflected the Government's desire to proceed with caution as concerns the public finances and at the same time to avoid slowing up economic activity.

Bonnet continued, and the results already achieved could not fail to have favorable results

(END SECTION ONE)

BULLITT

HPD

JH

GRAY

Paris

Dated July 21, 1937

Rec'd 2:50 p.m.

Secretary of State,  
Washington.

1020. July 21, 6 p.m. (SECTION TWO).

on the credit of the state and announced that with the view of hastening the moment when this improvement should be reflected in higher quotations for Government securities the administration has decided to constitute a fund "to support and regulate" rentes. He said that the action of the rentes fund closely coordinated with the stabilization fund, would minimize speculative movements and favor the policy of cheap money essential to economic revival.

In conclusion Bonnet insisted that the measures already taken would have an immediate effect. The Charges of the Treasury would be reduced by 6 billion francs for the last months of the year 1937 and by 25 billions for the year 1938. He predicted that if the country would show its confidence in the Government and would continue to work orderly and peacefully it would overcome prevailing difficulties.

According to statements in the press the fund envisaged for the support of rentes will be financed by profits of about eight billion francs arising from revaluation of the  
gold

-2-

JR #1020, July 21, 6 p.m. (SECTION TWO) from Paris.

gold reserves of the Bank of France on the basis of 43 milligrams of gold per franc but no official statement has been noted in this respect.

The exchange market was very nervous and jumpy today awaiting more precise information regarding the Government's intentions. Sterling opened at 132.75 and closed around this figure after touching 131.60. The dollar closed at 26.63 after 26.40.

After gains ranging from 1.50 francs to 2 francs rentes finally closed at about the same level as yesterday. (END MESSAGE).

BULLITT

CSB

## TELEGRAM SENT

RB

GRAY

July 21, 1937

8 p. m.

AMBASSY

PARIS (FRANCE)

359.

FOR COCHRAN.

The Secretary of the Treasury requests that you arrange to return to Washington to be present shortly before or on October 4. This is satisfactory to the Department if agreeable to the Ambassador.

HULL  
WJC

RA:HP:LWY FA

TELEGRAM SENT

157

RE

GRAY

July 21, 1937

8 p. m.

AMBASSY

LONDON (ENGLAND)

311.

For Butterworth.

At the request of Treasury, and provided it is satisfactory to the Ambassador, you are instructed to proceed to Washington, D. C., for consultation with the Treasury Department not later than September 20, 1937. Transportation expenses and per diem to Washington, D.C., and return London authorized subject Travel Regulations, chargeable to Treasury Department. Report dates and inform DADO.

HULL

WJC

EA: NF  
PA: HM    FP    BA    EU

C A B L E

~~London~~ Paris

Dated July 22, 1937.

Extract from #1025  
to Secretary of State

It will be agreeable to me to have Cochran, who is  
now in Amsterdam, return to Washington before or on October 4.

Bullitt.

FEDERAL RESERVE BANK  
OF NEW YORK

153

OFFICE CORRESPONDENCE

DATE July 22, 1937.

TO: CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM: L. W. Kocks

BANK OF FRANCE.

I called Mr. Cariguel at 11 a. m. They were having a fairly heavy day today, he said. Unfortunately, the press was not good; the French press from the political point of view and the British press from the economic viewpoint. He seemed to resent the continued discussion in the British press, even in such papers as the Times, of a franc rate of 150 to the pound. Naturally, the reaction of that on the public was most unfavorable; talks of that kind offered no inducement for the public to buy French francs. Today's operations would probably result in a loss of about \$2,000,000 of foreign exchange and gold, but with that, they would, as he put it, "only touch" gains recently made. He explained that the last few days prior to today, they had gotten away with selling very little of their reserve, with the result that a good deal of what had previously been taken in was still retained.

I referred to Mr. Fournier's appointment and to the good reception it seemed to have received everywhere. I mentioned that the press here looked upon it as a move in the direction of conservatism, which Cariguel thought it undoubtedly was. Personally, he seemed to be well pleased with Mr. Fournier's appointment.

LWK:EMC

July 22, 1937.

My dear Mr. Secretary:

In the absence of Secretary Morgenthau, I am acknowledging with thanks receipt of your letter of July 17th with which you transmitted copy of a confidential despatch forwarding a memorandum of statements made by an American mining engineer formerly employed by the Soviet Gold Trust in regard to conditions in the Soviet gold industry.

Sincerely yours,

(Signed) Wayne G. Taylor

The Honorable,  
Cordell Hull,  
Secretary of State.

THE WHITE HOUSE

Washington

JUL 27 1937

My dear Mr. Administrator:

I have allocated from the appropriations in the Emergency Relief Appropriation Act of 1937 \$52,500,000 to the War Department, Corps of Engineers, representing funds authorized by the War Department Civil Appropriation Act of 1936 for the exclusive use of that Department on flood control projects.

I am advised that, although the War Department Civil Appropriation Act made available \$7,500,000 of the foregoing allocation on flood control projects in the Lower Mississippi Valley free from the restrictions and limitations of the Emergency Relief Appropriation Act of 1937, the Corps of Engineers can use these funds under such restrictions and limitations, and that they can use \$15,000,000 of that allocation on flood control projects elsewhere which can be so presented. I am therefore charging \$22,500,000 of the foregoing allocation against the funds reserved for the Works Progress Administration for obligation during the fiscal year 1938. The amount you were authorized by my letter of July 1, 1937, to obligate in each quarter of the fiscal year 1938 will therefore be reduced by \$5,625,000.

It is desired therefore that you approve such projects submitted by the War Department for operation with the foregoing funds as can be presented under the provisions of the Emergency Relief Appropriation Act of 1937.

Sincerely yours,

(Signed) FRANKLIN D. ROOSEVELT

Honorable Harry L. Hopkins,  
Administrator, Works Progress  
Administration

JR

GRAY

162

Paris

Dated July 22, 1937

Rec'd 2:10 p.m.

Secretary of State,  
Washington.

1026. July 22, 5 p.m.

FOR TREASURY.

Transactions on the exchange market today were again carried on under hectic conditions and with wide fluctuations especially as concerns sterling which at one time reached 135. The fund is now holding it at 133.60 and we are told by our market contact that the fund has yielded very large amounts of sterling in an effort to bolster the market. The dollar now stands at 26.82 after 27.10.

There was some improvement in the rentes market and gains ranging from 60 centimes to 1.50 francs were recorded.

The Bank of France statement dated July 15 published today is fairly satisfactory. Gold holdings are unchanged. Commercial advances down 1,193,000,000. No increase in item under advances to the Government. Note circulation down 229,000,000. Deposits 491,000,000. Treasury account increased by about 730,000,000. Ratio of gold cover 48.58% compared with 48.23%. (END SECTION ONE).

BULLITT

CSB

RB

GRAY

Paris

Dated July 22, 1937

Rec'd 4:25 p. m.

Secretary of State

Washington.

1026, July 22, 5 p. m. SECTION TWO.

In a communique issued last evening Bonnet announced that the Government had decided to create a fund to support Government securities which would be financed by the proceeds of the revaluation of the gold reserves of the Bank of France on the basis of the lower limit provided for by the monetary law of October 1 last, namely, 43 milligrams gold per franc. Henceforth he said in addition to the substantial amounts which the amortization fund applied to the purchase of state securities the rentes fund would also operate and would have at its disposal more than six billion francs. He insisted that the measure was perfectly sound and that it corresponded to the spirit of the convention concluded with the Bank of France on September 25 last which laid down that profits from revaluation would be applied to the amortization of the public debt.

He proceeded to explain that in order to make clear

its

RB

-2-#1026, July 22, 5 p. m. from  
Paris SECTION TWO

its desire to clear up the statement of the Bank of France, the Government had agreed to pay over to the bank the unused portion of the rentes fund at the end of operations to cover advances of the bank to the state and furthermore that upon its liquidation the proceeds of the stabilization fund would be devoted to the same object to the extent of the rentes holdings of the rentes fund.

BULLITT

CSB

RB

GRAY

Paris

Dated July 22, 1937

Rec'd 3:20 p. m.

Secretary of State  
Washington.

1026, July 22, 5 p. m. (SECTION THREE)

Bonnet further announced that amortization of the perpetual loans and reimbursement of advances made to the state were the two essential aspects of the convention which were examined yesterday by the general council of the Bank of France. The Minister continued that the measures which he had outlined were analogous to those already applied in several countries of America and Europe, notably in Belgium, and that they had contributed to the improvement of the public credit.

The Minister concluded by announcing that at its meeting yesterday the Bank of France had authorized the Governor to sign the convention whose terms will be embodied in a decree law to be published on Friday morning in the *Officiel*.

The new Governor of the Bank of France, M. Fournier, took office yesterday. Rumors are denied that Jouhaux, President of the Labor Confederation, intended to resign  
from the

RB

-2-#1026, July 22, 5 p. m. from  
Paris SECTION THREE

from the Board of the Bank.

The new economy decrees may not as expected be issued immediately. The impression is gained from the press that while agreement in principle has been reached upon the new measures, divergence exists between members of the Government on several points.

