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MEMORANDA
relative to official conversations
with Sir Frederick Phillips on
occasion of his visit to Washington
September 20 - 25, 1937

September 20, 1937

By arrangement, Sir Frederick Phillips, Under-Secretary of the British Treasury, called on the Secretary at two-thirty this afternoon, accompanied by Mr. V. A. L. Mallet, Counselor of Embassy, and Mr. E. N. R. Trentham, Financial Counselor. There were also present Mr. Wayne Chatfield Taylor and Mr. William W. Butterworth, Jr.

After the usual pleasantries it was agreed that informal meetings to discuss problems of mutual interest and concern should begin Tuesday morning, September 21, at 10:30 and be continued after luncheon at three o'clock.

The Secretary offered to give a formal dinner for Sir Frederick Phillips or to have a group from the Treasury and the British Embassy to dine informally together. Sir Frederick Phillips said that he much preferred the latter and it was agreed that Wednesday night should be kept for that purpose.

Phillips explained that on his arrival he found a message for him from the Chancellor of the Exchequer transmitting a copy of a message Bonnet had sent to Simon in response to an inquiry which the British Treasury made of the French Financial Attache in London when the franc began to depreciate. The Chancellor also inclosed a message which he proposed to send Bonnet if the Secretary concurred.

The Secretary immediately asked about the date on which Bonnet's communication had been received and obtained and read to Phillips an excerpt from Ambassador Bullitt's telegram of September 16th recounting a conversation with Bonnet in which the latter stated that it had always been his belief that approximately 145 to the pound was the true value of the franc and that he thought that the franc would continue thereabouts indefinitely.

It was obviously pertinent to obtain the exact date of Bonnet's communication to Simon expressing somewhat different views and Phillips agreed to do so, at the same time explaining to the Chancellor that a reply from Mr. Morgenthau would be forthcoming tomorrow morning (Tuesday, September 21.)

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Phillips asked whether he could convey to the Chancellor the substance of the information which Bonnet had given Ambassador Bullitt. To this the Secretary agreed on the understanding that it would be treated in strict confidence and not be passed back to the French.

The Secretary mentioned that, of course, emergency matters took precedence over long-range problems, but nevertheless some consideration should be given in the forthcoming discussions to the problem of what Great Britain and the United States could or could not do in the event that the franc was depreciated to more than, say, 150 to the pound. In this connection he mentioned that no inquiries had yet been received in Washington from Belgium, Holland or Switzerland reflecting concern over the recent depreciation of the franc; the United States for its part was comparatively little affected by the value of the franc-dollar exchange rate. The Secretary felt that the guilder rate might be even more important to the United States than the franc rate, except in so far as the franc exerted a greater pressure on third currencies. Phillips expressed the view that if the franc should go to 150, or 160, or 170 to the pound and the French were read out of the Tripartite Agreement, it would, in his opinion, necessarily mean that Bonnet would be forced into exchange control along the German model. Both the Secretary and Phillips were in agreement that this was an eventuality to be avoided, if possible.

Phillips expressed the view that there was really nothing of overriding importance that Great Britain and the United States could do unless they were willing to make a loan of substantial proportions to the French Government and that the British Cabinet and Parliament would not, in his opinion, authorize such a project. The Secretary explained that naturally the Johnson Act prevented the American Government from even considering such a possibility.

Through these interchanges there ran the thread of concurrence that it was highly desirable to avoid pushing the French Government into an exchange control system and, secondly, the thought that close cooperation between Great Britain and the United States in the monetary sphere was essential.

W.S. Bullitt

M. Bonnet's letter begins by recording his budgetary measures. It continues:

"Finally in so far as currency is concerned I have the firm intention of avoiding exchange control and of continuing in the framework of tripartite agreement to seek point of equilibrium of our currency.

"But one must take account of considerable increase of costs which has taken place in France during last year. This is one of essential reasons which justify present rates (? of franc).

"It is moreover my intention to defend (? franc) within limits within which resistance is possible since I do not wish to exhaust the gold reserves of France. The powers which have been given to our Government for financial rehabilitation were conferred 'for defence of metal reserves'.

"Exterior events encouraged me equally on this point to be extremely prudent since our gold reserves would be very precious for our national defence. I am anxious however to declare to you that there is no question for me of using this wealth for an economic object. I have sincerely wished to be able to return to higher figure."

Draft

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Draft reply is as follows

"I note with special satisfaction your determination to avoid any exchange control.

"The Tripartite Agreement of a year ago was as you know regarded by my Government as by yours as a very notable step towards restoration of greater stability in international monetary and economic relations. Subsequent events have, it must be frankly confessed disappointed high hopes which we and indeed the whole world entertained a year ago. The equilibrium which we then hoped would be lasting was not achieved so far as franc is concerned.

"I fully appreciate your reluctance to see further reductions in your gold reserves. On the other hand I am sure that you will agree with me that stability of franc at a reasonable level is an objective for which it would be worth while to face considerable sacrifices. The recent movements of French currency have inevitably impaired value of monetary declaration of last year in eyes of the world and if they should continue there is clearly a danger that beneficial effect of that declaration will be dissipated. It
would

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would indeed be most regrettable if effort of three great democratic financial centres to cooperate with each other and with other countries to a common end should fail to achieve lasting success.

"I hope therefore that possibility of restoration of franc to a higher level which you anticipate may be ~~realised~~ and that steady progress towards stability may be achieved.

"I hope also that it is part of your programme to resume the relaxation of quotas and other trade restrictions as proposed in tripartite declaration.

"Such action should effectively assist in keeping down internal prices."

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 1301

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

STRICTLY CONFIDENTIAL

Today I had a brief talk with Bonnet with reference to the financial situation. He told me that it was his belief and always had been his belief that approximately 145 to the pound was the true value of the franc. The present fall of the franc was not, therefore, disturbing to him and it was his belief that it would indefinitely fluctuate in the neighborhood of 145.

Bonnet said, with reference to the reasons for the fall of the franc, that it was his belief that because of the international situation large capitalists, speculators and banks had sold large quantities of francs recently. He said that a similar effect had been produced on small capitalists, both in Paris and the provinces, by the internal situation. Bonnet said that the bombings in the Rue de Pressbourg and the Rue de Boissiere had produced a feeling of temporary dismay, which had reacted unfavorably on the franc, but these bombings in the long run would produce a tendency of public opinion in France to turn toward

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toward the right parties.

I inquired of Bonnet as to what effect he thought the cantonal elections would have on the franc; I pointed out that it was almost certain that the Radical Socialists would lose and that a number of offices would be gained by the Communists. Bonnet's reply was that it was his feeling that the manner in which the election would be presented to French public opinion in advance would largely determine the effect on the franc. The event need not prove disastrous or even unfavorable if it could be realized in advance by everyone in France that it was certain that the Radical Socialists would lose a number of seats and that the Communists would gain a considerable number of seats.

Bonnet informed me that he would announce his ordinary budget for the coming year on next Tuesday. Not only would a balance be shown but there would be a surplus of 4,000,000,000 francs to be applied to amortization of the public debt. It was his belief that a decided favorable effect on the future exchange rate of the franc would result.

I discussed the coming cantonal elections in this connection yesterday with Blum, who expressed the opinion that the Socialists might gain a few posts, that the Radical

Socialists

Socialists would lose considerably, and that the Communists would gain considerably. The proposed fusion of the Communist and Socialist parties which has been under discussion for many months, he said, is now in suspense. He said that fusion would certainly not take place before the cantonal elections and he did not believe that there was any possibility that it would take place this fall.

BULLITT

EA:EB

September 21, 1937

By arrangement, Sir Frederick Phillips, accompanied by Mr. Trentham, met with the Secretary, Mr. Taylor, Dr. Feis and Mr. Butterworth at 11 a. m.

The Secretary referred to the communication which Sir John Simon proposed to send to M. Bonnet and, after expressing appreciation that Sir John Simon should have shown it to him, said that he had no comment to make on it inasmuch as the course of the conversations with Sir Frederick Phillips would range over the whole Tripartite-French position. Phillips said that he would report this to his Government, telling them that subsequent discussions would clarify our attitude. At the same time Phillips did not seem disposed to let the matter rest at that and the Secretary mentioned, in passing, that the French would get little encouragement or help from the proposed British reply.

In the interchanges that followed Phillips defined the British attitude towards the French situation briefly, as follows:

(1) That in their view the franc would probably go through repeated steps of slipping and rallying, the general trend being decidedly downward.

(2) That in their opinion as long as the French Government had the support which the prestige of membership in the Tripartite Agreement gave them, they could resist the pressure from groups both within and without the Government favoring the institution of an exchange control system.

(3) That the United Kingdom was most anxious that exchange controls in France should be avoided; the imposition of such a control system in France would not merely affect the substantial United Kingdom trade with France, but would further stimulate the retrogressive exchange control movement. Also in their opinion, unlike Germany, France would not be able to conduct such a system efficiently.

(4) Therefore, the British Government was of the opinion that France should be allowed to remain in the

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Tripartite Agreement despite franc fluctuations and, if it were necessary, a public statement should be made that France was considered as remaining in the Tripartite Agreement.

In response to a question from Phillips, the Secretary expressed agreement with the proposition that, in the circumstances, France should be kept within the Tripartite arrangement.

Phillips then said that, at the moment, he saw little that could be done except to exert "moral suasion"; that the British Treasury had not been surprised by the recent movement of the franc because it had been under no illusions about the general French position, but that the question did arise at what point or level of deterioration some action might have to be faced. The Secretary made it clear that the Treasury would be unwilling to buy paper francs and that a loan to France was out of the question and he suggested that, for the moment, the discussion of the French problem be postponed for consideration and that other matters of mutual concern be dealt with.

In this connection, the Secretary referred to gold and, after some mention of production and acquisition figures, Phillips set forth that the United Kingdom in 1935, 1936 and thus far in 1937 had acquired more gold than was produced in the British Empire in the same periods. He went on to summarize the British Treasury's view on the "gold problem", which he characterized as being two gold problems. The first problem, which was a long-range one, arose out of the increase in the production of gold to about 250,000,000 pounds worth per annum. This problem was in no way urgent and, in his opinion, might prove not to be a problem at all. The second problem arose out of the de-hoarding of recent years and the gold losses, particularly by France but also by Spain, Japan and other countries which together forced on to the world markets enormous amounts of metal.

He estimated that there today remained in hoarding in London only between 60,000,000 and 80,000,000 pounds of gold and in all non-Oriental countries (including London) less than 200,000,000 pounds of gold. Phillips cited as significant figures indicating that during the

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period April 1, 1936, to March 31, 1937, the United States had acquired about 40,000,000 ounces of gold while France had, during that same period, lost about the same amount.

He implied also that as regards de-hoarding, one could see an end to the process, but as regards the losses which France and other countries had suffered and the maldistribution of available gold supplies, one had to look to a revival of world trade along more normal lines.

In order to facilitate further discussion of aspects of the gold problem, the Secretary and Phillips asked Dr. White, who had been called in for consultation when the gold problem came up for discussion, to prepare further statistical data.

At one point Phillips inquired about silver, citing that he had been asked about it by the press. He explained that he knew little or nothing of silver; that except for small sales of silver by the United Kingdom arising out of their re-acquiring coin from the Dominions which had begun minting their own, the United Kingdom had done nothing as regards silver. He stressed that the Indian Government was responsible for its own silver problem, but he was somewhat vague about what procedure the United States should follow should it wish to take up the question of silver with India.

The Secretary explained about the recent interpretation of the domestic price proclamation, expiring on December 31, 1937, and said that he had not had time to give the general problem of silver consideration or to discuss it with the President.

Incidentally, my own very definite impression is that, in the last analysis, the Government of India acting either through the Secretary of State for India in London or the Viceroy in Delhi will not take any important step in the monetary field without the prior concurrence of the British Treasury.

W. W. B.

September 21, 1937

Sir Frederick Phillips, accompanied by Mr. Trentham, met at 3 o'clock with the Secretary, Mr. Taylor, Mr. Butterworth, Dr. Viner, Dr. Riefler, Dr. White and Mr. Lochhead.

As arranged, Dr. White made available certain pertinent figures regarding gold production and acquisitions, in particular that the British Empire had absorbed approximately 72,000,000 ounces since October, 1931, and the United States, 125,000,000 ounces during the same period, while production figures of the two areas were 94,000,000 ounces and 16,000,000 ounces, respectively.

The discussions ranged somewhat erratically over the field of gold, in the course of which Phillips expressed views on two matters of interest:

(1) That the British Treasury, to date, had been quite willing to absorb the gold which had been acquired over the past 6 years. He did not definitely say but implied that they would not be equally content if the recent rate of acquisition had to be maintained over an appreciable time in the future.

(2) When asked by the Secretary about the practicality of controlling gold production, he expressed the opinion that the fact that Russia, on the one hand, was an important producer and that a number of small countries, on the other hand, were producers made it difficult to envisage the conclusion of a workable gold production control arrangement.

The Secretary explained that he too had not arrived at any definite opinion on this subject, but felt that it was his duty in the given circumstances to explore all channels of possible action. The Secretary also explained that he had received intimation from the Russians that they would be willing to consider entering a control of exports scheme. Phillips seemed unimpressed by this Russian offer. Furthermore, Phillips elaborated on the statement which he made during the morning discussion, namely, that he was far from being convinced

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that there was a long-range gold problem arising out of the increased annual production. Citing the fact that only 7 years ago the experts at Geneva and elsewhere predicted a shortage of current and future gold supplies, he emphasized the impossibility of making definite prediction at this time regarding excess gold supplies and framing a policy on that prediction.

In response to a question regarding the capacities of the several Dominions to hold larger gold reserves, Phillips explained that India's holdings were already "fairly sizable"; that so were South Africa's, which incidentally had recently been gradually increased, but that Canada and Australia were "hard nuts to crack". By this he said he meant that they would not welcome suggestions that they increase their gold reserves because they regarded their gold mainly as an exportable commodity, a necessary part of their means of satisfying their foreign indebtedness.