In possession of indications of the main lines of the second series of financial measures envisaged by the Government most financial sheets agree that the Minister of Finance has shown courage in his decisions and that the plan represents an appreciable

BULLITT

CSB

RE

GRAY

Paris

Dated July 22, 1937

Rec'd 3:30 p. m.

Secretary of State  
Washington.

1026, July 22, 5 p. m. (SECTION FOUR)

effort. Furthermore the belief apparently prevails in many quarters that a fair measure of success may be looked for as a result of their application provided that the Minister of Finance will not be hampered by extreme Left exigencies and influence of a nature to compromise the return of confidence. In this respect the lack of a system as evidenced for instance by the action of the exchange market is evidently causing preoccupation and it is especially stressed by financial observers that financial technique alone will not suffice.

Writing in AGENCE ECONOMIQUE of today Paul Reynaud warns that the rentes fund must be operated with prudence in view of actual conditions of inflation. He points out that restoration of confidence is essential and that French economy must be put on its feet. Otherwise he fears that the rentes fund might suffer the same fate as the exchange stabilization

RB

-2-#1026, July 22, 5 p. m. from  
Paris SECTION FOUR

stabilization fund which lost 10 billion francs gold in  
trying to hold the franc above the lower point fixed by  
law.

END MESSAGE

BULLITT

CSB

MM

GRAY

Paris

Dated July 23, 1937

Rec'd. 1:35pm.

Secretary of State

Washington, D.C.

1030, July 23, 5pm.

FOR TREASURY.

The franc has been somewhat steadier in today's exchange market which has not been very active. Sterling has been up to 133.35 but the fund is now holding the rate at 133.20 without too much difficulty. The dollar is at 26.75 after 26.82 and is rather bid. The forward rate for sterling has strengthened to 2.50 francs for one month and to 6.50 francs for three months.

Little or no change is recorded in rentes.

The decree establishing the rentes fund, the text of the convention between the Minister of Finance and the Bank of France and decision relating to operation of the rentes fund were published in the Journal Official of today.

Raison d'être of the rentes fund is briefly explained in the preamble which stresses that the security market has become extremely vulnerable to speculative movements on account of marked absence of normal investment buying and it is pointed out that this is particularly true as

concerns

mm 1030, July 23, 5pm. from Paris. -2-

concerns government securities, "the present low prices of which are in no way justified by the actual financial difficulties of the Government". The hope is expressed that the removal of this menace will greatly contribute to the reestablishment of the credit of the state.

The preamble confirms that the resources of the fund will be provided by the revaluation of the gold holdings and available holdings of foreign currencies of the Bank of France on the basis of 43 milligrams gold per franc, "an operation which will constitute the first step towards the fixation of the new gold content of the National currency". The preamble concludes textually as follows:

"Furthermore, this revaluation will be made under the conditions laid down in article one of the convention of September 25, 1936, approved by the monetary law of October 1, 1936. The utilization of the profits of revaluation will also conform to (End Section One).

BULLITT

WVC  
CSB

RB

GRAY

Paris

Dated July 23, 1937

Rec'd 3:50 p. m.

Secretary of State  
Washington.

1030, July 23, 5 p. m. (SECTION TWO)

the spirit of the convention in question because under the terms of Article 3 of this convention these proceeds may only be utilized for the amortization of the public debt. Nevertheless the Bank of France could have rightfully insisted at the time of the discussion of the convention which will follow the fixation of the new gold content of the franc provided for by the same article, that the advances granted by it to the Treasury should be reimbursed by priority; thus it appears logical to grant a right to the bank of issue on the proceeds of liquidation of the exchange stabilization fund to the extent that the initial appropriation of the rentes fund at the termination of its operations will not have been devoted to the reimbursement of the said advances."

The essential provisions of the six articles of the decree establishing the rentes fund may be summarized as follows

RB

-2-#1030, July 23, 5 p. m. from  
Paris SECTION TWO

follows:

With the view of regulating the rentes market a fund is created which is authorized to buy and to sell perpetual or redeemable rentes and long medium term treasury securities (Article 1).

The fund will be operated by the amortization fund for the account of and under the responsibility of the public treasury (Article 2).

The operations of the fund may be terminated by a decree issued upon the proposal of the Minister of Finance and approved by a council of ministers.

BULLITT

RR

CSE

MM

GRAY

Paris

Dated July 23, 1937

Rec'd. 2pm.

Secretary of State

Washington, D.C.

1030, July 23, 5pm. (SECTION THREE).

at that time the rentes held by the fund will be immediately canceled. Any cash balance remaining will be utilized to reimburse advances made to the Treasury by the Bank of France under the conventions dated June 18, 1936 and June 30, 1937 (article 3).

Under the convention between the Minister of Finance and the Bank of France (which is dated July 21, 1937) it is agreed that the bank will proceed to the revaluation of its gold holdings and of its available holdings of foreign exchanges under the conditions laid down in Article One of the Convention of September 25, 1936, but upon the basis of the weight of 45 milligrams gold per franc. It is also agreed that the additional profit resulting from this revaluation will be utilized for the endowment of the rentes fund. Finally the convention lays down the conditions upon which the proceeds of the rentes and stabilization funds shall be disposed of at the termination of their respective operations. (END OF MESSAGE).

BULLITT

WTC/CSB

114

Cabinet Meeting - July 23, 1937 - 2 P.M.

Present: The President, Vice President, Messrs. Hull, Cummings, Woodring, Farley, Ickes, Roper, Miss Perkins, Mr. Magill, Admiral Leahy, Mr. Wilson.

The President said he had been talking to the newspaper men and to several Senators and Congressmen. He had told them the outlook was hopeful to realize the main objectives of his court program. The court had displayed more liberality in its spring decisions, and bills to reform procedure in the Federal courts would go through.

He said that it is up to the Congressional leaders to get busy and put through a program of legislation now; or to meet in October and do so then. The next regular session should be short, and not much more than the regular appropriation bills should be passed. The record this year is not good - only the appropriation bills, neutrality legislation and one other important bill. Congress ought not to want to go to the country on such a record.

The Vice President said that in his 34 years he had never seen such weak leadership of the majority in Congress. He mentioned the Speaker and the Rules Committee. Bills making additional appropriations above the budget were going through without adequate consideration of the consequences.

The President said that he was determined to balance the budget, and that if the appropriations exceeded the estimates, he would call Congress back in October either to cut down appropriations previously made, or to pass additional taxes to balance the outgo. He could only veto about so many bills. He spoke particularly of the vote overriding his veto of the bill as to farm interest rates; and the appropriation for vocational education being tacked on to one of the appropriation bills.

Mr. Hull said the situation in China looked somewhat better, with probabilities of a settlement by local leaders. Spain still looked hopeless. In answer to the President's question, Admiral Leahy said guns placed around the Bay of Gibraltar could bombard the British off the rock; guns across the Straits could not be effectively used for this purpose, since they would be 25 miles away.

I reported the situation in the tax loophole bill; it is probable that it can be whipped into shape and promptly passed. It will not cover much territory, but will be drastic. Cushions cannot be inserted without injuring its effectiveness. The President said younger Congressmen had criticized Messrs. Beaman and Parker for associating with wealthy lawyers and taxpayers. I said the criticism had no merit as to Beaman, who is thoroughly non-partisan. The Vice President said anyone would have a hard time to convince the House that Beaman is not

entirely honest and non-partisan; that he does not interfere in questions of policy. I said Parker was regarded as a radical by the Mellon group; I thought him an honest conservative. The Vice President said he was put in by Senator Coussens; he thought Parker was all right.

Admiral Leahy reported that the Cruiser Ogden, now stuck on a bar, might be gotten off if good weather prevailed or might be lost.

Mr. Roper read a telegram from George Palmer Putnam, asking the Navy to prosecute the Barhart search, and to invite the British and Japanese to help. It was decided to ask our own and their officers to keep a lookout, but that we could not intensively search the areas mentioned since we did not have the ships there.

The President said indications were that crops this year would be large and next year probably so. Business conditions were good with high farm prices. The large crops would probably bring prices down, unless some affirmative steps were taken by the Government.

I was asked to find out from Wayne Taylor whether there were further shipments of gold out of the United States; the President may want to make a statement next week. I was also asked to find out from Admiral Wessels what Coast Guard cutter would next be retired, to see whether it can be obtained for Mr. Roper's use for scientific purposes in Alaskan waters, to determine the migratory habits of the salmon. It is thought the salmon come from Alaskan rivers to the high seas, where they are being caught by the Japanese. The President wants us to control the catch if we can.

\* \* \*

After the meeting I spoke to Mr. Farley about the Studenbaker Company's proposals to amend the undistributed profits tax. I said it was very unlikely that any amendments to that tax would be made before fall. He said that he had no particular interest in the situation, and would advise Mr. Vance of the Studenbaker Company that probably nothing could be done at this time.

Notes taken by Under Secretary Roswell McGill.

RM:ce

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 24, 1937, 10 a.m.

NO.: 1034 FROM COCHRAN.

In accordance with Department's instruction, telegram No. 350 of July 19, 6 p.m., the night of July 20 I left Paris and the next morning arrived in Bern. There I called at the Swiss National Bank at 10 o'clock, by appointment. The President of the Bank, Bachmann, was on his annual vacation. The officer in charge, Weber, received me. Schnyder retired at the end of June.

I read the draft communication from Secretary Morgenthau contained in telegram No. 339 of July 14 to Weber and asked him to make such notes as he wanted to on the first two paragraphs of the draft. I gave Weber an unheaded and unsigned memorandum containing the remainder of the message beginning "We who have joined in the tripartite accord" and ending "share this interpretation of its implications". I told Weber that I had given the draft communication to the French authorities, and that Bonnet had expressed his agreement with the general principles concerning gold policy which this draft proposed, and that Bonnet said these were indeed the policies which guided them in their relations with the tripartite countries.

I also told Weber that my colleague in London had

given

- 2 -

given the draft to the British, and that the Chancellor of the Exchequer had said he did not disagree with the general principles set forth in the draft which corresponded to the procedure ordinarily followed by the British themselves.

I explained that I had come personally to deliver the message to Weber because it might be most satisfactory to have informal discussion. Furthermore, I added, the British preferred that we should not endeavor to codify too precisely and formally at this early date the tripartite principles.

I reminded Weber that Bachmann had on at least two occasions suggested to me that it would be desirable to have the club countries arrange a meeting of experts with a view to arriving at ~~an~~ a common understanding and to draw up a set of rules for the member countries to follow. The United States thought it still unnecessary or at least premature to have such a meeting, but we did think that now that the end of the first year of the Tripartite Agreement is almost here, enough time had elapsed to permit the formulation and setting down of some general principles; this initiative was taken toward this end.

My contact was cognizant of the instinctive reluctance of the British to put anything on paper; he thought that this beginning of the United States was a useful

service.

- 3 -

service. Weber felt that it was much more satisfactory for me to come and talk to him about it than to write formal letters to his people. He asked me some important questions regarding the exchange of notes under the American proposals which I shall set forth later in this telegram.

Weber said that personally he found the general lines of policy as enunciated acceptable. I said that if the Swiss could approve the American memorandum, the American authorities would stand ready to accept any amount of gold they wanted to send to our country. After my first conversation with Weber, and before we met again for lunch, Weber consulted with his colleague Rosay who took ~~(emission)~~ Schnyder's place a few days ago. When we met again Weber said that he found Rosay shared his views on the question discussed. Meyer, the Swiss Minister of Finance, was away from Bern for a few days, but Weber promised to consult with him as well as with Bachmann and his other colleagues as soon as he could. Should they agree to accept the American interpretation of principles of the Tripartite Agreement as set forth in Secretary Morgenthau's draft, the Swiss will write me an informal letter to this effect; it will be approximately 15 days before such a communication could be sent. In considering Weber's observations it should be remembered that he cannot bind his bank by his own statements.

My

- 4 -

My contact expressed his gratification at seeing the two arrangements which the American Treasury has recently made with China and Brazil. These operations were ideal, he thought, because they effected distribution of gold from an overstocked center for the purpose of strengthening currencies and helping central banks. A close watch is being kept by the Swiss on American studies and decisions regarding the forcing out and keeping out of excessive foreign capital since the same problem to even a greater degree faces them in view of the fact that the per capita holding of gold in Switzerland is much higher than it is in our country.

In Weber's opinion the main source of present unrest for currencies and floating capital is France, which is the source of a great part of the Swiss glut of capital. The London gold market was recently upset more by the French movement of gold to London than by either dehoarding or influx of new gold, and it led to the necessity of increasing the equalization fund of the British. Should there be repatriation by the French of a good part of their holdings from the American market, the "hot money" situation would be importantly lessened and perhaps cease to exist. As to the French outlook, however, Weber is not optimistic. Until confidence is restored he thinks there will be further depreciation,

- 5 -

depreciation, and as yet he sees no evidence of this. Weber believes that in view of the French danger it is continually and increasingly necessary that the other club countries keep in close contact and cooperate with each other.

Personally Weber said he is sympathetic to the idea of concentrating investments by a central bank in a foreign market with the central bank of that market; deviations from that policy/had embarrassed his bank, and he said we could count on his bank to cooperate with us in this regard.

I was asked by Weber whether I thought his bank should discontinue holding balances with the Chase and other New York banks of this type. For reply I referred him to the phrase of my memorandum "such balances should in the main be kept with the central bank". He said this formula had been followed by his bank because its deposits in New York outside the Federal Reserve Bank were insignificant compared with those with the Federal Reserve. He asked if it would be permissible for the Swiss bank to buy United States Treasury bills through New York private banks with which it has deposits. I said that it was the sense of the Treasury communication that such purchases should be made through the Federal Reserve Bank after appropriate consultation

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sultation as this Bank is the Treasury's fiscal agent.

I was reminded by Weber that whenever the American Treasury gets out a new security issue the terms thereof are cabled by the New York Federal Reserve Bank to the Swiss National Bank as well as to other central banks; he accepted this as an "invitation" to subscribe to the securities. I did not make use of this interpretation but emphasized the need for consultation.

My contact told me that for the present at least the urgency for his bank to convert gold into foreign exchange has lessened. The Swiss in recent days have made a dollar loan to Argentina for the International Telephone and Telegraph. For this operation they sold gold for dollars, just as they did for earlier Czech and Italian credits which I previously reported. The demand for gold coins for hoarding purposes outside of Switzerland has, furthermore, been increasing recently. During the past few days the Swiss fund has disposed of some 4,000,000 Swiss francs of Napoleons and other gold coins for hoarding by Far Easterners and by French people. Such gold will definitely not be melted into bars soon and reappear on the market. Therefore at present because of the foregoing and other reasons the Swiss bank has no need to send gold to the United States nor to convert into dollars any more of the gold held in New York under earmark.

Weber

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Weber said he hopes such early necessity can be avoided.

However he asked in this connection whether, in case Switzerland avoided(?) a credit to Denmark for instance where dollars are required we would prefer that gold be sold on the London market for dollars, or whether we would want them to sell gold on our market against dollars. Confidentially, he said, the British had let the Swiss Bank know that it could get dollars in London against gold if they wanted them. The Swiss franc is actually being held stable against the dollar rather than against sterling because of this fact. Weber thought that the United States might prefer the operations on its own market. He does not think such a case will arise in the near future, and if the question did come up he would discuss it with us.

The need of the Swiss Bank to have a rather large working balance of foreign exchange was stressed by Weber, in view of the degree to which Switzerland is dependent upon foreign markets for foodstuffs and for raw materials. It is considered that the dollar is the safest and most useful currency to hold. The Swiss stabilization fund, it should be remembered, does not have an outlet like the American and British funds by "sterilizing" gold through Treasury bill operations. Thus the Swiss have greater need for insuring immediate liquidity.

I was

- 8 -

I was asked whether it would be too much for 40 percent of the Swiss dollar holdings in New York to be invested in United States Treasury bills. I said that if he put too large a part of his dollars into securities he was obviously working against the principle of liquidity which he had given as the reasons for converting the gold of the Swiss fund into dollars; he agreed that there must be some percentage above which they should not go and said if and when any new operations are considered he will consult us.

In summary, Weber personally finds the general lines of Secretary Morgenthau's memorandum acceptable but we must await the decision of his colleagues. The Swiss in practice however, have more dollars on the American market than would generally be accepted to constitute "working balances" alone. They actually and confidentially look upon these dollar reserves as their "war chest" and do not want to diminish the amount.

I visited the American Legation at Bern, and recounted my visit to Bigelow.

On July 22 at noon I was received at the Bank of the Netherlands in Amsterdam by President Trip and his directors (omission) and Beaufort. I explained the reason for

my

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my visit showed the (?) then the memorandum quotation [this part is badly garbled] from the telegram No. 339 of July 14 from the Department.

I was spoken to very frankly by Trip, and his colleagues supported him on every point. The Dutch officials were bitter over the manner in which the French again lowered their currency without giving any advance information to them about it. ~~They are pessimistic~~ These officials were pessimistic about the French outlook. Consequently they see uncertainty continuing in the international monetary sphere.

The fact that he had been consulted about the memorandum was appreciated by Trip, particularly my paying him a visit, even though he had reservations concerning it. Trip said that the United States and Great Britain, the two important members in the club, could, as France had, take decisions independently and then notify (omission). However, he felt that before reaching such decisions the interests of the minor members should be considered if the idea of a cooperative club is to be continued. Should the larger powers conceive plans to fit only their own situations and their own convenience, then the Dutch would simply have to reserve freedom of action for themselves.

Trip began analyzing the memorandum by saying that his fund and bank were certainly doing their part in absorbing

- 10 -

sorbing and holding gold, as is clearly indicated by the statistics. However he does not consider that it is fair to ask the monetary authorities of the minor countries which adhered to the Tripartite Agreement to refrain from transferring their gold into foreign currencies so long as the two major powers are not willing to give a definite commitment as to maintaining the price of gold. If we were all back on the gold standard, Trip said, it would be a different situation. He realizes that under the present circumstances the American gold price can be changed quickly without any assurance that the Dutch would be warned or consulted.