The Secretary explained at some length the American position as regards "hot money" and the problems and dangers which arose from it and he asked Phillips regarding the British Treasury's attitude to foreign balances in London.

Phillips took the line that the foreign balances in London were much larger than those in the United States; that the danger of foreign withdrawals, such as the publication of the MacMillan Report had in a measure precipitated in 1931, was less now in view of the increase in offsetting reserves. He maintained that the British Treasury was not concerned about the position in London and had taken no steps to change it, but that if it should become desirable at any time to take action, in his opinion two measures could be used: (1) to request the banks to cease paying interest on foreign balances and (2) should step #1 prove insufficiently effective, request the banks to bring pressure to bear on their clients to reduce their balances in London.

In the course of the discussion which followed the figure of \$1,900,000,000 was mentioned as the amount of current foreign balances in the United States

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exclusive of Treasury bill investments and, on being asked, Phillips frankly stated that he was "not impressed with the size of this amount".

Dr. Riefler mentioned briefly the possibility of requiring the American banks to hold offsetting reserves in whole or in part against their foreign balances. Phillips' initial reaction was unfavorable and he stressed the difficulty of "separating the sheep from the goats".

The conversation then turned to the question of statistical data and the meeting broke up in order that Phillips could go over with Messrs. Viner, Riefler and Taylor the machinery and figures which have been recently evolved by the Treasury Department as a result of its interest in the "not money" question.

As he was leaving Phillips had a few moments' private conversation with the Secretary in the course of which he commented that in the discussion on gold nothing had been said about the important question of price. The Secretary defined the American Government's position as endorsed by the President, namely, that it did not advocate or favor a change in the price of gold, and Phillips similarly explained that the Chancellor also did not desire a change in the price of gold and he emphasized that any reduction in the gold price would inevitably affect commodity prices adversely which was from the British point of view highly undesirable. He seemed very gratified over the Secretary's attitude in this matter and asked if he could report the Secretary's statement to London. The answer was given in the affirmative.

The atmosphere of the discussion this afternoon was easier than during the two previous meetings. The sense of the discussion was, aside from the particular points mentioned above, that the British Treasury is in general satisfied with the status quo and has no immediate plan or definite ideas regarding drastic action or change.

W. W. B.

September 22, 1937

Sir Frederick Phillips, accompanied by Mr. Mallet, Counselor of the British Embassy, met with the Secretary, Mr. Taylor and Mr. Butterworth at 10:30 a. m.

The Secretary read to Phillips Ambassador Bullitt's telegram recounting his conversation with Monick. No attempt was made to discuss the subject matter of his cable because of a prior appointment with the Secretary of State, but Phillips did express his personal opinion of Monick that "he sometimes did not represent the opinion of his own Ministers".

At the subsequent meeting at the State Department Mr. Cordell Hull explained in some detail the aims and purposes of the Trade Agreement program and the importance of the Anglo-American negotiations and the Secretary took occasion to remark that he stood "shoulder to shoulder" with Mr. Hull on this matter.

There also occurred some discussion of the means by which the negotiations on the Anglo-American Trade Agreement could be speeded up, with the result that Mr. Mallet will call tomorrow upon Mr. Sayre and Mr. Moffett to perfect arrangements.

In response to a question from Mr. Hull, Phillips set forth briefly his view of the world trade position in the following terms: world trade by any standard of measurement was now found to be increasing, but the rate of increase was far too moderate and slow. Due largely to the increases in the prices of primary products the producers of these raw materials had acquired a purchasing power which was being reflected in the demand for finished goods and in the absence of a decline in prices this process of mutual beneficial trade should continue and increase.

Phillips saw as the main difficulty in the way of world trade the exchange and quota barriers which had been erected in the first place not as a means of regulating trade, per se, but in order to protect the currency position of particular countries. While he did not expect any abrupt relaxation in these controls, he hoped that with the return of world markets from a buyer's to a seller's that these countries would gradually, despite

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the fear of war and the power of the vested interests which had grown up behind the control systems, relax their barriers in order to obtain a larger share of current trade. He expressed agreement with Mr. Hull's view that it was important that Great Britain and the United States should take the lead in facilitating the removal of obstructions to freer trade and that time was the all important factor.

At the suggestion of Mr. Hull, Sir Frederick Phillips, Mr. Mallet and Mr. Butterworth then called upon Dr. Feis. The latter told Phillips of the preliminary study of Japanese foreign resources which had been undertaken in the Department of State and arranged with Phillips that a copy should be given him before he sailed and that the information therein would be checked by him in London and any additional data which he could obtain there would in due course be transmitted to Feis through the appropriate channel.

Secondly, Feis discussed the recent attempts of the British and American Foreign Bondholders Committees to coordinate their policies; the unwisdom of following the precedent which the British action on the Dawes and Young loans had set of each creditor group obtaining what terms it could regardless of the position of the other groups having the same status and security, and referred in particular to recent activities of Sir Otto Niemeyer in connection with the Polish defaults.

Feis expressed strongly the view that, in principle, such actions were mistaken inasmuch as they brought another important field of international endeavor into the realm of competitive conflict and, in practice, the general position of the creditors would be weakened in the long run and their returns would reflect, over a period of years, that weakness regardless of special immediate advantages in particular countries.

Phillips said that he knew little or nothing about the particular case in point; that such matters were somewhat out of his field of action, but that he would take note of Feis' remarks and bring these views to the attention of the appropriate authorities in London.

W.W.B.

September 23, 1937

Prior to the meeting at 3 p. m. this afternoon with Sir Frederick Phillips and Mr. Trentham, the Secretary considered with Mr. Taylor, Dr. Feis, Dr. Viner, Dr. Rieffler, Dr. White, Mr. Lochhead and Mr. Butterworth Telegram No. 1333, of September 22nd, containing Cochran's conversation with Bonnet and Rueff, and Telegram No. 1334, containing Ambassador Bullitt's conversation with Bonnet, of the same date.

The Secretary summarized his initial view by saying that it was his instinct to avoid committing himself at this time as to what course he would take in the event that France should impose exchange restrictions.

Before any precise line of action had been evolved, Sir Frederick Phillips and Mr. Trentham arrived. The former immediately read a telegram which he had received from the Chancellor of the Exchequer, a summarized version of which is attached.

In the rather long discussion which followed, Phillips made it clear that he felt sure that the British Government would view the imposition of exchange controls in France as constituting a breach of the Tripartite Agreement. He expressed strongly the view that, in their opinion, exchange controls were inconsistent with the terms as well as the intent of the Tripartite understanding.

As regards the franc rate, Phillips called attention to the statement in his telegram that "Governor thinks French have decided to do utmost to hold franc at or below 150 for the present which they look on as Rubicon," and stated that Governor Norman had without doubt obtained this view from the Bank of France. In this connection, Phillips also referred to Cochran's report of his interview that "from the budgetary and economic standpoint he (Bonnet) thinks therefore that a franc of from 140 to 150 to the pound is adequate".

The Secretary took the position that he was unwilling to commit himself in a hypothetical situation; that Bonnet had sent him a message stating that he was "violently opposed" to the imposition of exchange control and that, therefore, it

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hardly seemed suitable that in reply a message should be sent to Bonnet to the effect that 'I am glad to receive your assurance of your opposition to exchange control for the imposition of exchange control would debar you from the Tripartite Agreement'. Although the Secretary expressed some disquiet lest Bonnet use any statement for his own political benefit, nevertheless he indicated that the cause for which Bonnet now stood of resisting such a control system was one which he too approved. He mentioned that on the other hand there was the question whether a country having a moderate exchange control system which was gradually being relaxed, as for example the Argentine, should be debarred from membership in the Club if it applied, and that this too should have a bearing on the decision regarding Bonnet's request.

Phillips then said that he felt he could clarify the British attitude on this whole question still further by stating that if, for example, a country like the Argentine should apply for membership in the Club, the British attitude would be to say: We welcome you, but we take it to mean that you intend to abandon your control system, for otherwise admission would not be possible. Phillips went on to say that should it be considered desirable or necessary, the British Government would, he thought, be willing to warn France, in advance, that the imposition of a control system would in their view eliminate her from the Tripartite Agreement.

Phillips then inquired whether, in view of the Secretary's previous remarks, he would be willing to reply to Bonnet's message by noting with satisfaction his continued opposition to the imposition of exchange controls in France and, with reference to the franc rate problem, to take note also of Bonnet's statement to Cochran that from the budgetary and economic standpoint a franc of from 140 to 150 to the pound is adequate. To this the Secretary agreed as being in line with his ideas.

The meeting then adjourned on the understanding that the Secretary's advisers and assistants would draft a message to Bonnet on the lines indicated and that this, in turn, would be discussed with Phillips when the meeting reassembled about 9 p. m. this evening.

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When the meeting reconvened, the Secretary discussed the agreed upon draft with Phillips and one or two minor changes were made, such as the insertion of the word "merely" in the first sentence of the final paragraph and the elimination of the words "the terms and" after the word "with" and before the words "the spirit of the Tripartite Declaration" in the last sentence of the last paragraph. A telephone call was put through to Cochran in Paris in order that he might elaborate on the views which he had expressed in a telegram received shortly before the convening of the meeting and reiterated at about the same time in a telephone conversation (marred by static) which he had with the Secretary. In brief, Cochran had opposed sending any message on the ground of the undesirability of fostering Bonnet's personal political fortunes and thus running the risk of being accused of playing French party politics. There is attached hereto a transcription of Cochran's remarks.

Likewise during the course of the meeting Phillips obtained from the British Embassy copy of a message just received which dealt mainly with recent French operations and added little to current information on the particular or general questions at issue.

The meeting terminated with the understanding that Phillips should send a copy of the message to London for the concurrence or comments of the Chancellor and, through Feis, a copy of the message was telegraphed to Cochran with instructions to deliver it to Bonnet upon receipt of a release. Likewise M. Jules Henry of the French Embassy was informed that a message to Bonnet had been drafted and referred to London for concurrence and would, in all probability, be forthcoming tomorrow forenoon.

LSWTS.

The French Ambassador visited Mr. Chamberlain September 20th and spoke to him on orders of the French Prime Minister about the franc. He made no particular proposals, but hoped he would give fullest support possible to French Government. Mr. Chamberlain promised to see him again. The proposal submitted to Sir John Simon last night was that Mr. Chamberlain should speak to the Ambassador in a friendly way on lines of draft letter and also Sir John Simon at dinner at Mansion House should refer sympathetically to Bonnet's reforms, a written reply to Bonnet being postponed.

We agreed that if fall in franc continues, rate is likely to go considerably lower than justified by French rise in prices and to make trade of neighboring countries difficult.

Slight appreciation in franc in last few days due entirely to French Government action. Governor thinks French have decided to do utmost to hold franc at or below 150 for the present which they look on as Rubicon.

View here is that at present it would be very damaging both to Government of France and to French currency if we gave any open sign that we considered France as no longer a member and generally we agree that such membership should continue as long as possible.

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We think it very difficult to be more definite though if exchange control were to be introduced or if movement of franc became no longer subject to control and situation altogether new would arise.

* * * * *

Mr. Morgenthau's view urgently needed as interview with French Ambassador in London should take place tomorrow morning.

I thank you for your message. I note with satisfaction your affirmation of your continued opposition to the adoption by France of exchange control. [I am also glad to be informed of your conviction that from the budgetary and economic standpoint it will not be necessary to establish a level for the franc of over 140 to 150 to the pound sterling.]

May I assure you that I am following with sympathetic interest the efforts of France to cope with difficulties which I trust will be merely temporary. It is my hope that your country will succeed in its endeavor to meet the existing situation without recourse to any measures which are not in conformity with the spirit of the Tri-Partite Declaration, the successful operation of which our governments so urgently desire.

Thursday
September 23, 1937
10:25 p.m.

HMJr: Now, we got your cable.
H. Merle
Cochran: Yes, sir.

HMJr: And, the State Department people are here and also Sir Frederick Phillips. Now, we've changed this message a little bit and I'll read it to you again.

C: All right.

HMJr: Ah - "I thank you for your message. I note with satisfaction your affirmation of your continued opposition to the adoption by France of exchange control. I am also glad to be informed of your conviction that from the budgetary and economic standpoint it will not be necessary to establish a level for the franc of over 140 to 150 to the pound sterling.

"May I assure you that I am following with sympathetic interest the efforts of France - Before that we had the Government, you see. - the efforts of France to cope with difficulties which I trust will be merely temporary. It is my hope that your country will succeed in its endeavor to meet the existing situation without recourse to any measures which are not in conformity with the spirit of the Tri-Partite Declaration, the successful operation of which our governments so urgently desire.

C: Yes.

HMJr: Now, to give you a little background on this. The British Treasury expect a call tomorrow from the French.

C: I didn't hear that.

HMJr: The British Treasury expect a call tomorrow morning from the French in London.

C: Yes.

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HMJr: And they have to give them some kind of an answer.

C: I see.

HMJr: And we've worked this out together and we don't feel here that there is anything in this that the present French Government or any succeeding government could make public.

C: How's that?

HMJr: Could not make public if they wished.

C: Well, of course, they have not been willing to make any public statement to the effect that they were going to hold the franc between 140 and 150.

HMJr: True. But, in this report, in both - but you mentioned that in your cable.

C: I do, yes.

HMJr: Well.

C: But he seems not to be willing to give any indication to the market, you see, to the public.

HMJr: Oh, but he did say that to you?

C: Yes, he did.

HMJr: Well, we're just throwing it back at him, that's all. Hello?

C: Yes.

HMJr: I said we're just putting it back to him.

C: Oh, I see. Yes.

HMJr: Now, the way we feel at this end, we're - we don't intend to make this public.

C: No.