I was reminded by Trip that as a result of his bank listening to the Bank of England's entreaties to cooperate through holding sterling in September, 1931, 30,000,000 florins were lost by the Dutch Central Bank. If before the American currency crumbled the Dutch bank had not disposed of its dollars, he said the losses therefrom would have been around 40,000,000 florins. He does not look for any early change in the price of gold but at the same time he sees how quickly situations change. Gold was in demand a few months ago but since April both private and official hoarders have been casting out gold. If in view  
of

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of this situation his Government and his Bank officials may have cause to doubt the future price of gold, Trip is not willing to subscribe to any undertaking which would restrain him from spreading his risks. He added that gold has not been sold by his Bank, and insisted that he will not resort to camouflage. He was thinking, I know, of the sale by the Swiss central bank of gold to the BIS to get dollars for one or more of the foreign credit operations of the Swiss, the gold eventually going to New York. He frankly told me that recently he has not been converting as much of the dollars and sterling which he acquires in holding the florin steady into gold as he formerly had done. Most of the gold which Dutch hoarders had has now been disposed of by them. The dollar weakness at the same time results in Trip taking large amounts in spite of his progressively lowering the price which he pays therefor. Presumably the weakness of the dollar comes largely from gold sales by the (?) outsiders who cannot be controlled by the club.

Any foreign balances, Trip agrees, should in the main be kept with the central bank of the country in which they are. He said that he does keep some dollars with the Guaranty Trust which acts for him in assembling dollars, but when the amount thereof becomes considerable he passes them on to  
the

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the Federal Reserve Bank.

Trip has reservations on the point "essentially as working balances" since he has no definition of this phrase. Ordinarily he would understand working balances to mean the minimum funds which should be kept free and on hand to meet normal market requirements of the currency in which they are held. In the actual circumstances described above he does not pretend to be satisfied with keeping so small a sum in dollars. He frankly stated he considers the dollars a deposit of reserves beyond a working fund. To this extent his operations are on the "gold exchange" standard.

Therefore, if the American Treasury's message means that such countries as the Netherlands will be obliged to hold gold to the exclusion of all but "working balances" of foreign exchange, Trip wonders if the American Government's invitation to invest funds in the United States may not become more reserved. It is Trip's idea that a central bank has to earn some money; if it holds everything in gold it deprives itself of the opportunity to purchase securities which bear interest. He would like to buy American Treasury bills if they are attractive to his bank. He has made such purchases through the Federal Reserve Bank of New York so far and has met with no objections to such purchases. He fears however that the message under reference may mean that

objections

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objections may be imposed by the (?) and that should he subscribe to the memorandum he would then be precluded from investing in such bills through the channel as yet unused by him of private banks in the United States.

Those who are familiar with Trip's operations with central banks in the BIS, in the "gold bloc" and now in our club must know that he plays the game according to the principles laid down. However, he is accustomed to participating in the making of those rules. I am convinced, knowing his honesty and his stubbornness, that if rules were dictated which he could not conscientiously shoulder he would drop out of a game. Trip expressed the hope that we might all go ahead cooperating and consulting together without attempting too much codification of principles while there is so much shifting in the monetary field.

Trip promised that he would discuss the matter with the Minister of Finance. I called at the Ministry of Finance <sup>at the Hague</sup> on the afternoon of July 23, and left my card and a copy of the memorandum with Mr. de Wilde, the assistant of the new Minister. I was unable to keep the personal appointment which Trip had arranged with the Minister for me because of a train delay.

I went to the American Legation at The Hague and explained to Wilson and Cabot the mission I was on.

On July 23 I called on Governor Franck of the National Bank

Bank

- 14 -

Bank of Belgium, at Brussels. I told him the purpose of my visit and gave him a copy of the memorandum. His Bank, he said, was still holding a large amount of gold, but he remarked that recently the influx had diminished. Several important Belgian corporations had, on the other hand, taken some gold and foreign exchange from his bank recently to pay dividends or loans abroad.

A part of the memorandum is not directly pertinent to the situation in Belgium. No Treasury bill investments on the New York market have been made by the Belgian National Bank. Only small balances in dollars are maintained by the Bank. This Bank is quite agreeable that as at present the Federal Reserve Bank should hold such balances. Franck would not be willing, however, to bind himself to deal exclusively through the Bank of England so far as London was concerned. For generations big banking and commercial firms in Antwerp with which the central bank has close dealings have had private correspondents in London, and the Bank Governor would not think it reasonable that he should be called upon to cease his business with those London institutions, especially since no objection thereto is offered by the Bank of England.

The reserves of the Belgian National Bank are importantly gold reserves. He is of the opinion that the world gold price

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price has not yet been permanently settled. Franck is opposed to any club member attempting to shift its gold load onto the shoulders of another member. However, he is not willing, so long as there is no general return to the gold standard and in particular since there is no assured fixity of the gold price - with a 24 hour basis for monetary policy - to undertake not to convert part of his gold into foreign exchange and hold the latter as reserves if it is indicated from circumstances and developments that the interests of the National Bank of Belgium would be served thereby.

The Belgian Bank Governor expressed pleasure at having the good working relations which he enjoys with the authorities of the United States, and particularly the arrangements ~~with~~ by which he purchases dollars for the Federal Reserve. He wants continuation of the spirit of cordial cooperation within the framework of the Tripartite Agreement, but he believes that during the present disturbed period this can be achieved better by permitting the club members as much freedom of action judged and required by their own situations as possible, rather than by trying prematurely to lay down rules which as yet have not been generally accepted in practice or on paper, and which might make it difficult for the lesser members in particular to adhere faithfully to their club undertakings and obligations.

The

- 16 -

The Minister of Finance, de Man, was away on vacation but Franck promised to discuss the matter with him.

I went to the American Embassy at Brussels and explained my Belgian visit to Sussdorff and Miss Willis. I had a talk too with Maurice Frere, but learned nothing to add to my telegram No. 1014 of July 20. Last night I got back to Paris.

END MESSAGE.

BULLITT.

EA:LWW

RB

GRAY

PARIS

Dated July 26, 1937

Rec'd 3:10 p. m.

Secretary of State

Washington.

1050, July 26, 5 p. m.

FROM COCHRAN.

Paris exchange market rather slow. French was able to buy some sterling at from 133.05 to 132.97. Dollar market thin with further weakness of this currency against sterling following Japanese sales and recrudescence of press story that United States is planning program for international reciprocity on tax information. Paris observers remark upon heavy load of dollars being placed upon Dutch market while neither British nor American control appears to be preventing fluctuations. British financial press is stressing advantage to Dutch of tying florin pound. French rentes apparently had to be supported officially to hold Friday's levels. Forward franc better. Money very tight.

BULLITT

WC

HPD

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 27, 1937, 11 a.m.

NO.: 1053

FROM COCHRAN.

At 10 o'clock this morning I called at the Bank of France. Yesterday, I was told, the French control experienced a good day, gaining in foreign exchange about 160,000,000 francs. This gain for yesterday reverses the trend of last week when it experienced heavy losses. At the end of last week the balance of foreign exchange on hand in the fund was approximately two and three-quarter billion francs. The control had purchased around 250,000 pounds by 10:30 this morning, and from appearances it promised to be a quite favorable day.

Confidentially I was informed that last week the British were annoyed when the French control permitted the franc-sterling rate to drop. On Friday Cobbold of the Bank of England came to Paris. Officials of the Bank of France, supported by the French Ministry of Finance, explained to the British that

END SECTION ONE.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION TWO, telegram No. 1053 of July 27 from Paris.

the French control was merely following the example set by the British control. In other words, the French control had not tried to stop a major capital movement but had assumed the duty of trying to keep the currency from fluctuating sharply. The British asked the French whether they had in mind any definite point at which they would make a firm stand. The French then reminded the British again that the Prime Minister of Great Britain had always refused to set a definite point for sterling depreciation. Officials of the Bank of France insist that French psychology demands a fixed gold parity, but that at present there must be no move to establish this until experience has shown what the proper rate should be.

I found a better spirit at the Bank, following Fournier's replacing Labeyrie. Officials of the Bank think that Bonnet is moving as boldly and correctly as could be expected in the circumstances. Nevertheless, they feel that there may be a tendency to overestimate concrete results that can be achieved through the program which new legislation and decrees are now setting forth. These officials realize that sharp difficulties may be witnessed in the autumn, when the tourist season is ended and when heavy treasury maturities fall due. The Bank is particularly ~~is~~ worried about the very unfavorable balance of trade. However, it is believed that from now

until

- 2 -

until October during the holiday period there may be occasional fluctuations in the franc but no serious difficulties. This would, however, depend upon the maintenance of social order and political recourse.

END MESSAGE.

BULLITT.

EA:LWW

JR

GRAY

Paris

Dated July 27, 1937

Rec'd 1:10 p.m.

Secretary of State,  
Washington.

1057. July 27, 4 p.m.

FROM COCHRAN.

Reference my 1053, July 27, 11 a.m. Trend of Paris exchange market turned shortly before noon and French control became a seller of sterling at 132.96 to 99. Market was not big but observers think control lost exchange on balance for the day. Dollar erratic with Amsterdam having to absorb fair quantity and apparently with some important selling thereof from Sweden. French rates about even. End of month money very tight. Economy decreases and definite plans for reorganization of French Railways still awaited.

BULLITT

HFD

JR

GRAY

Paris

Dated July 28, 1937

Rec'd 1:05 p.m.

Secretary of State,  
Washington.

1064. July 28, 5 p.m.

FROM COCHRAN.

French control had fairly successful day on a calm market acquiring sterling at from 132.89 to 86. There has been a demand for spot francs for end of settlement and forward rate is also better. Since Yokohama Specie Bank in London offered no dollars today market has followed its lead and dollar has strengthened.

Press article from Brussels in Today's AGRICULTURE DENIES report from London that Belgium is already feeling trade competition from France following recent franc depreciation insisting that Belgian economy is in good shape while French outlook is still uncertain and prices rising. Incidentally French authorities are already weakening in their fight against elevation of prices and permitting certain exceptions.

Bank of Italy representative tells me Italian hotels and tourist resorts are already packed to capacity so there is no worry over any passing advantage that French currency depreciation

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JR #1064, July 28, 5 p.m., from Paris.

depreciation may give local tourist trade.

European financial press lauds motives behind letter of Belgian King but inclined to doubt practicability of its suggestions.

BULLITT

HPD

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE: July 29, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

I called Mr. Hawker at 9:18 today.

Discussing the dollar market, he stated that the Japanese had recently changed their technique and, at least temporarily, stopped their aggressive selling of dollars, as a result of which the dollar rate had improved a little from 4.98 1/8 to 4.97 3/8. I inquired what his opinion was as to the future of the dollar market and he replied that this primarily depended on two things: (1) Our attitude towards hot money, and (2) The activity of the Japanese in the dollar market. I explained that, according to our information the Japanese were continuing their rather heavy shipments of gold to San Francisco and, that being so, they would probably also continue to be buyers of sterling as undoubtedly their sterling requirements were large because of their substantial purchases in the sterling area. Ordinarily, of course, Hawker continued, during the next few months there should be a seasonal demand for dollars in connection with the financing of our cotton and grain shipments. Their only interest had been to keep arbitrageurs away and to avoid having a completely disorderly market. Apart from that, they could see but very little difference between 4.90 and 4.98 for the pound.

I inquired about the French situation and Hawker answered that fundamentally it was unchanged. The appointment of Fournier as Governor had been generally welcomed because he was a good man with strong views and a great deal of technical knowledge. It was due to this appointment that the French method of operating in the exchange market had recently been changed, and decidedly for the good. The

FEDERAL RESERVE BANK  
OF NEW YORK

200

OFFICE CORRESPONDENCE

DATE July 29, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND

FROM: L. W. Knobe

- 2 -

French Fund had gained some foreign exchange. Nevertheless, he was a little doubtful as to the future, particularly because the recent improvement in the franc rate had very definitely been due to bear covering and not to repatriation. He was not pessimistic, but certainly not optimistic either. Nobody was ready in France to bring his money back until he saw that a definite effort towards improving the economic conditions of the country was made and proved successful. Everything, as heretofore, depended upon the political situation in France and some people seemed a bit doubtful as to whether the steps taken by Bonnet would do the trick.

LWK:KMC

OFFICE CORRESPONDENCE

DATE July 29, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. V. Knoke

BANK OF FRANCE.

I called Mr. Carignol at 11:10 today. Since the beginning of the week, he said, it had been very good selling for them, the market having moved their way. As a result, he was satisfied "for the time being". His intake of foreign exchange had been "quite appreciable" recently, running about \$1 1/4 million a day. It looked to him as though they would have a fairly quiet summer.

I made reference to this morning's newspaper reports to the effect that the French Fund had entered the market as buyers of future francs. Carignol confirmed this but added that they had not done much.

I inquired whether he could give me some information on the following:

"Does there exist a convention between the Governor of the Bank and the Minister of Finance, dated September 28, 1926, authorizing the Bank to convert into gold, notes presented in minimum amounts of 5,000,000 francs? If there was such a convention, had the text been published and was it obtainable. Was the 5,000,000 franc provision still in force despite paragraph E, Article 2 of the Monetary Decree of July 1, 1937, which says that the conditions of convertibility into gold shall be fixed "by a decree issued by the Council of Ministers"."

Carignol replied that he did not know of such a convention although there might be one. Finally, he promised he would look into the matter and call me up tomorrow. I suggested that there was no such hurry about it and that it would be amply sufficient if he gave me his answer at his

FEDERAL RESERVE BANK  
OF NEW YORK

202

OFFICE CORRESPONDENCE

DATE July 29, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. KNOKE

BANK OF FRANCE.

- 2 -

convenience, sometime in the future.

I then requested that he let me have a copy of the Journal Official of May 22, 1937, containing laws and statutes of the Banque de France, arranged under topical headings. This, he said, he would let me have with pleasure.

I made reference to his cable No. 200 of October 15, 1936, reading "Kindly convert into gold which you will keep in our earmarked gold account \$ all dollars which you buy for our account \$" and inquired whether these instructions were still in force. I explained that the reason for my asking was that recently, in one or two cases, he had not, contrary to his usual practice, given us specific instructions to convert. Cariguel replied that he was aware of this and that he had refrained from cabling because the amount involved was so small. At any rate, he confirmed that the instructions given in his cable No. 200 were still in force.

I mentioned that I was going away on my vacation tomorrow night and suggested that he call Mr. Sproul if, at any time during the next four weeks, he wanted to get in touch with us by telephone.

LWK:KMC

MG

GRAY

Paris

Dated July 29, 1937.

Rec'd 1:32 p.m.

Secretary of State,  
Washington.

1073, July 29, 4 p.m.

FROM COCHRAN

Franc sterling rate has varied from 132.83 to 132.905 with control acquiring a small amount of sterling on balance after being obliged to sell at 90. French rentes and securities practically unchanged. There appears to have been official French control intervention in forward franc each day this week, market observers reporting that a different bank was used each day, namely, Banque Belge, Monday; Comptoir, Tuesday; Lazard, Wednesday and Society General today.

Bank of France statement as of July 22 showed no new advances to the state. Coverage 48.90 versus 48.58. Arbitration on bank clerks wages has been settled but situation not yet satisfactory.

Feature of today's trading is further weakness of belga. Rumor continues that belga will have to follow French franc because of close competition between the two countries

MG

Page 2 #1073 from Paris

countries. Sales of belgas so far apparently originate with Belgians who are selling their currency short or buying securities.

Belga has not been helped by criticism of Premier Van Zeeland and of National Bank of Belgium arising out of Premier's post being left vacant in the bank after he quit the under-governorship for the Cabinet. Governor Franck yesterday gave at a special shareholders meeting an explanation of the delay and of the alleged division of Van Zeeland's salary among the other directors after he no longer received it.

BULLITT

KLP

WWC

JR

GRAY

Paris

Dated July 30, 1937

Rec'd 4:35 p.m.

Secretary of State,  
Washington.

1085. July 30, 6 p.m.

FROM COCHRAN.

Paris exchange market fairly active today with French control acquiring sterling at 132.80 and for a while yielding a lesser amount at 85. Control apparently again operating in forward francs through Comptoir. Paris American Bank today purchased \$900,000 for the control. Rentes practically unchanged. While control is acquiring a little foreign exchange and period of seasonal quiet is here, basis sentiment of market is not good. Council of Ministers met today to pass on economy decrees which may be issued tomorrow. Belga continues to weaken to gold export point with respect to most countries. Swiss franc a little more offered. Bank of France is confidentially approaching individually those Paris banks which have opted repayment on 1934 Treasury bonds which mature October 5 seeking their agreement to accept in payment Treasury bills running from perhaps one to one and one-half years. These bonds are mostly in the hands of banks and repayment was opted

for

-2-

JR #1085, July 30, 6 p.m., from Paris.

for approximately 6.4 billion francs thereof.

FRANKFURTER ZEITUNG attributes to Wall Street a rumor that American Treasury is negotiating with Peru, Chile and Colombia gold arrangements and credits similar to those consummated.

BULLITT

SMS:RGC

022110218  
1234 567  
TELEPHONE ROOM  
U.S. DEPARTMENT OF STATE  
WASHINGTON, D.C.

JR

GRAY

Paris

Dated July 31, 1937

Rec'd 10:12 a.m.

Secretary of State,  
Washington.

1091. July 31, noon (SECTION ONE).

FROM COCHRAN.

The second series of financial measures decided upon by the Chautemps Government were embodied in eleven decrees published in the JOURNAL OFFICIEL of today's date.

The extent and substance of these decrees were explained to the press last evening by Bonnet in the following terms:

"The measures just decided upon complete the plan to reestablish the financial situation. The first series of measures had provided for a sincere balance of the ordinary budget.

The present decisions related to the special budget, and fixed expenditures under this heading for 1938 at 11,100 francs for the military program, 3,590,000,000 for public works, and 2,300,000,000 for the pension fund.

Thus, next year, the Government would have to (END  
SECTION ONE)

BULLITT

KLP

lw

GRAY

Paris

Dated July 31, 1937

Rec'd 11:10 a.m.

Secretary of State

Washington

1091, July 31, noon. (section two)  
borrow about seventy<sup>een</sup> billion francs for its own requirements and one and one half billions for advances which it would have to make but which were reimbursable.