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- HMJr: And, if the French are going to make it public we'd like to know it, that's all.
- C: That is, if they intend to make it public you want to know it?
- HMJr: Yes, I'd like to know it in advance.
- C: Yes.
- HMJr: But at this end, as far as we're concerned we have no intention of making it public.
- C: Yes.
- HMJr: And I don't believe the British have either.
- C: They're willing to draw their next statement are they?
- HMJr: Well, they haven't - the Government hasn't seen it but I have reason to believe that it will meet with their approval.
- C: I see.
- HMJr: But they'll receive this as a suggestion tomorrow and they'll have to take it and consider it. But, as far as one can tell, without having definite word, I believe that they're apt to accept it.
- C: I see. Your visitor is still there, is he?
- HMJr: Pardon me?
- C: I say, the visitor is still there, isn't he?
- HMJr: He's in the room here with me now and I am looking right at him.
- C: I see.
- HMJr: And when I said that he nodded his head.
- C: (Laughs) Yes.

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HMJr: And -

C:

HMJr: Hello?

C: Hello.

HMJr: Furthermore, we'll give a copy of this to Henry here in the French Embassy. We'll give it to him in a little while.

C: Yes.

HMJr: And I frankly can't see anything in this but it simply gives an expression of how we feel and simply throwing back at them their own words.

C: I feel that - if you want my opinion any further.

HMJr: Go ahead.

C: - that the people here had no confidence following Bonnet's statement. The reaction was quite bad.

HMJr: Yes.

C: I don't believe a statement coming from you people now will greatly alter the situation. There is so much speculation against them right now and there's so much unpopular spirit that I think there must be a political straightening out before there is any possible chance of holding the currency.

HMJr: Yes. Well - let me give you, so that you have my feeling.

C: I see.

HMJr: We're not doing this for the public effect it will have in France. We're simply doing it, first, because Bonnet sent us this message, and he's entitled to an answer; and second, because our other friends are in the position that they have to give an answer tomorrow.

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C: I see.

HMJr: Now I feel that it's most important that two of us are shoulder-to-shoulder in this affair.

C: Yes.

HMJr: And that that is more important than anything else.

C: That's my idea, that it is so important that you people stay together.

HMJr: Pardon me?

C: Your visitor there.

HMJr: What is that, Cochran?

C: I say, I said the big part of our Tri-Partite agreement now is to keep the Americans and British together.

HMJr: Well, we are together.

C: As far as this position is concerned, I think it's almost hopeless.

HMJr: Well, of course, my visitor here can't commit himself, but as far as he is concerned personally he and I are together.

C: Yes.

HMJr: And, of course, I don't expect him to commit his government, but as far as he is concerned we're together.

C: Yes, sir.

HMJr: And, as I say, they have the situation that they have to meet at nine o'clock tomorrow morning.

C: I see.

HMJr: And if they take, I mean, if I was so situated, I imagine that they will accept this.

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C: I see.

HMJr: Because, I mean, they are under no obligations to accept it.

C: Uh huh.

HMJr: But - I mean - And if they do why then once more two of the Governments are having a united front.

C: Yes.

HMJr: Which at this time is, I think, the most important consideration.

C: Yes. Absolutely.

HMJr: And then the other consideration is what effect would this have domestically in the United States if it became public that all of us feel here that it would be all right.

C: Yes.

HMJr: We simply again have expressed our sympathy with the French and have told them - just repeated their own words, that's all.

C: Yes.

HMJr: And I don't see what else we can do. And just - will you hold on a moment? - But I wanted to let you know, the reason of this call is I wanted to let you know how I felt so that when you delivered this tomorrow, personally, you would have - be able to express to Mr. Bonnet how I felt.

C: And you will cable the message to me tonight?

HMJr: Yes.

C: - personally, will you?

HMJr: Doctor Feis is sitting here - it'll go off at once.

C: I see.

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HMJr: Hello?

C: Yes.

HMJr: Now just a moment, Mr. Taylor wants to say something.

C: Yes.

HMJr: Just hold on.
(Short pause)

HMJr: Mr. Taylor makes a very good point. Hello?

C: Hello.

HMJr: This message will be sent to you with instructions to hold it until we hear from the British that it's acceptable to them.

C: To hold it until I hear from the British that it is acceptable to them?

HMJr: No, until you hear from the State Department.

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H.M.Jr: Hello.

C: Yes.

H.M.Jr: - until you hear from the State Department.

C: Until I hear from the State Department.

H.M.Jr: Yes. What we'll do, we'll send this over to you.

C: Yes.

H.M.Jr: If we get word from the British that it's all right, I'll ask them to use the telephone and we'll just phone you and say, "Release it."

C: Fine, I'll wait until I hear from you.

H.M.Jr: Yes.

C: Yes.

H.M.Jr: We'll simply say to release it.

C: Yes.

H.M.Jr: You - you see?

C: And I will get word personally from Bonnet -

H.M.Jr: That's right.

C: - that until I hear from he won't release it.

H.M.Jr: Yes, and we have no intentions of giving it any publicity, but if he should decide to give it publicity we want 24 hours' notice.

C: And when you refer to his message, do you mean the information which he gave me and I sent forward in a message?

H.M.Jr: That, and the one from Bullitt.

C: The two combined.

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H.M.Jr: The two combined.

C: I see.

H.M.Jr: Yes.

C: Fine.

H.M.Jr: Now just hold on please.

(Pause for aside conversation)

Hello?

C: Yes.

H.M.Jr: What the people here say is, not to raise the publicity thing unless he does.

C: I see.

H.M.Jr: And take it perfectly for granted that - that it's just a message between governments.

C: I see.

H.M.Jr: See?

C: Yes, sir.

H.M.Jr: Now just hold on please.

(Pause for aside conversation)

Cochran, the point that we want to make sure of, and we'll have to let you use your judgment on the ground -: if there's going to be any publicity, we want 24 hours' notice. Hello? - Hello? (Clicks instrument) Hello?

Operator: Just a moment please.

H.M.Jr: Are you calling him?

Operator: Yes, sir.

H.M.Jr: He's gone.

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Operator: Who? Fine. - Something wrong? Can't you hear?

H.M.Jr: So far. But he's just -

Operator: Oh, you mean he was cut off?

H.M.Jr: Yes.

Operator: Oh, wait till I get him back for you.

(Very long pause)

H.M.Jr: Hello?

Operator: I have him back.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello? Hello?

C: Hello.

H.M.Jr: Cochran?

C: Yes.

H.M.Jr: The point that they want to make here is that we take it for granted there will not be any publicity, but -

C: For granted there will not be any publicity.

H.M.Jr: Yes. - but if he brings it up or if you feel from his conversation that he is going to give it the publicity -

C: Yes

H.M.Jr: - that we want 24 hours to think it over, as to whether we want it or not. See?

C: I see.

H.M.Jr: See?

C: Yes, sir.

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H.M.Jr: In other words, this is not one of those notes which we expected to give it publicity.

C: I see.

H.M.Jr: Ah - but as far as I'm concerned personally, if it did get in the papers - I mean it wouldn't worry me, because it's written so that there's nothing in there but what could be put on the front page if it had to be.

C: No, it - it would worry him more than it would worry us, I should think.

H.M.Jr: You've got it. You've got it. Now - ah - ah - I had a chance while we were cut off to check with our visitor and he said I stated his position accurately.

C: Fine.

H.M.Jr: Now, just a moment.

(Pause)

And - hello?

C: Yes.

H.M.Jr: The State Department will send you a confirmation of my instructions that you should not sail until further notice.

C: Not sail until further notice.

H.M.Jr: Please.

C: All right, sir.

H.M.Jr: Just a minute. (Aside: Wayne? -)
Well, go back and have a good night's rest.

C: All right, fine.

H.M.Jr: Good night.

C: Good night, sir.

September 24, 1937

Sir Frederick Phillips met with the Secretary, Mr. Taylor, Dr. Viner, Dr. Rieffler, Dr. White, Mr. Lockheed and Mr. Butterworth at about 11 a. m. He apologized for being delayed by a telephone conversation with London. He said that inasmuch as Mr. Eden had now returned from Geneva to London, it had been decided that the French Ambassador should see him rather than the Prime Minister. The British authorities had also indicated that they liked the Secretary's message very much, but doubted the advisability of including the sentence which reads: "I am also glad to be informed of your conviction that, from the budgetary and economic standpoint, ~~it~~ will not be necessary to establish a level for the franc of from 140 to 150 to the pound sterling". They thought that sentence might well be omitted because they are afraid that in case there should be a leak it would be damaging to the French and they also felt that there was "a very good chance indeed" that the franc would go above 150 to the pound at least temporarily. He added that they thought that Bonnet's private statement about 140 to 150 to the pound being adequate was in itself sufficient record.

The Secretary after a private consultation with his staff, during which he mentioned that that sentence had originally been included at the suggestion of Phillips, told the latter that he was agreeable to the omission of the sentence. Phillips then telephoned this to the British Embassy for transmission to the British Government and Dr. Feis was also telephoned and requested to communicate a copy of the message to M. Henry at the French Embassy and to telegraph the release to Cochran with the third sentence of the first paragraph omitted.

Phillips then brought up the question of M. van Zeeland's mission and he said that although he had no information since he left London, his understanding was that the idea of the formation of a permanent organization was expressed in the speech of the King of the Belgians had been dropped, but that there was some idea of a convening of a conference to deal with economic and some related monetary questions. He added that inasmuch as his information was very indefinite and his own Government's attitude was unformulated, he did not feel he could ask for any specific reply, but he would be grateful for any comments which the Secretary cared to make.

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The Secretary replied that he personally did not like or approve of large international conferences and thought them unproductive; that bilateral exchanges accomplished greater results. Phillips then said that he entirely agreed about the disadvantages of large international gatherings; no doubt the smaller countries would wish to attend any conference and would feel somewhat aggrieved if they were not invited, but nevertheless would be glad to fall in line with any real lead given by the larger countries and he asked whether the Secretary's remarks would apply to a meeting of five or six nations. The Secretary said that as far as monetary matters were concerned "that might be different", to which Phillips said that in the circumstances he could not ask for any more precise expression of attitude. (Incidentally it appeared from the tone of these interchanges that the Secretary might have assumed that the five or six countries related to members of the Tripartite club, whereas Phillips may have had in mind the Great Powers.)

Mr. Taylor also made two observations: (1) that van Zeeland's own position seemed at the moment precarious; (2) however small any international gathering might be it was necessary to all intents and purposes to reach agreement before the convening of the conference through careful preparatory interchanges through the usual channels.

At the meeting adjourned, the Secretary had a short talk in private with Phillips. Phillips asked whether there would be any objection to non-Johnson Act countries raising loans in the American market in connection with any possible scheme which the League Raw Material Committee might formulate, to which the Secretary replied in the negative.

The Secretary reiterated the position he previously had stated on the question of the price of gold and expressed also the general view that upon Great Britain and the United States lay the main burden and responsibility of working the world's monetary system. The Secretary emphasized that personally he did not value "things written on a piece of paper", for basically the human equation and personal confidence must dominate. He further said: "Sooner or later, your Government and mine have got to carry the whole burden of stable exchange and when that

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happens we want to have enough confidence in each other so that we can stand shoulder to shoulder". He also expressed appreciation of the extent of the contribution which Sir Frederick Phillips' visit to the United States had made.

* * * * *

Phillips is scheduled to talk with Mr. Taylor this afternoon and to meet with Dr. Magill, Undersecretary of the Treasury, tomorrow morning. He plans to leave Washington on Sunday for a short trip through the neighboring States and, at the suggestion of the Secretary, will return to Washington to meet with the Secretary on Thursday, October 7th, prior to his sailing from Quebec on October 9th on the EMPRESS OF BRITAIN.

A2.13.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 25, 1937

TO The Secretary
FROM Mr. Taylor

In my conversation with Sir Frederick Phillips and Mr. Trentham yesterday afternoon, we started by referring to a press release which indicated that the Belgian Cabinet was meeting to pass finally on the subject of Van Zeeland's resignation. This gave me an opportunity to go back over the ground which you covered in the morning as to the possibilities of our attending a conference and the efficacy of the conference method. I merely restated your position and found that Sir Frederick was apparently in complete agreement with it. He was curious as to whom Van Zeeland had seen in this country and what he had discussed. I gave him as much as I knew on the subject and described the one conversation which I had had with Van Zeeland, which had been general in character and only specific in so far as the effects of the Tripartite Agreement were concerned and the potential effect of the franc crisis of June on Belgium's own position.

We then referred again to the raw material question which Phillips had raised with you. Here again, I reviewed our position, the application of the principles and the spirit of the Johnson Act and the purposes and potential usefulness of the Export-Import Bank. I stated that in general we saw no reason for using an existing organization, such as the B.I.S., or any organization which might be created, to extend credits which we did not believe were reasonably good on their own merits, and that we preferred to handle such relationships directly.

We then turned to a discussion of the proposed Bill for raising foreign deposit reserve requirements. I gave him the background of the "hot money" discussions and described to him the various schools of thought on the subject which existed in this country. I described the Bill itself in some detail and explained to him that while the Bill itself would not necessarily directly affect the "hot money" situation, it would enable a separate treatment for foreign balances which, particularly in our country, appeared to be desirable and that we thought that it might serve as a useful model for other countries somewhat similarly situated. The provision regarding the Central Bank and foreign government balances particularly interested him, and I gathered from his comments that practically all foreign government balances and Central Bank balances in the London market are held by the Bank of England. While he did not say so specifically, I obtained a very definite impression that this was the case. I explained to him that this was not the situation in this country and that some did and some did not, and that the provision had been inserted with a view to implementing the declaration of policy laid down in the Swiss Bank correspondence.