Furthermore during 1938 the railways, the City of Paris, the Department of the Seine, Algeria and the colonies would have to borrow about seven one-half billion francs.

This total was substantially less than that claimed by certain newspapers and also put forward in Parliament as concerns requirements over and above budgetary revenue for 1938. It was even less than he had himself put for this object during the Parliamentary debate on full financial powers." (see page nine of Embassy's despatch number 781 of July 2, 1937.)

Turning to the local budgets Bonnet explained that measures had been taken to provide additional resources and that the authorities had been requested to balance their budgets.

lw 2, No. 1091, July 31, noon (section two) from Paris budgets. A committee would be set up to coordinate the transport services of the City of Paris and the Department of the Seine.

As concerns the railways, rate of interest increases and reorganization would reduce operating deficit by about six hundred million francs. Details of reorganization still under consideration. (end section two).

BULLITT

HPD

JR

GRAY

Paris

Dated July 31, 1937

Rec'd 11 a.m.

Secretary of State,  
Washington.

1091. July 31, noon (SECTION THREE).

In conclusion Bonnet stressed the effort made regarding the special armament and public works budget for 1938. Eleven and a half billions would be applied to military equipment which was one and a half billions more than 1937. Furthermore, public works in hand would be carried out and no undertaking would be halted.

Finally Bonnet invited attention to the fact that the program of the Chautemps Government was being carried out methodically with the unanimous approval of the entire Cabinet along the lines envisaged by himself and by Chautemps. The ordinary budget was balanced and the special budget brought down to a reasonable level. During the last few days the fall in the forward rates of foreign currencies the marked improvement in rates, the resumption of subscriptions to Treasury bonds indicated that the country understood and was prepared to make the effort necessary to restore the financial situation.

(END OF MESSAGE)

BULLITT

KLF

Regraded Unclassified

# TREASURY DEPARTMENT

211

INTER OFFICE COMMUNICATION

DATE July 30, 1937.

TO The Secretary  
FROM Mr. Taylor

Shortly after I returned to Washington I called Marriner Eccles and discussed with him what should be done in view of the present situation which existed in Congress, and particularly in relation to the Tax Bill, regarding the amendment to the Banking Act providing special treatment for reserves against foreign deposits. In turn, we had a long discussion with Roswell Magill in which the present status and possibilities of altering the treatment afforded aliens were covered in detail. It was agreed that anything representing a comprehensive treatment covering capital gains was impossible at this Session and would merely interfere with the possibilities of treating loopholes.

It was further established that the Canadian Tax Treaty was being held up pending a discussion of the withholding rate in the proposed Tax Bill. A ratification of the Canadian Treaty has taken on new importance in connection with the negotiation of the British Trade Agreement and in addition affords a possible model for the exchange of information between governments as to the holdings of the respective citizens of these countries. Therefore, the position of the Treasury in agreement with the State Department and Mr. Eccles is that the Canadian Treaty should be ratified if possible at this

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Session and Senator Harrison has been so notified by Mr. Magill, and in turn, this morning by Mr. Kent on my instruction.

On Monday of this week I again discussed the situation with Mr. Eccles and reminded him that he and I had the duty to inform the President of the existing situation and to ask him if under the circumstances he still wished to proceed with the Banking amendments and whatever Taxation Program was possible to affect the movement of funds to this market. He eventually was successful in making a brief appointment with the President yesterday. The previous evening Magill, Eccles and I had dined together and again reviewed the situation. Eccles on that evening took the position that he would support the Banking legislation if the withholding rate on foreign individuals was increased to say 25%, or to the equivalent of the British rate, and if the existing discrepancies favoring foreign corporations were eliminated. The following morning I informed Feis that this was apparently the schedule, depending, of course, on Congress' actions. Feis objected violently and said that the State Department could not agree to a flat increase of the withholding rate on individuals on account of the injustice which it would impose on small holders of American securities, and that he officially requested a rediscussion of the situation before anything was suggested to the Joint Committee on tax evasion.

At 12:30 P. M., Mr. Eccles and I called to fill our appointment with the President and it was apparent that a hitch had developed and we were originally asked to put off the appointment until the schedule cleared up. After some discussion with McIntyre during

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which Mr. Eccles explained the fact that our request for an appointment was to receive instructions as to the President's wishes in view of the new situation, we saw the President for a few minutes, McIntyre having made it plain that the State Department had interposed an objection. After a brief outline of the existing circumstances, the President stated that he wished to proceed with the Banking Bill and a moderate gesture in the form of an increase in the withholding rate at this Session, and that the following action should be taken: That Mr. Eccles and I should arrange with Messrs. Harrison and Doughton to appear before the Joint Committee and to describe the relationship between the loophole taxation and the taxation of aliens and the proposed banking amendment; that if the Committee agreed arrangements should then be made with Wagner and Steagall to introduce from the floor the Banking Bill as a companion to the tax loophole bill when the tax bill was being voted on; that Harrison and Doughton should indicate that they were familiar with the Bill and are in favor of it as a companion piece of legislation. At this point McIntyre indicated that the State Department had objections to the withholding rate. The President then instructed Eccles and myself to rediscuss the situation with the State Department in order to explain to them that the flow of funds and gold into this country represented a special situation with which the President wished to deal at this Session.

I expressed the opinion that it would be much better to obtain the general agreement of the State Department, but in case we were not able to obtain it, then we would report back the situation. We then arranged an appointment with Secretary Hull and Dr. Fais for

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three o'clock for Magill, Eccles and myself. This meeting lasted until approximately five o'clock. The point of view of the State Department and of Mr. Eccles was fully developed. Mr. Magill had to catch a train before the conversation concluded. The Treasury point of view was expressed as follows: That the Treasury would cooperate in every way and endeavor to get the Canadian Treaty ratified at this Session; that the technique of exchange of information was probably useful and could act as an additional deterrent to capital coming to this market; that the banking legislation was in itself desirable and that a gesture in the form of an alteration of the withholding rate was also desirable, but that inasmuch as the question of capital gains, etc., would not be considered at this Session, that the increase in the withholding rate in itself was not particularly important other than an indication of the fact that we had not forgotten the subject.

The conference closed with the Secretary of State stating that apparently there was disagreement between the State Department and the financial people as to the significance and effect of an increase in the withholding rate, regardless of the amount, and that he wished to disclaim any responsibility for any difficulties which might develop in connection with our negotiations with Great Britain and other countries if any increases were enacted, but that naturally if the President wished to proceed after this situation had been known to him that he would make no further attempts to block the matter. Pels had expressed an even stronger point of view, but had left the meeting before its conclusion.

After the meeting I walked back with Kent and Eccles and we agreed that Kent should inform Senator Harrison that we were in favor of the Canadian Treaty and that any rates which would be proposed would not be at such great variance with the Treaty rates as to emphasize the discrimination in favor of Canadian citizens; and that I would explore the situation further with Feis before we reported back to the President, but that meanwhile Eccles should attempt to make an appointment with McIntyre so that we could report the meeting in the State Department and ask for further instructions.

Last evening I had a long conversation with Feis and he tentatively agreed to ratification of the Canadian Treaty and an increase in the individual withholding rate to say 15% and the removal of the discrepancies in the foreign corporation provisions. This morning I told Kent of this development, but that he should not tell Senator Harrison of this exact development until I had rediscussed it with Eccles and the White House. I immediately called Eccles and he stated in general that unless the withholding rate were increased to say 25% he would not feel that he could support the banking amendment as a companion measure, and that the banking measure would not be effective if only a moderate increase in the withholding rate on foreign individuals were passed at this Session, and that in view of all the circumstances it was probably better to let the matter go over until the next Session. I then suggested that he rediscuss the situation with his board and staff inasmuch as circumstances had changed materially since his board had taken the position that it

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could only support the banking legislation if effective tax legislation, particularly subjecting foreigners to capital gains tax, could be passed at this Session: that whereas I realized his own position that I would appreciate it if he reviewed the situation before we again discussed the matter with McIntyre or the President. He said that he would do so and later informed me that we had a meeting with McIntyre for 3:45 this afternoon.

While I was dictating this memorandum Kent called me from the Capitol to say that whereas Harrison himself was willing to recommend that the Canadian Treaty be passed that members of the Joint Committee would not in his opinion do so until the question of the new rates had been cleared up; that the Committee had adjourned until 9:30 Tuesday morning, and that it would be very desirable to have the entire program ready at that time.

After the cabinet meeting I met Eccles in McIntyre's office and we reported the situation to him briefly. He then went in to see the President and on his return asked me to write a memorandum to the President outlining the situation and the position of the Treasury, State Department and Federal Reserve Board, and to get it in his hands in time for the President to be able to read it over the week-end.

Marriner Eccles said that this was agreeable to him. That evening I wrote the memorandum, a copy of which I attach with the exception of the section described as the position of the State Department. I called Feis that evening to inform him of the situation and he stated that he felt the Secretary himself should express the opinion of the

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State Department and that he would arrange to have me meet the Secretary the following morning in time to incorporate the State Department's views.

I completed the memorandum the following morning and read the section outlining the Federal Reserve Board's position to Marriner Eccles on the telephone. I also reviewed for him the Treasury's position and that of the State Department. He agreed to the statement which I incorporated but decided that he wished to send an amplifying memorandum to the President. I told him that that was entirely agreeable to me. He later read me the statement and forwarded me a copy of it on Monday morning. I attach a copy of his memorandum and the signed copies of the position of the State Department. At approximately 12:30 I was able to send the completed memorandum to the mail plane which was leaving at 1 o'clock to deliver important mail to the President on the Potomac.

On Monday we heard nothing from the White House during the morning, and inasmuch as it was necessary to state the Treasury's recommendations to the Joint Committee at 9:30 on Tuesday morning, I finally called McIntyre at about 4:30 and asked him if he had any instructions. He asked me to hold the wire and on his return said that the President had said that inasmuch as we were apparently in almost complete agreement that we should proceed with the program. I told McIntyre that I did not feel that this was exactly the case as he would find if he would look up the memorandum of which he had a copy. He said he would do so and that he would call me back later. At about five

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minutes of 6 o'clock he called me and told me that the President did not feel that he could take the matter up personally at this late stage and asked me to obtain an agreement between the Federal Reserve Board and the State Department. I told him that on account of the time element, I did not believe that this was possible and that I would recommend to Magill on his return in the morning, that the Treasury should attempt to obtain the ratification of the Canadian Agreement and as much of the program which I had indicated that the Treasury might be prepared to recommend as appeared practicable, but that we would make no effort to force the issue or do anything which would interfere with obtaining domestic loophole legislation at this Session, or with the ratification of the Tax Treaty. He then told me that if he were doing it himself he would approach the question in exactly this way. I called Marriner Eccles and described the situation to him and he was agreeable to this approach but emphasized the desirability of a statement being made that the Administration had certainly not forgotten the question of "hot money" and the taxation of foreigners, but that a more comprehensive program would be embodied on general recommendations to be made in the fall.

I finally called Feis about a quarter of eleven last night and told him the latest developments. This morning I brought Magill up to date as much as possible. He then called me from the Capitol shortly before one o'clock and told me that the Committee was apparently willing to recommend the so-called Vinson proposal which maintained the existing withholding rate of 10% on individuals but required all non-resident aliens with income of say \$21,000 to file

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returns and to be subjected to taxation on their American income at the same rates as imposed on Americans, but that this recommendation was contingent on the agreement of the State Department, and also that the conditions and treatment represented by this recommendation and the provisions of the Canadian Tax Agreement should be reconciled and explained before either matter could be acted on by the Committee.

I called Feis and he informed me that he would have a written memorandum describing the position of the State Department on these two questions in my hands not later than five o'clock so that when Magill presented the matter again tomorrow morning, the position of the State Department would be a matter of record.

*W.H.*

DEPARTMENT OF STATE

ADVISER ON  
INTERNATIONAL ECONOMIC AFFAIRS

July 31, 1937.

OK  
CH

A substantial increase in the present withholding tax on the investments of non-resident aliens would fall most directly on the investments of the people of those countries with whom we have been developing the most close relationships in the economic and monetary sphere, and with whom we are most closely cooperative - e.g., Great Britain, Canada, France, Switzerland, Holland and Belgium. It would affect the interests of many thousands of investors in these countries whose individual holdings are small and of an investment character.

Consequently

(1) It might well affect adversely the future of the tripartite monetary agreement. This is not only because of the potential complaints by those affected, not only because such action would be taken as a sign of the intention to pursue an unnecessarily drastic policy, but also because it would be deemed as new interference with ordinary capital movements. In short, it would weaken the sense on the part of other countries of obligation toward the tripartite agreement.

(2) It might adversely affect the attempts to extend the

the trade agreements program - particularly current negotiations with the United Kingdom.

(3) It would be used to justify action on the part of other countries to levy unjustly heavy taxation against American investments abroad which totaled many billions. The position of this investment in many countries is already much jeopardized.

(4) It would make much less or completely end the possibilities of getting cooperation with the treasuries of other countries in dealing with the problem of tax evasion, both by Americans and by non-resident aliens.

On the other hand, drastic action, affecting adversely important and desirable American interests, is not now necessary to cope with the problems of foreign deposits and essentially speculative foreign operations in this country. Such problems can be handled by more direct means, which have the advantage of avoiding highly undesirable collateral effects. <sup>Such action</sup> ~~It~~ is not necessary to make reasonably effective banking legislation increasing reserve requirements on foreign deposits.

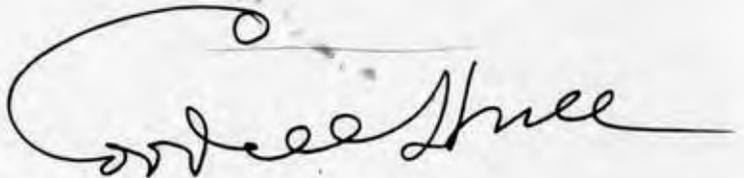
A very small increase in the withholding rate would indicate the concern of the American Government. The 10 percent rate (which is in addition to other American taxes applied at the source) I believe already corresponds to an income of substantial size.

Weighing these considerations, only action of a very moderate character would be justified; and action of another character

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character might, through its direct and indirect effects, greatly impair the whole effort of international economic and monetary cooperation in which we have been engaged.

Lastly, the line of policy indicated by our discussions with the Canadians would appear to offer a much more satisfactory solution in all respects.

A handwritten signature in cursive script, reading "Cordell Hull". The signature is written in dark ink and is centered on the page.

EA:HF:LWW

DEPARTMENT OF STATE

ADVISER ON  
INTERNATIONAL ECONOMIC AFFAIRS

July 31, 1937.

The position in regard to the tax treaty with Canada is as follows:

The tax treaty with Canada would lower the withholding rate from the present 10 percent to 5 percent.

The Canadian Government has now assured us officially that immediately upon the passage of the treaty it would be willing to enter into continuous discussion with the American Government designed to work out the revision and supplementation of the treaty along the following lines:

(a) The fullest possible cooperation between the two treasuries designed to check evasion, not only by non-resident aliens, but by Americans using private holding companies, etc., on a reciprocal basis.

(b) The revision of the rate whereby the low rate would be retained for the many thousands of Canadian investors who receive a small sum from American investors, and the application of the same tax schedules to the larger Canadian income receivers as though they were Americans - this to be made effective through Treasury cooperation.

The benefits of such an arrangement would be many:

(1) Public opinion would be favorable. The thousands of small investors would pay a suitable rate, while if they were

were taxed very heavily they would have a sense of injustice. On the other hand, the large investors would pay the American scale.

(2) Government revenues would be increased by the checking of evasion.

(3) A basis will be created by which we could treat with other governments, thereby ending the risks of discrimination and controversy in this field.

The opportunity exists to work along the general lines of the Canadian tax treaty to build up with other countries a series of tax agreements which would supplement the tripartite monetary agreement and our trade program, and at the same time probably produce more revenue.

The contrary course - an abrupt and substantial increase in the withholding tax - would have opposite consequences.



EA:HF:LWW



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

225

OFFICE OF THE CHAIRMAN

July 31, 1937.

Dear Wayne:

Attached is a copy of the memorandum for the President which I read to you over the telephone.

Sincerely yours,

A large, stylized handwritten signature in cursive script, likely belonging to the Chairman of the Board of Governors.

Honorable Wayne Taylor,  
Treasury Department,  
Washington, D. C.

July 31, 1957.

MEMORANDUM:

TO - The President  
FROM - Chairman Eccles

The problem of foreign capital inflow, or hot money, as you have aptly called it, has been under consideration for more than nine months. That the problem was serious and that something should be done about it was publicly recognized last fall when you appointed a committee to study the matter and make recommendations.

The members of the Board and I have felt for several months that the situation could and should be dealt with promptly both by increasing substantially the withholding tax as well as by imposing a capital gains tax on equity securities, and that if these steps were taken to discourage capital from coming here, and foreign deposits already here from being invested, then it would be in order to supplement the tax legislation by a bill giving the Reserve Board authority to raise reserve requirements on foreign deposits. However, the Board feels, and I concur, that legislation increasing reserve requirements on foreign deposits would be entirely illogical unless coupled with an effective tax program.

During the past year more than four billions of gold have been sterilized by the actions of the Treasury and of the Reserve

Board. The Treasury has been criticised for increasing the public debt to buy gold and the Reserve Board has now exhausted its authority under the law to absorb gold by increasing reserve requirements.

While these actions dealt with the effects, nothing has been done to discourage the inflow up to now, largely because of the opposition of the State Department, which has been ready and willing at all times to discuss the problem, but has felt all along that the suggested methods of dealing with it by taxation would interfere with the trade agreements program, including the pending negotiations with the British and the ratification of the Canadian treaty.

In view of this, and considering the present situation in Congress, which would make it difficult to obtain adequate legislation now, and the fact that the gold movement has abated, at least temporarily, I believe that it would be preferable to defer action altogether until Congress meets again in January, and then if the situation requires it, to adopt a comprehensive tax program as well as the proposed banking legislation.