The discussion of "hot money" naturally included some discussion of the taxation approach. I roughly outlined the underlying principles involved and the fact that foreign income in certain brackets was given more favorable treatment than similar income of our own citizens, etc., and paved the way in general for Roswell Magill's conversation of this morning. His only specific comment, other than clarifying questions, was that he followed the thought and the presentation up to a point at which he wondered how we could differentiate between legitimate investment and legitimate commercial balances and so-called illegitimate funds of similar character. I told him that it was

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my personal opinion that it was practically impossible to differentiate and that in any case the effect on the balance of payments and exchange position of the country was the same. He was quite interested in the actual balance of payments position of this country and the debtor-creditor investment position. I described at some length our present position and he asked me whether the present position did or did not represent the highest amount of the foreign investment in this country. I told him that it was my impression that the latest figures probably would show that this total is higher than ever before, but that I was not entirely satisfied that the pre-war and the 1920 to 1935 figures had not contained so many errors that at some earlier period the total might well have been higher than the one now shown, and that it was more than possible that the improvement in the figures had caused the situation which appeared to exist.

He asked various questions as to the direct and indirect investments and of foreigners and our own direct and indirect figures/in connection with the latter stated that he assumed that the figures I was using did not contain any inter-governmental indebtedness. I agreed with this comment and a little later in the discussion came back to it, with the intention of giving him an opportunity to discuss the question of War Debts if he wished to do so -- he apparently did not, so then I turned to other subjects.

In starting to lead around to silver and gold questions, I mentioned China and Brazil and explained to him our desire to work with

other countries who wished to put their financial houses in order. I gave him a general description of the two transactions and touched roughly on the silver situation. This in turn gave me a chance to bring in the Indian problem, and he asked me what we wanted to talk to the Indians about. I said that inasmuch as the Indian population and to some extent the Indian Government were actively interested in silver that I felt it would be extremely useful if we could have first-hand access to people who could sit down and discuss the question from all angles, as most of our contact with the silver problem in India had been no better than third-hand; that naturally in any discussions the possible attitude of the Indian population and Government toward the other precious metal would follow. He then discussed the information which he had about Indian absorption of silver and dehoarding of gold, which apparently checked very completely with the information which we already had. I got the impression that he would be helpful in any contact which we might wish to establish with the proper Indian authorities.

In order to give him an opportunity to add anything about gold, I stated that he had already covered these questions rather completely with you, in which he agreed.

He then asked me what I knew about Russian gold holdings and production. I explained to him that we had no figures which could be considered accurate but that as a result of a conglomeration of information which we had received, we had arrived at a rough figure in the neighborhood of a billion dollars as representing the existing gold holdings of the U.S.S.R., and that we had the impression the present production was

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falling off as a result of the difficulties which they had been having with the personnel of their mining trust and also as a result of bad mining practices which had resulted in a flush production which had not been handled in the most approved practice, and that certainly what you might describe as maintenance had not been adequately provided. I compared the Russian treatment of their gold resources to the well known treatment of their oil fields, in which a similar situation had developed. He said that if he were making a guess he also would have arrived at approximately the figure which we had developed, and added that his information was that the Russians had made great discoveries of gold ore in the northern sections of the country but that the extent of the discoveries had not been really determined and that on account of their inaccessibility it was difficult to estimate when production from these mines would become a real factor. In answer to my question, he stated that the one factor in the world gold situation which disturbed him was potential Russian production; that he had heard that the Russians were employing 750,000 laborers and 12,000 engineers in their gold industry, and that the maximum number of laborers, and in this case negroes, that South Africa had ever employed was slightly in excess of 300,000. He then asked me if we had heard any such figures and I told him that we had not.

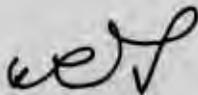
He then turned to our own production, and while I did not have the specific figures available, I told him what I knew of the general tendencies, in particular that the Philippine production had been mounting

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materially during the past few years and that a fairly large percentage of the increase in our figures could be credited to this development. I also described the working of old mines which had sprung up in this country and the attention which had been given to low-grade ores, both here and in Alaska; that while the activity was great, no new production of any consequence had been developed, either here or in Alaska. Fortunately this morning when I was able to give him the detailed figures my general impressions seemed to have been substantiated.

He then referred to Canadian production and we agreed that most of the Canadian increase was what might be described as new production, that whereas in some cases it was known that the ore bodies existed that the improvement in transportation and the relative price had stimulated its development.

The conversation covered a period of one and one-half hours and in the course of covering the various points which I have mentioned, various other aspects of American finance, such as the differences between our respective banking systems, the difficulties which our peculiar system had produced in the past and might produce in the future, the attitude of the American public and Congress to banks, taxation, foreign investment, and the like, all made their appearance. While I carried a little more than my share of the conversation, it was far from one-sided, and both Sir Frederick and Trentham were rather free with their comments and questions.



September 25, 1937

To: Secretary Morgenthau
From: Mr. Butterworth

By arrangement, Sir Frederick Phillips, accompanied by Mr. Trentham, met with Mr. Magill, Mr. Taylor, Dr. Livesey of the Department of State, and Mr. Butterworth.

Mr. Magill explained to Phillips the origin and purposes of the Canadian-United States tax agreement which came into force last month, and stressed the part played by the Canadian offer to exchange information regarding tax evasions in its successful conclusion, and he set forth in detail the possible forms which the cooperation between the two tax authorities would take. Mr. Magill also traced briefly the history of the American capital gains tax, giving his personal opinion that although at some future date its provisions might be revised, it was doubtful whether it would be abandoned as a form of American taxation.

This naturally led into the question of the withholding tax on securities of non-resident aliens; the \$21,600 clause of the recent tax act; and the desire of the Treasury to devise some method of taxation by which the foreigner owning American securities would be placed on all fours with the American in the matter of capital gains taxation. Mr. Magill also mentioned the attention which Congress has been giving to this question; and that it would be possible, for

- 2 -

example, to place a lien on the particular stock certificate for the amount of the tax on any capital gains. Sir Frederick referred to the likelihood of many transfers abroad before the certificate returned here; and suggested that, at the time the certificate came back for transfer on the corporate books, the selling price might not be more than its original cost, although capital gains had been realized by particular holders in the intervening years. Mr. Magill suggested that, because of the interest in the problem, Congress might decide to increase by an arbitrary amount the withholding tax on foreign-owned securities, should no other method be devised in the near future to meet this situation.

Phillips then stated that he wished to know what message he was being asked to carry back to the British tax authorities and Mr. Magill and Mr. Taylor made it clear that it was the Secretary's intention that Phillips should have the benefit of an explanation, for purposes of background, of the problems in this field which the American Treasury was facing but that no specific message had been envisaged.

Sir Frederick expressed a doubt whether the United States and United Kingdom could establish a relationship in these matters similar to the United States-Canadian; not only was there a dissimilarity of tax methods between the two countries so that information desired by one would not necessarily be available to the other, but also the position of the United Kingdom strictly maintained was that income tax returns were inviolate and could not be made available to anyone for any purpose.

There was also some discussion of the British and American problems in respect to holding companies and super-tax payers and the difficulties

of tracing movements through various countries. Mr. Magill pointed out that the British had adopted elaborate provisions in their finance act with a view to preventing surtax evasion through the incorporation of foreign holding companies; that the United States last summer had improved on the British example with provisions probably more effective, as well as more drastic. Neither set of provisions is likely to prevent evasion, unless there is an exchange of information between the taxing authorities of the countries involved. Such an exchange between governments, for the purpose of making their tax laws effective, is entirely distinguishable from the disclosure to private persons of information contained on tax returns. Phillips inquired whether a British coupon cashed in New York by another European would be taxed and being told no, expressed the opinion that such dividend cashing constituted perhaps the most important form of international tax evasion.

In conclusion it was agreed that Mr. King of the American Treasury should, after the meeting in Geneva in October, go to the United Kingdom to exchange views with the officials of Internal Revenue at Somerset House, through the agency of Mr. Canny.

Although Phillips had at the start of the meeting made it clear that taxation questions were out of his field of action, he nevertheless conveyed the impression by his questions and general attitude that Great Britain, in his opinion, would not be disposed to follow the example of Canada.

WMS.

MBo

CODAT

Paris

Dated September 20, 1937

Rec'd 10:30 a.m.

Secretary of State,
Washington.

1314, September 20, noon. *

FROM COCHRAN

Having received no word from the Swiss National Bank after visit to Bern which was reported in my 1334, July 24, 10 a.m., I remarked in a personal letter to Bachmann which I wrote on September nine on another subject that I was leaving for a brief visit to Washington on September twenty-five and would be glad to hear from him if he had "any questions for me to take up while there or any word to pass on to me in confirmation or extension of the views which Mr. Weber expressed to me when I was in Bern."

I have today received from Bachmann a letter dated September eighteen from which I quote in part. "I was also sorry to have missed you on your last visit to Switzerland. Mr. Weber gave me a detailed account of your interview with him and handed me a copy of the memorandum. I can assure you anew that we remain true to this agreement and are acting in accordance with its tenor. We are endeavoring to hinder a further swelling of our gold holdings and sell

occasionally

MBo 2- No. 1314, September 20, from Paris.

occasionally gold coins to Swiss Banks on account of their balances with us. Besides we are continually compelled to accept foreign exchanges sometimes in small sometimes in larger amounts. I cannot think for the time being of special requests to be transmitted to Washington."

In conversation with Bank of France at ten fifteen this morning I learned that the Control was obliged to buy only thirteen million francs at London on Saturday and did nothing at New York on that day. The atmosphere was a little better this morning when the banks opened and the Control was not intervening. This may have been due to the fairly favorable impression first made by weekend speeches of Chautemps, Blum and Brunet, Undersecretary of Finance. Toward noon franc was weakening slightly.

BULLITT

DDP:JLS

RECEIVED

M E M O R A N D U M

September 20, 1937
3:25 p.m.

Senator King called on me and said that he wanted to tell me that he considers it illegal for the United States Government to buy domestic silver at above the world price after the first of January and that if we continue to do so we will get ourselves into trouble; and that I can quote him and that's the way he feels.

The reason he came in was that some papers carried a story that the Treasury wanted to continue to do it. He said he got a lot of cables that the Treasury wants to do it and - "What about it?"

So I told him as far as I was concerned that I felt all subsidies had to stop, whether they were commodities or silver or anything else, and we were going to balance the budget and we had to balance the budget, and one of the principal ways to balance the budget was to stop all subsidies of all kinds.

H.M.Jr

Monday, September 20, 1937

(Dictated Tuesday, September 21)

Saw the President at Hyde Park, 9:15, Monday.

Took up with him, first, Peoples' letter showing that out of \$23,000,000 appropriated for public buildings Peoples estimated he would only spend, between now and June 30, 1938, \$3,800,000. The President was simply delighted with this and marked on the memorandum, "Very Good".

I then asked him if he would not like me to take up with other Departments the same question and see if we could not postpone some of the spending of money this year with the idea in mind that we would then ask less money for the coming year as we would not have spent the money we already have in hand. He said: "Fine! Go ahead."

The President thought that the best way to put it up to them was to ask the Departments first what they could do, rather than to order them what to do. I agreed with him and told him that was my idea as to how to handle it.

(I sent for the Acting Director of the Budget, Mr. Bailey, last night and got him started and asked him to see the various Departments -- Army, Navy, Agriculture -- and have an answer for me on Monday, September 27th; that he should use Peoples' memorandum as a sample and see how much we could get the various Departments to postpone.)

The President said that on his return he expects to give a good deal of time to going over the Budget the way he used to in Albany. He said: "You know what I did in Albany", to which I replied, "I certainly do and nobody could have been tougher." He said, Last year, if you remember, I came back from South America just before Christmas and I had to take Dan Bell's figures. The President furthermore said, I think Dan Bell is not tough enough on the regular Departments.

I suggested that the President have a dress rehearsal on each Department with Bell and myself present and decide what we want to do, then send for the head of the Department and go over the situation with him, and

-2-

then give him one week and ask him to come back and make a final decision. The President liked this idea very well. If he really would go over each Department with each head, we could save a lot of money.

I then said to him, The thing that you have got to do is something you would know before you started that you would have 99 chances out of 100 of being successful. I said, I don't know anything which would be more popular than if you began to talk about how you are going to balance the Budget. I said, You will reach a group that pretty well overlaps the same group who are down on you for what you have done and said about the Courts. Take, for example, what you have done in issuing the Executive Order abolishing the National Emergency Council. Why do it secretly? Why not beat the drums and boast about it? I said, What I would like to do, when you come back, is to give you a sum-up of economy moves that you have made to talk about at every press conference and, I said, if you begin to do this when you come back, by the first of January you will have the country back of you to balance the Budget and keep Congress from passing a lot of appropriations over and above your estimates. He liked the idea fine.

I said, What have you done about that memorandum to Jesse Jones telling him not to loan any new money? He said, I spoke to Jesse about it Saturday and Jesse took it very well and, he said, he asked me whether I would not write across the bottom of the memorandum that he could, in case of extreme emergency, make loans without first consulting the President, and the President agreed to that. Furthermore, he said he had about three loans, aggregating approximately \$10,000,000, in the works that he would like to put through, and the President agreed to that.

The President next said that he thought we ought to do something about cost of living and I said it was funny the way our minds were running along the same tracks, and I showed him Oliphant's memorandum about collusive bids. He was tremendously interested, read it very carefully and made a long talk on the subject, and said that we ought to add to the Executive Order that we could accept alternate bids, one at the point of delivery and

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one at the factory. He felt that through doing this and by threatening to use Government transportation from the factory to the site that we might break through the collusive bidding. I gave this to Oliphant and asked him to fix it up along the lines the President suggested.

I then gave him the memorandum from Oliphant recommending the appointment of Wenchel and Cairns and the only question he asked was, How does Wallace regard Wenchel? I told him, Very highly, and, I said, Don't you remember the fuss he put up in Cabinet about my taking Wenchel away from him?

The President then again talked about his idea of doing something for international peace. I said, If you still have this idea of addressing 55 nations and offering yourself as a clearing house, I recommend that you don't, because, quite frankly, I don't think you would have one chance in 50 of being successful and I hate to see you do anything at this time that you don't have a 90% chance of being successful before you start. He said, Well, I have changed my plans and I now think it is a matter of long-time education and I am not going to do anything which would require a definite response or action on the part of anybody. I said, Well, that sounds all right. I said, Don't do anything now unless you are sure you are going to win before you start. He agreed.

The President said I should get in touch with Altmeyer and he wants us to work up a confidential committee to make a study on the Social Security.

I had a few minutes with Miss Le Hand before I left and told her what I had done about the Budget and what I had told the President about having to win, and she seemed very much pleased. Then she said, Isn't it terrible about Black? I said, Yes; what can you do about it? She said, Nothing. And I said, What can the President do about it? She said, That's just the trouble. He doesn't know what to do.

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TREASURY DEPARTMENT

53

INTER OFFICE COMMUNICATION

DATE SEP 15 1937

to The Secretary
 from Herman Oliphant

The Federal Trade Commission on July 2, 1937, issued a complaint against The Cement Institute, of which practically all the cement producers in the United States are members, and seventy-seven cement producers, alleging violations of the Federal Trade Commission Act and the Clayton Act, as amended by the Robinson-Patman Act. The gist of the charge is that for the past eight years the respondents have had a combination restraining competition by means of what is known as the "multiple basing point system." Under this system there has been established throughout the country sixty-two base points, each with its own base price, and whenever a quotation is given it is this base price plus all rail freight to destination, resulting in an identical price bid at any given destination by all respondents. The complaint details the various methods by which the combination is maintained, including the distribution of freight rate books which are used exclusively for determining freight rate; refusal to deliver at point of production to trucks or other means of transportation; refusal to allow diversion of shipments in transit; refusal to quote f. o. b. prices, and refusal to sell to and boycotting dealers in foreign cement and other dealers who are not approved by the Institute. This combination has destroyed competition both in the private field and as to Government contracts. Examples are given of identical bids submitted to Government and municipal agencies. The combination also has had the direct effect of preventing the Government from benefiting in the reduction of freight rates. Two efforts have been made by governmental agencies to overcome the effects of the combination. The State of South Dakota has erected its own cement mill and the Tennessee Valley Authority received a reduced price after it had threatened to acquire its own cement mill.

Herman Oliphant

TREASURY DEPARTMENT

54

INTER OFFICE COMMUNICATION

DATE SEP 15 1937

TO The Secretary
FROM Herman Oliphant

In addition to the complaint issued against the cement industry the Federal Trade Commission has reported to me the following actions:

CEASE AND DESIST ORDERS

1. Against The Water Works Valve and Hydrant Industry, Order issued May 18, 1937.
2. Against The Turbine Generator Industry, including General Electric and Westinghouse Corporations, Order issued April 2, 1937.
3. Against The Power Cable and Wire Industry, Order issued December 29, 1936.
4. Against The California Packers Industry, Order issued June 30, 1937.

COMPLAINTS ISSUED

1. Against The Window and Plate Glass Industry, Issued June 16, 1937.
2. Against The Metal Window Industry, Issued November 11, 1936.
3. Against The General Motors Corporation and General Motors Sales Corporation in connection with the auto accessories industry, Issued June 15, 1937.

Herman Oliphant

THE SECRETARY OF THE TREASURY
WASHINGTON



My dear Mr. President:

The purpose of this communication is to outline the steps which have been taken in the Treasury Department in the application of the law against collusion among bidders on Government contracts; and to suggest the desirability of an Executive Order to assure uniform action by all branches of the Government on such collusive bids.

On May 19, 1937, I requested the Attorney General's opinion on whether the Director of Procurement was under duty to reject all bids, when all bids received were identical and the Director was convinced that the price offered had been arrived at by collusion among the bidders. The request was accompanied by an opinion of the General Counsel for the Treasury Department that there was a duty to reject in such cases.

By opinion dated June 30, 1937, the Attorney General held that collusion between bidders, the consequence of which deprived the Government of benefits accruing from competition, and accepting a bid arising out of such collusion, would be a violation of the statute requiring competition among bidders on Government contracts. He indicated, however, that whether collusion was present in a particular case would depend upon the facts of that case.

Under date of July 15, 1937, I directed that thereafter, all cases in which there was evidence that bids, otherwise acceptable, were the result of collusion, should, before any bid was accepted, be referred to the Department of Justice for determination whether, as judged by the Attorney General's opinion, there was collusion. I further directed that all cases of identical bids should, in the absence of satisfactory affirmative evidence that no collusion was present, be so referred to the Department of Justice.

On July 28, 1937, the Director of Procurement informed me that, upon the opening, on July 21, 1937, of bids for automobile tires and tubes for the six months period beginning October 1, 1937, it appeared that identical prices to the cent were quoted by fourteen different and presumably independent companies, with main offices in six different states, on a large number of different sizes of tires

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and tubes. Such companies were the only ones submitting bids otherwise acceptable. In only 15 instances in 129 items was there any divergence in the bids. Even as to those fifteen items, one company was responsible for 13 of such divergences. In all but one of those fifteen items, the divergent bid was higher than the remaining identical bids for the same item. It is understood that all of the fourteen companies are members of an association with the secretary of which are filed, not only prices of tires which it is contemplated to furnish to the Government, but also prices of those which are to be furnished to distributors and dealers.

On August 3, 1937, I requested the opinion of the Attorney General as to whether, under the facts in the foregoing case, the Director of Procurement was under duty to reject all the bids received for items on which the only bids were identical. This request was accompanied by an opinion of the General Counsel for the Treasury Department which held that collusion was present and the Director of Procurement was under duty to reject all the identical bids.

Under date of August 10, 1937, the Attorney General gave me his opinion to the effect that, on the facts before the Treasury Department, the conclusion that collusion was present was justified and suggested that the case be referred to the Department of Justice for proceedings under the anti-trust laws.

Conformably with this opinion of the Attorney General, the Director of Procurement on September 14, 1937 rejected all bids for tires. He has readvertised, taking special steps to see that numerous tire companies which did not bid before may bid on this readvertisement.

Pursuant to the suggestion of the Attorney General, the facts in this tire case have been referred to him for proceedings under the anti-trust laws, and to the Federal Trade Commission also.

It is proposed to take the same action generally with respect to all other purchases to be made by this Department, both in Washington and in the field, but before taking such action, it would seem desirable that the policy and practice of all departments and independent establishments on this important matter of collusive bidding be the same. Accordingly, I would suggest the desirability of an Executive Order, applying to all branches of the Government the present arrangement between the Treasury Department and the Department of Justice. Such order would provide in effect that all cases in which there is evidence that bids, otherwise acceptable, are the result of collusion should,

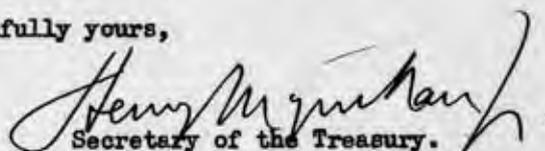
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before any bid is accepted, be referred to the Department of Justice for determination whether collusion was present, and that all cases of identical bids should, in the absence of satisfactory affirmative evidence that no collusion was present, be so referred. If this procedure is followed, it may very well be that in some of the commodities it would be impossible to secure delivery, such as cement and steel, and, as a result, the work of the Government, particularly construction work, would be temporarily delayed.

The matter has been informally discussed with Mr. Robert H. Jackson, Assistant Attorney General, and there is attached a copy of a memorandum dated September 14, 1937, setting forth certain facts which Mr. Jackson thinks should be brought to your attention in connection with this matter.

Attached hereto is a list of articles upon which other tie bids have been received from time to time by the Treasury Department. There is also attached a draft of a proposed Executive Order to carry into effect the suggestions above made.

Faithfully yours,


Secretary of the Treasury.

The President,

The White House.

Attachments.

EXECUTIVE ORDER

It appearing that in many instances there are being received identical bids on proposed purchases by the several executive departments and independent establishments of the Government, indicating collusion thereby depriving the Government of competition contemplated and required by section 3709 of the Revised Statutes, it is hereby ordered that, until further notice, in all cases in which there is evidence that bids otherwise acceptable are the result of collusion before any bid is accepted, such cases be referred to the Department of Justice for determination whether collusion is present. All cases of identical bids would in the absence of satisfactory evidence that no collusion was present fall within this Order.

Have included alternate
bids F.O.B. Factory

LIST OF ARTICLES UPON WHICH THE BIDS HAVE BEEN OR ARE NOW BEING RECEIVEDSTEEL PRODUCTS

Hack saw blades
Files
Structural supplies
Wire rope
Steel shafting
Machine dies
Steel grit
Sheet steel

Steel bars
Floor plates
Bars and shapes
Wood screws
Twist drills
Dies
Nails
Wire

Cables
Tools:
Circular saws
Jack hammers
Drills
Drill bits
Paper-cutting knives
Blades
Lathes
Pneumatic

IRON

Tube fittings
Sheets
Castings

PAPER PRODUCTS

Wiping
Postage stamp
Check
Kraft wrapping
Tan plater board
Bags
Carbon

Cardboard boxes
Tags
Pads
Blue print
Toilet tissue
Drinking cups

Sheets:
white and colored
mimeograph
onion skin
vellum
bond
notebooks

RUBBER PRODUCTS

Tires
Tubes
Hose, etc.

MEAT PRODUCTSWOOD PANELLINGMONEL METAL

Rods
Sheets

Parts
Welding rods

Castings

BRASS & BRONZE PRODUCTS

Wire rope
Phosphor bronze

Propellers
Bronze shafting

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MANILA ROPEBATTERIES

Flash light
Dry
Storage

SHEET CORKGREASESEXPLOSIVESCEMENTMACHINERY, and allied productsLUMBEROFFICE SUPPLIES

Pencils	Ring binders	Pens
Clips	Pencil sharpeners	Rubber bands
Pads (ink)	Staples	Thumb tacks
Moisteners	Guides	

INSECTICIDES & DISINFECTANTSKODAKS & PHOTOGRAPHIC SUPPLIESPHOTO PRINTINGLABORATORY & MEDICAL SUPPLIES

Absorbent cotton	Rubber gloves	Drugs of all kinds
Adhesive tape	Syringes	
Applicators	Hypodermic needles	

CANSFIRE EXTINGUISHING APPARATUS & SUPPLIESPLUMBING SUPPLIES

Radiators	Lavatories	Spigots	Cocks
Valves	Bathtubs	Oakum rope	Traps
Pressure boxes	Sinks	Drains	Urinals
Cast iron pipe	Syphons	Lead	Boilers
Fire hydrants	Nozzles	Bushings	Soil pipes

DEPARTMENT OF JUSTICE

Washington

September 14, 1937

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MEMORANDUM FOR GENERAL COUNSEL OLIPHANT:

I have discussed the proposed letter to the President and the proposed executive order dealing with identical bids with Acting Attorney General Stanley Reed and Judge Townsend of Assistant Solicitor General Bell's office.

It is our feeling that, in addition to the facts recited in your proposed letter, the President should consider the following:

1. Different practical situations may be presented in different departments as a result of the urgency of their need for commodities. Different department heads may therefore have different situations to be considered. It is possible that the rejection of identical bids would create such an emergency as would justify purchases without advertising for bids. I have not examined this question.

2. If, in the terms of the order, these identical bids are referred to us to determine whether collusion is present, it will be impossible to make an exhaustive investigation of the causes of the identical bids with the present staff that we have without long delay and by this I mean months. So far as this Division is concerned I would rule that identical bids are collusive prima facie and they should be returned to each department with that advice.

3. I have no staff or resources adequate to following up such advice with the prosecution that the advice would indicate ought to be commenced. It is utterly impossible with the staff at my disposal to deal with this situation in anything like a comprehensive fashion. The best we can do is to select a test case, put all our energies into it and attempt to get an early determination.

It is our conclusion that it is a good thing to call the situation to the attention of the President as you are doing for such action as he may think merited.

s/ ROBERT H. JACKSON
Assistant Attorney General.

GROUP MEETING

September 20, 1937
12:30 p.m.

Present: Mr. Taylor
Mr. Lochhead
Mr. Oliphant
Mr. Riefler
Miss Roche
Mr. Gaston
Dr. Viner
Mr. Haas
Mr. Thompson
Mrs Klotz

H.M.Jr: Herman, I had a terrible time with the President today. I hope we can take it. Got anybody else to suggest?

Oliphant: I'll have to find somebody.

(Secretary shows Oliphant Wenchel
appointment to Int. Rev. Gen. Counsel)

Gaston: He just crossed out the name, see?

H.M.Jr: Now listen, you guys, at 4:30 today - 4 o'clock press conference?

Gaston: If it suits you; either hour that suits you.

H.M.Jr: 4 o'clock; 4:15, have Mr. Wenchel in; we'll swear him in.

The President argued - did I sign that right or didn't I? You (Thompson) clear all this stuff.

And where is Gibbons?

Gaston: I think he's up at the graduation of the Coast Guard Academy.

H.M.Jr: Well, who's going to call up these two Senators, the two Maryland Senators?

Oliphant: I'll be glad to call Radcliffe if you think it's necessary.

H.M.Jr: You (Thompson) ask the White House - ask what's-his-name

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if he won't do it. I don't want to do it. See if they'll call up about Wenchel. Tell them a Civil Service employee is going in as Chief Counsel at Internal Revenue. The President didn't ask me to do it, but we might just as well do it.

Is that the right way to sign that thing?

Thompson: Yes.

Oliphant: What was the debate about? How else would it be signed?

H.M.Jr: I never signed before that way. I mean I thought the President signed alone.

Thompson: No.

H.M.Jr: I was just debating, and the President wasn't sure.

Well, I'll see Rogge, then, today. Have Wenchel here at 4:15, and Rogge, if possible. We'll swear them all in. I'll tell Wenchel to be here quarter of one.