If the Treasury considers it desirable to enact the tax measures now proposed, of course, I would not object. However, I do not believe that this program is adequate to have an important effect on foreign capital inflow and investment in this country, particularly as it affects the stock market, and that it will not be considered as much more than a gesture after all that has been said upon this subject.

July 31, 1937.

Memorandum forTHE PRESIDENT

In compliance with the request transmitted to me yesterday by Secretary McIntyre I shall summarize briefly the situation affecting the tax loophole legislation, the taxation of non-resident aliens and the "companion" legislation which would grant to the Federal Reserve Board power to increase reserve requirements on deposit balances maintained in this country by non-resident aliens.

I shall also summarize the positions of the Treasury Department, the Secretary of State and the Federal Reserve Board,

The hearings of the Joint Committee on Tax Avoidance have been concluded except for a final meeting to be held on Tuesday, August 3rd, at 9:30 A. M. At this meeting the Committee's Report will be approved and the only unfinished business, namely, the changes to be recommended in the tax treatment of non-resident aliens, will be agreed upon. The Committee has been informed by representatives of the Treasury that the changes to be recommended by the Treasury at this Session will be simple and that the rate of withholding and other provisions will neither represent too

great a variance from the existing 10% withholding rate for individuals nor from the provisions of the Canadian tax treaty, in particular the 5% withholding rate for individuals. Senate action on the Canadian tax treaty has been withheld pending an examination of the tax avoidance situation. The Treasury believes that the exchange of information and the close cooperation between the tax authorities of the countries envisaged by the Canadian Treaty itself and the suggested supplemental working agreements offer a useful method of dealing with alien capital which comes to this country in order to hide from the tax authorities, and that when, as and if similar reciprocal arrangements can be negotiated with other countries the movement of fugitive capital of this character to this country will be discouraged. The Treasury believes that every effort should be made to obtain ratification of the Canadian Tax Treaty at this Session.

The Treasury is confident that a reasonably satisfactory though limited tax loophole bill can be passed at this Session, but that there is little chance for basic revision of the legislation dealing with the taxation of non-resident aliens. In fact an exhaustive study of this subject by the Joint Committee on Tax Avoidance or the full Ways and Means and Senate Finance Committee might well militate against the success of the domestic tax loophole legislation.

The Treasury believes that it should be possible to obtain ratification of the Canadian Tax Treaty, and a moderate increase in the withholding rate for individuals from 10% to 15%.

The Treasury is also prepared to recommend to the Joint Committee an increase in the rate of tax on non-resident foreign corporations on fixed and determinable income from United States sources from the present rate of 10 per cent on dividends and 15 per cent on interest, rents, royalties, annuities, compensation, etc., to a flat rate of  $22\frac{1}{2}$  per cent. These taxes are collected by withholding at the source. This rate would be the same as the normal tax rate under existing law on income from United States sources of foreign corporations carrying on a trade or business or having an office or place of business in this country. In order to prevent attempts by foreign corporations to qualify as resident corporations and thereby obtain the benefit of the 85 per cent credit for inter-corporate dividends merely by establishing an office in this country, it will be necessary to include in the above recommendation an amendment to limit the classification of resident foreign corporations to those actually engaged in trade or business here.

The Treasury is also prepared to suggest the elimination of the provision of existing law which exempts from taxation interest paid on foreign bank deposits.

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While the Treasury does not feel that these proposals deal with the situation adequately, it is prepared to recommend them to the Joint Committee with the reservation that more comprehensive treatment will be embodied in the general tax revisions which will be presented to the next Session. The present proposals obviously do not differentiate between large and small alien holders of American investments, nor do they take into consideration the existing exemption of non-resident aliens from capital gains taxes, but they will doubtless serve as a significant gesture to non-resident aliens, indicating that this country is not a permanent happy hunting ground for itinerant international speculators.

I shall not attempt to discuss the details of the proposed "companion" legislation which would grant to the Federal Reserve Board power to increase reserve requirements on deposit balances maintained in this country by non-resident aliens. The Treasury believes that this legislation is desirable in itself and represents a definite forward step in the international as well as the domestic credit and monetary fields. It believes that the principle of treating foreign balances on what might be described as a segregated basis should be established as soon as possible.

While the Treasury clearly recognizes the relationship between foreign balances and foreign investments, it is prepared to recommend the banking legislation on its own merits whenever the opportunity is offered.

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On June 24, 1937, the Federal Reserve Board adopted the following confidential resolution:

In view of the fact that the gold inflow in recent months has been exceptionally large and may continue, and in view of the further fact that the inactive gold account of the Treasury is now in excess of a billion dollars and the public debt has increased accordingly, the Board feels that the situation impels it to favor legislation granting the Board additional power to absorb excess reserves resulting from additions to the stock of gold by increasing reserve requirements on deposit balances maintained in this country by non-resident aliens.

The Board is of the opinion that the injurious effects upon the domestic economy that would result from an unchecked inflow of gold would be such that the Board and the Treasury should seek a solution of the aspects of the problem which affect the domestic situation.

The Board fully realizes, however, the difficulty of accomplishing the desired ends and considers it essential if the Board is to employ effectively this additional power that:

(a) The Treasury maintain in its inactive gold account approximately the present amount; and

(b) Effective tax legislation be enacted to discourage foreign investment in American securities either through the inflow of new capital or through the use of balances already in this country.

Chairman Eccles and the Federal Reserve Board have reviewed all the factors involved in the existing tax situation and the possibilities for comprehensive legislation at this Session. Chairman Eccles while not opposing the tax recommendations which the Treasury is prepared to make, believes that they will not be of a character to meet the requirements of the Board as outlined in the final paragraph of the confidential resolution and therefore he is opposed to the introduction of the proposed "companion" banking legislation at this Session. Chairman Eccles feels that the relation between the tax treatment of alien investors and the treatment of foreign balances is so close that it is undesirable to alter the treatment of foreign balances if comprehensive and effective tax legislation cannot be enacted simultaneously.

The position of the Secretary of State is as follows:

A substantial increase in the present withholding tax on the investments of non-resident aliens would fall most directly on the investments of the people of those countries with whom we have been developing the most close relationships in the economic and monetary sphere, and with whom we are most closely cooperative - e.g., Great Britain, Canada, France, Switzerland, Holland and Belgium. It would affect the interests of many thousands of investors in these countries whose individual holdings are small and of an investment character.

Consequently

(1) It might well affect adversely the future of the tripartite monetary agreement. This is not only because of the

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potential complaints by those affected, not only because such action would be taken as a sign of the intention to pursue an unnecessarily drastic policy, but also because it would be deemed as new interference with ordinary capital movements. In short, it would weaken the sense on the part of other countries of obligation toward the tripartite agreement.

(2) It might adversely affect the attempts to extend the trade agreements program - particularly current negotiations with the United Kingdom.

(3) It would be used to justify action on the part of other countries to levy unjustly heavy taxation against American investments abroad which totaled many billions. The position of this investment in many countries is already much jeopardized.

(4) It would make much less or completely end the possibilities of getting cooperation with the treasuries of other countries in dealing with the problem of tax evasion, both by Americans and by non-resident aliens.

On the other hand, drastic action, effecting adversely important and desirable American interests, is not now necessary to cope with the problems of foreign deposits and essentially speculative foreign operations in this country. Such problems can be handled by more direct means, which have the advantage of avoiding highly undesirable collateral effects. Such action is not necessary to make reasonably effective banking legislation increasing reserve requirements on foreign deposits.

A very small increase in the withholding rate would indicate the concern of the American Government. The 10 per cent rate (which is in addition to other American taxes applied at the source) I believe already corresponds to an income of substantial size.

Weighing these considerations, only action of a very moderate character would be justified; and action of another character might, through its direct and indirect effects, greatly impair the whole effort of international economic and monetary cooperation in which we have been engaged.

The position in regard to the tax treaty with Canada is as follows:

The tax treaty with Canada would lower the withholding rate from the present 10 per cent to 5 per cent.

The Canadian Government has now assured us officially that immediately upon the passage of the treaty it would be willing to enter into continuous discussion with the American Government designed to work out the revision and supplementation of the treaty along the following lines:

(a) The fullest possible cooperation between the two treasuries designed to check evasion, not only by non-resident aliens, but by Americans using private holding companies, etc., on a reciprocal basis.

(b) The revision of the rate whereby the low rate would be retained for the many thousands of Canadian investors who

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receive a small sum from American investments, and the application of the same tax schedules to the larger Canadian income receivers as though they were Americans - this to be made effective through Treasury cooperation.

The benefits of such an arrangement would be many:

(1) Public opinion would be favorable. The thousands of small investors would pay a suitable rate, while if they were taxed very heavily they would have a sense of injustice. On the other hand, the large investors would pay the American scale.

(2) Government revenues would be increased by the checking of evasion.

(3) A basis will be created by which we could treat with other governments, thereby ending the risks of discrimination and controversy in this field.

The opportunity exists to work along the general lines of the Canadian tax treaty to build up with other countries a series of tax agreements which would supplement the tripartite monetary agreement and our trade program, and at the same time probably produce more revenue.

The contrary course - an abrupt and substantial increase in the withholding tax - would have opposite consequences.

Faithfully yours,