(On phone) Ask Mr. Wenchel, from Mr. Oliphant's office, to be in Mr. Kieley's room at quarter of one, please. I'd like to see him.

You people very confidentially might be interested to know that we are really going to save some money. For instance, in Public Buildings and Procurement - we're using this as an example - they have an appropriation of 23 million, of which we are only going to spend three million eight this year; postpone the balance of it until next year. You say, "What good does that do?" That means that when Congress says they want to give us money for public buildings, we say, "What's the use of giving it? We've still got 20 million to spend. We don't need an appropriation; only give us half as much."

I'm going to do each one of the departments the same way, using this same example. And the President wrote on the top of this "Very good - F.D.R." For instance, Army has lot of money for barracks, Navy

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has 40 million dollars for yards; all that stuff - shove it ahead a year and just ask a minimum appropriation for this year, see?

On this thing - this is a combination - I mean I showed this to the President and I want to see Oliphant on this Executive Order for Senator Wheeler - and somebody representing Magill's office and Helvering. (To Mrs. Klotz) Give them an appointment at 10 o'clock tomorrow.

Oliphant: That will be Kent.

H.M.Jr: What?

Oliphant: Let's have Kent to represent Magill.

H.M.Jr: All right. And Helvering and Oliphant. And I want someone to bring in the so-called - what is it, the Railroad - whatever it was that....

Oliphant: Interstate Commerce.

H.M.Jr: Interstate Commerce Committee - Executive Order - 10 o'clock tomorrow.

Now, Mr. Oliphant, the President said, "Well, this is all fine, but how about all this bids and the cost of living?" "Well," I said, "it's wonderful the way the Treasury is always ready." And he liked this and he makes only one suggestion in regard to the Executive Order on collusive bidding. Can you include in this Executive Order - you and Bob Jackson - something so that they can take alternate bids f.o.b. factory? Now, for instance, he says, if the Bethlehem Steel Company at Bethlehem and United Steel some place out west - they both put in bids for delivery at the job; but if it's alternate bids f.o.b., he says, they're going to have a devil of a time not giving us competitive bids. And then, in order to get the advantage if necessary, we'd use Government trucks to haul them, or Government something.

Viner: I think it's easier for them to conceal collusive bidding if they bid at the mills, because the freight rates are different.

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H.M.Jr: Well, you haven't read the cement stuff.

Oliphant: The basing points....

H.M.Jr: You haven't read the case against the cement company.

Viner: I know they can use uniform delivered bids. The advantage of that is not that it conceals monopoly, but it is easier to reach monopoly.

H.M.Jr: Well, the Federal Trade Commission - under the Clayton Act the charge is against the cement company's using a vulnerable basing point system, and the President thought there was a possibility of overcoming it if you had a chance to bid either at delivery or f.o.b. Now, what's the matter with that idea?

Viner: Well, f.o.b. they'll show up as different bids. Delivered, they show up as the same bids.

H.M.Jr: That's what I say. You and I are saying the....

Viner: They'll show up as different. They'll all give you bids that will be different in amount but would amount to the same thing delivered.

H.M.Jr: Well, this says we don't get the advantage of the difference of the freight rates. Listen, don't - if you (Viner) don't mind, I'd like you to sit in on this stuff.

Oliphant: I'd like to have him in when I talk to Bob Jackson.

H.M.Jr: Will you go in and talk with him?

Viner: Yes, sure.

H.M.Jr: If you can speed this thing up I'd like to get it in his hands Wednesday morning and sign it. (Executive Order on Interstate Commerce Committee)

But this thing here (collusive bidding memo) - you don't need this. This goes into my diary.

I want this thing tomorrow night. So if you (Thompson)

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will find out and let Mr. Oliphant know what time the pouch goes up, so he (President) can get it before he leaves on his trip.

Jake, this thing that you talked about, making a survey of Social Security, again was up today, because the President said - Altmeyer has been to see the President - there's going to be a very secret committee, which I am to head - Altmeyer, the Secretary of Labor, some others the President couldn't remember - to work secretly to get ready for this thing.

Viner: That's fine. I was afraid they'd come out with a sort of departmental program and then Congress would hear three stories from the Government.

H.M.Jr: No. So - and I told him about you two gents (Viner and Riefler) being interested, and we'll work on the thing. But we'll find out - we'll have a meeting somewhere; have it out at Wayne Taylor's house if he'll give us all mint juleps.

Taylor: Have to send out for mint, but we'll do it.

H.M.Jr: I warned you - Mrs. Morgenthau said I'm terrible, I'm riding so wide, high and handsome; took at least two days to get me back to normal. But after I've seen the President this morning I'm worse than ever. He's in a grand humor and a hundred percent clicking - he and I - and I never felt so encouraged about real economy as right now. He saw Jesse Jones; you know, he sent a memo to Jesse Jones - no more lending. Have you (Taylor) seen it? All that they want at the bottom is in case of an emergency could they lend; and he's got three loans pending - about 10 million dollars, something like that - and outside of that he's going along with the President.

Oliphant: You say you saw him or the President did?

H.M.Jr: Pardon?

Oliphant: You saw him?

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H.M.Jr: No, the President. No use my seeing him.
And the President signed the Order doing away with Emergency Council - first independent agency to be wound up.

Viner: He wound up Riefler, then.

H.M.Jr: Took us two years to find out Riefler.

Viner: His tentacles were all through that, you see.

H.M.Jr: Now, I thought that was a swell story in the Times on Mr. Graves.

Gaston: On Graves. You did? That just leaked out. The A.P. boys found out about it and called me about it, and I thought we might as well give it to them.

H.M.Jr: If that's the way the stories leak, never hand out one, Herbert; don't give them out any more.
Now, I'll go around with you people if you promise to... Mr. Oliphant?

Oliphant: Very good news. I spoke to you about Cairns and the possibility of his accepting a promotion to Assistant General Counsel. He surprised us very much by accepting.

H.M.Jr: Well, that's...

Oliphant: Taking a good man; good law firm in Baltimore.

Viner: That's the smut expert. He's a good man.

H.M.Jr: Now listen, you've just been in Chicago.

Viner: No, I thought I'd come back here; I thought I'd catch you all napping, come in a day early.

H.M.Jr: Didn't you go home? I thought you'd picked that language up in Chicago.

Viner: No.

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H.M.Jr: Where you been, Jake?

Viner: It's his own term; it's Herman's term.

Oliphant: I'd like it if you'd take one minute to shake his hand.

H.M.Jr: Well, as a matter of fact we could use a man like that in the Treasury.

Viner: I don't know what for. I wonder what makes you think there's a lack of them.

H.M.Jr: That was kind of weak, Jake, kind of weak - not worthy of you. I'll give you a half day to think up a better one. How's the housing?

Viner: Well, it's - you have a meeting at 12:30. You're late for it.

H.M.Jr: Haas is at it.

Haas: I've been there.

H.M.Jr: Haas is representing me.

Oliphant: Cairns is coming in at 2 o'clock.

H.M.Jr: All right. How about your (Taylor) English boy friend?

Taylor: Well, he's coming in at 2:30, I understand.

H.M.Jr: That's right.

Taylor: But I got that from Butterworth.

H.M.Jr: Well, I arranged that with Mr. Mallet himself.

Taylor: Fine.

H.M.Jr: Will you be here at 2:30?

Taylor: (Nods yes)

H.M.Jr: I think if you and Butterworth can be here at 2:30....

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Taylor: Right.

H.M.Jr: Doubtful about Butterworth?

Taylor: No.

Lochhead: Butterworth will be here at 2:15.

H.M.Jr: What's that?

Lochhead: Butterworth says he'll be here at 2:15. He's been in my office this morning.

H.M.Jr: Would you or would you not have Butterworth?

Taylor: Suit yourself.

H.M.Jr: Well tell me yes or no.

Taylor: I haven't any feeling one way or the other about it.

H.M.Jr: Listen, is that all that your town did for you? I want a recommendation. I want a recommendation - yes or no.

Taylor: I have none. I haven't any.

H.M.Jr: All right, let him be here then.
(To Oliphant) About 2:20.

Oliphant: 2:20. Take just a minute to shake his hand. You've met him before.

H.M.Jr: Herbert, how's your golf? Who won?

Gaston: Terrible, terrible.

H.M.Jr: What? Listen, when you and George Haas go out to play golf, don't look like two schoolboys stealing out the back door. I wish you'd have seen Haas - "I'm going out to play golf; I hope you don't mind." Just say, "I'm going to play golf. Whatcha going to do about it?"

Gaston: My conscience was clear. I'd already told you.

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H.M.Jr: No, I didn't say anything about you. But George looked awfully guilty.

Gaston: Mr. Rukeyser would like to see you some time, if you want to.

H.M.Jr: He can have hopes.

What's this, Herbert?

Gaston: Oh, they want the President to write a letter to this bank newspaper for publication. I don't think he should do anything like that.

H.M.Jr: All right, say "No." What else?

Gaston: In connection with that Social Security, did you know the Social Security people had been over here investigating our Savings Bonds Division with a view to some annuity program?

H.M.Jr: No. Look, just make - what else?

Gaston: I haven't anything else.

H.M.Jr: Now listen, I want everything to click at four o'clock. I want all that announcement about this fellow ready; those two men - I want their history, who they are, what their politics were.

Oliphant: You see, I haven't taken it up with Rogge finally yet.

H.M.Jr: Well, let's have the whole thing click. I want a mimeographed statement to give out at four o'clock.

Gaston: Do you want anything on Cairns?

H.M.Jr: Yes, the whole business.

Oliphant: That's a promotion.

Gaston: Yes.

H.M.Jr: All right, Herbert?

Gaston: All right.

H.M.Jr: Dr. Viner?

Viner: Well, the housing problem.

H.M.Jr: (Laughs)

Haas: I'm going to report on that.

H.M.Jr: Anything else?

Viner: No.

H.M.Jr: All right. I want to tell you - say, you fellows aren't very good. I send you a perfectly good telegram and I thought I'd get a snappy answer.

Lochhead: Mr. Taylor suggested replying, "So what?"

H.M.Jr: I telegraphed Taylor and Lochhead "Don't let the bond market slip while Harry White and I are in the air," and I got no comeback.

Taylor: We agreed on an answer, which was to say, "With what?"

H.M.Jr: George, I give you three minutes to tell what happened at the housing meeting.

Haas: Don't need that long.

H.M.Jr: Good crowd, isn't it?

Haas: Spent two hours over there; Secretary Ickes opened the meeting. He took about three quarters of an hour explaining why the housing activities of the PWA were slow, and then he called on the various groups which were there with representatives - American Federation of Labor; didn't call on them, they volunteered - and the Real Estate Board representative, and so on. And when I left they were just exchanging views and it looked as if it might go on for a long time. They had a long agenda and were just on the second point. And Lindau was there and stayed there, and will give you a written report of what went on.

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H.M.Jr: Well, that's most encouraging.
Wayne?

Taylor: Herbert Feis called up and says that Jeff
Coolidge is fine with the Secretary of State
and he's fine with the President.

H.M.Jr: I'll see if I can call up.
(On phone) Hello. See if you can get Mr.
Coolidge in Boston.
What's the trust company?

Taylor: Old Colony.

H.M.Jr: (On phone) Old Colony Trust.

Viner: First of Boston.

H.M.Jr: (On phone) Hello. It's either the Old Colony Trust
or the First National of Boston.
Finance Committee of League of Nations.

Viner: Is Davis retiring?

H.M.Jr: He's expiring.

Viner: The League has been praying for this.

H.M.Jr: Who?

Viner: The League has been praying for this for four years.

H.M.Jr: What do you gents say to Thomas Jefferson Coolidge?

Viner: O.K. That's what they want.

H.M.Jr: What? And you (Riefler) stay, you be on just the
same, with two long hatpins.

Gaston: Will he resign just before the next election?

H.M.Jr: Who?

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Gaston: Jeff.

H.M.Jr: Well, I'll tell you something. One of the reasons - and the President wanted to know why I recommended him - I say that Coolidge acted like a gentleman after he got out of here. And the reason it was so forcibly brought to my attention - the difference between Jeff Coolidge and Morrison Shafroth; now, I thought it would be a very nice gesture to show the public that if somebody gets out because he has an honest difference of opinion and acts like a gentleman, we don't have any grudges.

Gaston: I think it's excellent.

H.M.Jr: That's my answer.

Gaston: I think it's good.

Viner: He didn't resign.

H.M.Jr: Yes he did.

Viner: Well, he told the President, "With my views, I'll stay on if you want me to," and the President told him, "You better resign." He told me that. He said he would have liked to stay on.

H.M.Jr: Well, some time when we have lunch together I'll answer that one. Just like the one Eccles told you. But I still say that Mr. Coolidge acted like a gentleman after he got out. And if a man acts like a gentleman and gets out, I think it's a very nice gesture to show that the Administration can have somebody resign because they do have an honest difference of opinion and that the Administration doesn't hold anything against them. And I thought it very forcibly brought to my attention the difference between Coolidge and Shafroth. I mean there is a big difference. I mean Jeff never said a word, and wherever you go, people - you meet people and Jeff always had a good word to say about the Treasury; and I have yet to find out anybody who tells me he criticizes the Treasury.

Gaston: By the way, there was a letter of Shafroth that went over to the White House. They sent over here Saturday

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afternoon to ask whether they should give it out. My judgment was they shouldn't give it out, but I said that Mac should check with you before giving it out. A letter from Shafroth saying that he admired the President and he admired you.

H.M.Jr: Did he admire Miss Roche too?

Gaston: I didn't get the whole letter, but no doubt it was in there too.

(H.M.Jr laughs; Miss Roche blushes)

H.M.Jr: I wouldn't give a million dollars for everything that was said between you and the President.

Roche: I wouldn't give two for it.

H.M.Jr: Oh, that was magnificent.

Wayne, what else?

Taylor: Mr. Kieley gave me a memorandum about.....

H.M.Jr: Well, the point of that is that it's rather unusual; I don't want to do it unless the State Department approves first. I want to clear it with the State Department please. It's about - sent a special Chinese agent out. Get the State Department approval; I'll see him. And if he doesn't like it, he can jump in the Whangpoo.

Roche: That's a good one.

H.M.Jr: What?

Roche: Jump in the Whangpoo - that's a good one.

H.M.Jr: All right?

Taylor: Uh-huh.

H.M.Jr: Now Miss Roche?

Roche: I haven't anything.

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H.M.Jr: Everything quiet on the Whangpoo?

Roche: I'm flying out a couple days home tonight; be back Thursday.

H.M.Jr: When you leaving?

Roche: Flying out tonight, late plane; be back, I hope, Thursday, possibly Friday.

H.M.Jr: Dr. Viner - I mean Dr. Riefler.

Riefler: All clear.

H.M.Jr: You know, this - I'm getting worried, you fellows coming back a day before I invited you. I think they're having a good time.

Taylor: Want to work on housing.

H.M.Jr: What?

Taylor: Want to work on housing.

H.M.Jr: I think they're having a good time.

Seriously for a moment, now that we know the President wants us to do something on Social Security, I think this is a good chance. And I will say this, in the room: this is the first time that I can look anybody in the eye and say I really believe the budget is going to be balanced - after my conference this morning. I'm terribly set up over it. Marvelous.

Lochhead: Nothing current. I have a long message from Nicholson in answer to the inquiry of the other day.

H.M.Jr: How can they get the stuff around?

Lochhead: Well, they are really still bringing it up the river to Hangkow just now, and the main point is, of course, they are not stopping foreign boats, they're only stopping Chinese boats. And he's got several - he has all the alternatives. But at the present time they are not stopping foreign boats from going in. He shows all the different routes.

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H.M.Jr: Any map with it?

Lochhead: No. They're sending one. I tried to trace them. He's sending a special map also.

H.M.Jr: Who?

Lochhead: Nicholson.

H.M.Jr: Couldn't you take that and have somebody draw a map? Harry White has a map of China. Or couldn't you have somebody from Naval Intelligence draw me a map and then give it to me?

Lochhead: You want to send this over to Naval Intelligence?

H.M.Jr: Ask them to draw up a map and bring it back.

Lochhead: We'll send them a copy.

H.M.Jr: And show me how the thing goes.

(On phone) Hello. (Conversation with T. J. Coolidge, 12:55)

Thompson: (Hands Secretary proposed letter to President recommending dismissal of James R. Landy, Internal Revenue Collector at St. Paul)

H.M.Jr: It's not a very well drawn letter. Who wrote that letter?

Thompson: The Appointment Division.

H.M.Jr: Awful weak. Who's this?

Thompson: Mr. Stutler is the Acting Chief of the Appointment Division

H.M.Jr: Herman, have somebody - designate somebody and get it fixed up so I can send it up to the President. A very weak letter just the way it's drawn.

Gaston: There was a long letter from Landy which came in and was referred to Gibbons' office. I don't know whether you've seen it or not.

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H.M.Jr: I mean if you have it tomorrow, be time enough, under the new policy. It's a weak, very weak letter; isn't even English.

Thompson: That's all I have.

H.M.Jr: All right. That's an awful sloppy letter. I mean I can just see what the President will write back to me on it.

Now let's have Wenchel. It's all right for you people to stay here. I'll just have Wenchel come in a minute.

(To Kieley) Tell Mr. Wenchel to come in.

(Wenchel comes in)

H.M.Jr: I want to tell you that on Mr. Oliphant's recommendation this morning I recommended you for Chief Counsel of Internal Revenue and the President signed it. I want to congratulate you.

Wenchel: I'm very grateful to both of you for your confidence in me.

H.M.Jr: It's a tough job.

Oliphant: I'll shake your hands in the presence of these people.

Wenchel: When do I take my oath?

H.M.Jr: Pardon me?

Wenchel: When shall I take my oath of office?

H.M.Jr: 4:15 this afternoon. Good luck.

Wenchel: Thank you, sir.

NM Jr.

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Sen. Radcliff is a
close friend of Henchel.
If made as a career
appointment - no political
clearance would be needed

HO



THE SECRETARY OF THE TREASURY
WASHINGTON

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JK
JOR

MEMORANDUM FOR THE PRESIDENT

I recommend the appointment of John P. Wenchel to succeed Morrison Shafroth, resigned, as Assistant General Counsel for the Bureau of Internal Revenue; and I propose to appoint O. John Rogge as his assistant, to succeed Russell J. Ryan, resigned.

Experience has proved that the primary requisite for the head of the law office in the Bureau is administrative ability, and this will be increasingly important as we move into the reorganization of the work of the Bureau, which is now getting under way and holds promise of great improvement. Accordingly, it is because Mr. Wenchel is a sound and able lawyer who has had long and successful administrative experience in the Government that I recommend him for this position.

He has had no great amount of experience with tax laws, as had neither Robert H. Jackson nor Morrison Shafroth, but he has recently demonstrated his capacity quickly to master new fields, as he had to do when he came from the Department of Agriculture to the Treasury last February. Moreover, Mr. Rogge, whom I propose to appoint as his assistant, has had a wide and extensive experience in Federal tax practice.

The facts about these two men are, briefly, as follows:

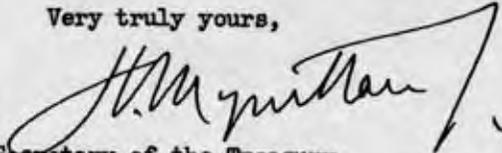
Mr. Wenchel is 51 years old, and was born in Baltimore, Maryland. He attended the Johns Hopkins University, and took his law degree from the University of Maryland in 1908. He is a member of the Maryland, Washington, D. C., and North Carolina Bar. He was engaged in the general practice of law in Baltimore, Maryland, for six years following his graduation from law school. In the Fall of 1914, he entered the Government service as an attorney in the Department of Agriculture, where he rose to the position of Assistant Solicitor and Special Attorney of the Secretary of Agriculture. On February 1, 1937, he came from this position to the Treasury Department as an Assistant General Counsel. As such he has been in charge of all the legal work in the Bureau of Customs, Procurement, Coast Guard, Narcotics, Alcohol Tax, and Public Health. In addition, he has been handling the legal aspects of certain administrative problems in the Department having particular reference to appropriations and problems with the General Accounting Office.

Mr. Wenchel is well and favorably known on the Hill.

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O. John Rogge you will recall as the young man who tried the Dawes Bank Case in Chicago for the Reconstruction Finance Corporation and, practically single handed, bested some 300 lawyers ranged against him. He is 34 years old, a graduate of the University of Illinois and of Harvard Law School. He was Editor-in-Chief of the Harvard Law Review, and six years after graduation went back for a year's graduation work in law with a research fellowship. He has had published numerous law review articles. He practiced law in Chicago some ten years, he and his firm specializing in income tax matters. Since last June, he has been with the Securities and Exchange Commission.

Very truly yours,



Secretary of the Treasury.

The President,

The White House.

Message to Sir Frederick Phillips from
the Chancellor which was given to the
Secretary on the occasion of Phillips'
first call at the Treasury on Sept. 20, 1937

M. Bonnet's letter begins by recording his budgetary measures. It continues:

"Finally in so far as currency is concerned I have the firm intention of avoiding exchange control and of continuing in the framework of tripartite agreement to seek point of equilibrium of our currency.

"But one must take account of considerable increase of costs which has taken place in France during last year. This is one of essential reasons which justify present rates (? of franc).

"It is moreover my intention to defend (? franc) within limits within which resistance is possible since I do not wish to exhaust the gold reserves of France. The powers which have been given to our Government for financial rehabilitation were conferred 'for defence of metal reserves'.

"Exterior events encouraged me equally on this point to be extremely prudent since our gold reserves would be very precious for our national defence. I am anxious however to declare to you that there is no question for me of using this wealth for an economic object. I have sincerely wished to be able to return to higher figure."

Draft reply is as follows

"I note with special satisfaction your determination to avoid any exchange control.

"The Tripartite Agreement of a year ago was as you know regarded by my Government as by yours as a very notable step towards restoration of greater stability in international monetary and economic relations.

Subsequent/

-2-

Subsequent events have, it must be frankly confessed disappointed high hopes which we and indeed the whole world entertained a year ago. The equilibrium which we then hoped would be lasting was not achieved so far as franc is concerned.

"I fully appreciate your reluctance to see further reductions in your gold reserves. On the other hand I am sure that you will agree with me that stability of franc at a reasonable level is an objective for which it would be worth while to face considerable sacrifices. The recent movements of French currency have inevitably impaired value of monetary declaration of last year in eyes of the world and if they should continue there is clearly a danger that beneficial effect of that declaration will be dissipated. It would indeed be most regrettable if effort of three great democratic financial centres to cooperate with each other and with other countries to a common end should fail to achieve lasting success.

"I hope therefore that possibility of restoration of franc to a higher level which you anticipate may be realised and that steady progress towards stability may be achieved."

"I hope also that it is part of your programme to resume the relaxation of quotas and other trade restrictions as proposed in tripartite declaration.

"Such action should effectively assist in keeping down internal prices."

September 20, 1937
12:55 p.m.

H.M.Jr: Jeff, I thought that you'd be interested in knowing that I recommended today to the President that you be appointed as a member of the Finance Committee of the League of Nations and I think within a day or two you'll get such an invitation.

Jeff
Coolidge: Well, that's most interesting, Of the League of Nations.

H.M.Jr: Yes, the Finance Committee of the League of Nations.

C: Well, that's most interesting Henry, I certainly appreciate it.

H.M.Jr: Norman Davis and Riefler have been the members on that, but Norman Davis never goes and he'd like to get off - I hope you see your way clear to be able to accept it.

C: I don't know what the duties are or what to expect, but it's very nice of you and I certainly appreciate it, Henry.

H.M.Jr: Well, if you want to find out about it Wynn Riefler can tell you more about it than anybody else, and he is - be at the Treasury all week.

C: He'll be in the Treasury.

H.M.Jr: Yes

C: Well, I'll get in touch with him, Henry.

H.M.Jr: Will you do that

C: Thank you very much

H.M.Jr: Not at all.

C: Goodbye

H.M.Jr: Goodbye.

MBo

CODAT

Paris

Dated September 20, 1937

Rec'd 3 p.m.

Secretary of State,
Washington.

1315, September 20, 5 p.m. (SECTION ONE)

FROM COCERAN

French control apparently yielded fair amount of sterling today pegging rate at one hundred forty-six point sixty. Also intervened in three month forwards to maintain discount at five versus sterling. With Amsterdam stock market bad following Dutch liquidation of American holdings and with New York opening weak Paris operators are nervous. Bonnet to broadcast on budget at eight o'clock tonight.

Editorial in today's LONDON FINANCIAL NEWS reads follows:

"The visit to Washington of a senior treasury official from Whitehall is always apt to attract attention but especially if it coincides with such exciting events as the latest slump of the franc. It would be idle to dismiss the present Washington negotiations conducted by Sir Frederick Phillips as a mere routine matter arising from the working of the tripartite agreement. For such routine discussions

the well

MBo 2- No. 1315, September 20, from Paris.

the well established channels of communication -- leading through the British treasury's Washington representative and the United States Treasury's London representative -- are eminently suitable.

BULLITT

DDM:WWC

MBo

CODAT

Paris

Dated September 20, 1937

Rec'd 3 p.m.

Secretary of State,
Washington.

1315, September 20, 5 p.m. (SECTION TWO)

The fact that Sir Frederick Phillips who has more to do with matters concerning the exchange equalization account and the tripartite agreement than any senior official of Whitehall has been invited to Washington seems to indicate clearly that the working of the tripartite agreement so far from being a matter of routine requires a new understanding between the participants. The need for some important decision of principle is also evident from the recent depreciation of the franc. Although the agreement of September 25, 1936 provided for a certain degree of elasticity of the exchange rates it could not possibly have envisaged a depreciation of the franc to 146. Such a degree of fall of one of the three currencies concerned inevitably calls for a reconsideration of the position and the present Washington discussions may prove to be of vital importance from the point of view of the future of the tripartite agreement.

It is

MBo 2- No. 1315, September 20, from Paris

It is difficult to imagine any other decision than to allow the French Government to use its own judgment regarding the level to which the franc should be allowed to fall. The French authorities appear to have realized the unwise of wasting their resources upon the support of the franc at an untenable level.

BULLITT

DDM

LMS

CODAT

Paris

Dated September 20, 1937

Rec'd 4:27 p. m.

Secretary of State,
Washington.

1315, September 20, 5 p. m. SECTION THREE.

This being an agreement on the part of London and Washington to allow Paris a free hand is the only alternative to an admission of the breakdown of the Tripartite Agreement. What would be the result of such an admission? It would produce a strong adverse moral effect upon the franc and would further accentuate its downward trend. This is anything but desirable from a British or American point of view. It is therefore a matter of statesmanship to reaffirm the Tripartite Agreement. The greater the emphasis lent to this gesture the better from the point of view of the franc. It would, of course, be highly gratifying if the British and American monetary authorities did not confine themselves to a mere gesture but found a way to provide active assistance to France. But failing that, the reaffirmation of the existence of the Washington London Paris monetary triangle would in itself be of some benefit to the hard-pressed franc. Judging by the statement made last week by a Treasury spokesman in Washington

declaring

LMS 2-No. 1315, September 20, 5 p. m., Section Three.

declaring that the depreciation of the franc is a matter that concerns France only, such an outcome of the Washington discussions may reasonably be anticipated. There is reason for hoping that the British and American authorities have at last realised that no useful purpose can be served by holding up the inevitable depreciation of the franc."

Press suggests Van Zeeland may shortly resign to be succeeded by Emile Jansen.

FRANKFURTER ZEITUNG prints report Assistant Secretary of Treasury Taylor may visit London soon.

END OF MESSAGE.

BULLITT

SMS:RGC

RECEIVED
SEP 21 1933
ST 1333
BENFIELD

RE DISCUSSIONS WITH SIR FREDERICK
PHILLIPS ON FRENCH SITUATION

September 20, 1937
3:05 p.m.

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

H.M.Jr: Well, you know, Harry White and I, discussing this thing, decided the way to start the thing rolling was to ease into the tripartite agreement - let's say, "Well, let's talk about the French situation." See? So, after pleasantries and "It's nice up at Lake Louise," and saying, "I was up there one night," and telling him there were so many lakes I don't remember the names - kind of set me back for a moment - and then the trip - whereupon he pulled out a letter which - I haven't got the date, but Bonnet to Sir John Simon, and Sir John Simon's answer to Bonnet; and they want an answer like that. And I couldn't give them my little usual talk - "Gentlemen, the Treasury - I haven't quite recovered from my week end yet, old top."

So I thought we could see him tomorrow morning at 10:30 and we could give him an answer then. Now I'd like you fellows to read it. And I thought we'd meet at 9:30 tomorrow morning and go over the thing and decide whether I should say "Yes" or "No" and if not "Yes" or "No" what I would say.

And of course I read them this first paragraph of what Bonnet told Bullitt, which does not check at all with that, and I asked them when that was written, and they don't know. And they said....

Mrs Klotz: There was no date on the letter.

H.M.Jr: Well, I told - in a cable here he tells - Bonnet tells Bullitt, "We'll just keep the thing around 145." And they say it's practically a floating franc, don't they?

-2-

- Taylor: Well, they also talk about a wish for a higher level for it. That's the main difference.
- H.M.Jr: Higher level. Does that mean more francs or less francs?
- Taylor: Means towards 140 or 135.
- H.M.Jr: A higher level - would that mean 155 or 135?
- Viner: The French are saying - if they are talking about the franc, they wish a higher level for the franc; they mean fewer francs to the pound.
- H.M.Jr: You see, the two things just don't check.
(Taylor hands H.M.Jr some figures)
- Is this good news? Now let me guess. What was it last week, .58?
- Taylor: .54.
- Lochhead: .58 in New York.
- H.M.Jr: (Looking at figures) Well, it's below a half anyway. Average on the first four is .45 (of one percent). Average in New York last week was .58. .45 - why should we stop selling 9-months bills?
- You know what my neighbors - you remember I used to have three pairs of pants?
- Viner: Double seats in each?
- H.M.Jr: Now I've got a 300 million dollar patch.
- The other thing that he said - to give you - I thought we'd work this way: not to try to scare him too much, you see, with all this galaxy of brains, and - I was looking at Naster - and....
- Taylor: If he sees that machine, he'll jump right out the window.
- H.M.Jr: We'll ease him into that, too. What I've done is this - I've had Butterworth - he's a pretty good

-3-

reporter, and I sent him out at once with a stenographer to dictate what happened, and I think we better work it that way. The British still believe in working under the shade of a pen rather than a typewriter. That's not original.

"And don't you think, in view of this, we ought to sort of examine...."

Kieley: Senator King.

H.M.Jr: You tell him, please, I've got eight people in here and I'll step out in a minute.

"... that we ought to examine what might happen in case they do put on exchange control, or that they go above 150 francs - then what are we going to do?" Well, his comeback was that - making it just as simple - "We think we have everything to gain to keep them in the tripartite agreement, and the longer we can keep them in the longer they won't go on exchange control and do what - put in the German system." Is that the way he said it?

Taylor: (Nods yes)

H.M.Jr: Which I thought was quite all right. I said, "That's just the way we feel, and that we have everything to gain by keeping them in and nothing to gain by seeing them out." I said, "As a matter of fact, when you get right down to it" - this is where Wayne got a little restless - I said "it isn't terribly important to us what the franc does sell at." I said, "It's more important to us what the guilder does." And Wayne kind of went like this a little bit. "Well," I said, "they're equally important." But I wanted to get it over. I'm trying - I'm not saying, "Well, it's your worry," but I got it over to him. I knew just what I was saying: that I don't think it is terribly important to us. I mean it isn't a question of a major catastrophe, what the franc is.

Viner: It is^{as} important to us, in a sense, as it is important to them. If it embarrasses them seriously, then as a member of a club....

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H.M.Jr: But my dear Dr. Viner, I want them to be embarrassed first.

Viner: And to be grateful to us if we do play their game.

H.M.Jr: But I want them to be embarrassed first.

(Mrs Klotz leaves)

(H.M.Jr steps out to see
Senator King)

Taylor: There is one sentence in the British answer in which they say - in which he "anticipates." Now, he doesn't anticipate a bit; it's just a pious hope, and he says, "I wish it could have been higher," you see.

Viner: "I am anxious, however, to declare to you that there is no intention in the Treasury of using this wealth for an economic object."

Taylor: Obviously a mistranslation or something. They don't know either what it means.

Viner: I wonder if he means using it for competitive advantage.

Taylor: Well, that's what we finally agreed that it must mean - that it wasn't to be used for competitive advantage.

(Secretary returns and dictates
memo on talk with King, transcribed
separately)

White: Kind of unfortunate, because that's the one subsidy that helps to diminish the budget.

H.M.Jr: What do you mean?

White: Silver. Of course, buying silver....

Viner: If you buy the same silver at 40, you increase.

H.M.Jr: It's just what I always say. The only way you can get away with this job, if you say "No politics," no

-5-

politics; "No back door," no back door; "No subsidies" and no subsidies. But if you subsidize silver, what about me, the cotton grower; what about me, the apple grower, and so forth. If it is the policy of the Government, no subsidies, and stick to it. But you can't - just as soon as you have a subsidy, Harry, you're sunk. And the only reason, for instance, I could tell 17 national committeemen who are Presidential appointees in the Treasury that either - they had to resign one or the other, and they all resigned; but if I let one man stay as national committeeman, where would I be? You can't do it. Now, you have 17 national committeemen and I make 16 of them resign as national committeemen, and one of them resigns from the Treasury; but just as soon as I have one national committeeman in the Treasury, then I'm in trouble. And it's the same thing.

- White: You're still on sound ground. I was talking in reference to stopping buying silver. I didn't have in mind....
- H.M.Jr: The cheaper you pay for silver, the more silver.
- White: If you don't stop buying it.
- H.M.Jr: I didn't say that. Otherwise you're right. But I just want to let you know how I feel. Now, I'm getting ready for my speech on November 10.
- Taylor: You're warming up on that.
- Viner: Keep on eating red meat.
- Riefler: Spinach.
- H.M.Jr: Who's the fellow in the cartoons that eats spinach?
- Viner: We'll slice up anybody here for you.
- H.M.Jr: Has anybody seen him lately?
- Viner: Popeye?
- H.M.Jr: Yes, Popeye.

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- White: They'll be on your side if they can't get a slice of the melon; then they'll turn around and support you when....
- H.M.Jr: He said - King said, "My boy, call on me for anything that you want. Just tell me what you want and I'll fight for it. Just tell me what you want." Now, if he can't get silver, he isn't going to let the cotton fellows get theirs; and if the cotton fellows can't get theirs, they won't let the silvers get theirs. It will go right along the circle, if you've got guts enough.
- Viner: He means he wants log-rolling in reverse.
- Lochhead: Log-jamming instead of log-rolling.
- Viner: Log-jamming.
- H.M.Jr: That sounds a little bit more euphonic - is that right?
- White: Euphonic.
- H.M.Jr: Euphonic.
- Haas: Mr. Secretary, you really should have gone to the housing meeting, because they spoke of 500 million dollars just to give a glorified demonstration project for housing - some of the people discussing it.
- H.M.Jr: The President - this is absolutely....
- Viner: \$25 a day commodity for \$25 a week persons. You can't work that.
- H.M.Jr: Listen, the President went further with me this morning on economy than any time since I've been with him. I've never had the man go so far as he did today.
- Taylor: "The time has come,"
- H.M.Jr: The time has come.
- Taylor: ..the walrus said.

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H.M.Jr: Well.... This is this Hsu here. Well, I sent them back to the State Department.

Viner: Safe, cautious.

H.M.Jr: And the State Department didn't know they were here.

Well, I would say to them - I think maybe get around to it Wednesday.

Taylor: He's leaving Wednesday.

H.M.Jr: My gosh, he just came over on the clipper to see me and he's leaving. Well, it's just too bad. I'm not going to be rushed. Here it is Monday afternoon; I promised to see Sir Frederick Tuesday morning and Wednesday afternoon.

Taylor: Then you're seeing Secretary Hull at 11.

H.M.Jr: I would say I could see him Wednesday afternoon.

Taylor: Wednesday afternoon, what time?

H.M.Jr: Three o'clock. Let him stay.

Taylor: (Nods yes)

H.M.Jr: I can not be rushed this way. I just can not be rushed.

Viner: The Japanese are rushing them a little.

H.M.Jr: Say, the man's been on water for two weeks. I can't do anything with him anyway.

(Butterworth comes in)

I thought it went all right, Butterworth, didn't you?

B'worth: It went very well, sir.

H.M.Jr: Now, these gentlemen are going to retire in their magnificent quarters and you are asked to join them, and they are going to give me an answer by 9:30

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H.M.Jr: Now, you fellows have got a job to do, and I want - if you please, give me a finished answer at 9:30 tomorrow morning. Now, do you want to ask - and incidentally, will you see that after that memorandum is written, what Butterworth does, that he gives these fellows - well, you're going to your office and tell Butterworth to join this crowd. One copy comes to me and one copy goes to them, see? And let him join this. And by tomorrow morning at 9:30, you people tell me how I should answer him, because you've got to read over the correspondence and everything else. Now we got off to a good start. Butterworth is pretty good. I mean they're coming here to ask me something the first thing. I mean that's....

Riefler: Sounds good.

H.M.Jr: They also say right off that they want the French to stay in the tripartite. I mean we didn't know that.

And incidentally, those of you in this room are invited Wednesday night for supper with me. I'm naving them - I told them very informal and we'd sit around - the three of them are coming - and just have a smoker. Wednesday night. I suppose with English you have to dress, don't you? Have you all got a black tie?

Viner: I haven't got a collar with me.

H.M.Jr: You got a black tie?

Viner: I'll come without a collar.

H.M.Jr: You want to say something about China, Taylor?

Taylor: I called up
it ought to be handled about like this: that they make the appointment;.....

H.M.Jr: Who is this "they"?

Taylor: The State Department.so as to cure the boys of short-cutting, because they hadn't been informed that Mr. - whatever the hell his name is - H-s-u - is here. And any time that you indicate, why, they'll make it.

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tomorrow morning - one of these cleancut Treasury decisions.

B'worth: You mean "Yes" or "No."

H.M.Jr: Yes sir. And so if you can join them. And also a copy of the memorandum that you wrote - one goes to Taylor, one goes to this group, and one to me.

B'worth: Yes, sir.

Taylor: We'll let Butterworth clear with Feis on this answer, or do you want Feis in on it?

H.M.Jr: Oh, I think - let me call up Herbert and ask him. I'll call him up and ask him how he'd like to work it.

(On phone) Dr. Feis please.

That's the easiest way.

Taylor: I think they've doing a little of the same thing. They wanted to figure how they were going to start all this stuff.

H.M.Jr: Do you think so?

Taylor: Well, possibility.

H.M.Jr: Sure. Why not?

By the way, where does he live?

Taylor: Who?

H.M.Jr: Mallet.

Taylor: It's 25-something Massachusetts Avenue, or 23-something.

H.M.Jr: What?

Taylor: 23- or 25-something Massachusetts, on the right-hand side going down.

H.M.Jr: You (Butterworth) are invited for Wednesday night.

B'worth: Thank you, sir.

H.M.Jr: (On phone) Hello, Herbert. (Conv. with Feis follows:)

September 20, 1937.
3:37 p.m.

H.M.Jr: The result of that meeting Herbert, they gave me a memorandum of a letter from Bonnett to them and their proposed answer

Herbert Fels: Yes

H.M.Jr: And I told them to come in tomorrow morning at 10:30 and I'd say yes or no. They wanted me to say yes or no tonight and under my-

F: A letter to Bonnett or from Bonnett

H.M.Jr: It's from Bonnett to Sir John Simon -

F: Yes

H.M.Jr: And their proposed answer

F: Yes

H.M.Jr: Now, what I want to ask you is now that we are working with these and with Butterworth here, do you want to sit in on these or how would you like to work it.

F: - when are you meeting again

H.M.Jr: Well, the boys are going into a - they're going into a meeting right now.

F: With him

H.M.Jr: No, my own crowd, and they are going to give me an answer at 9:30 tomorrow morning

F: Yes - it's important is it

H.M.Jr: Well, they say - they say - yes because it's an answer, it sums up the British attitude on this whole monetary thing. I'd say that was fairly important

F: Well, suppose I come over a little bit later anyway

H.M.Jr: All right, now, ^{aside} what's your room number - what)
Well it will either be in Taylor's room or 296

F: Taylor's room or 296

H.M.Jr: Taylor's room or 296

- 2 -

F: And they're just starting work on it, are they

H.M.Jr: Yes

F: Right you are

H.M.Jr: And then they are going to give me a definite answer at 9:30 tomorrow, why don't you drop in anyway at 9:30 surely.

F: I'll be there at 9:30

H.M.Jr: You'll be there at 9:30, see?

F: All right

H.M.Jr: And then, I'm having a very informal dinner Wednesday night for him and I'd like you to come to that.

F: Thank you, all right.

H.M.Jr: I thought I'd have you and Butterworth, I don't - if you think I ought to have anybody else tell me so tomorrow morning. I don't want it too big.

F:

H.M.Jr: What!

F: I think maybe you should Henry -

H.M.Jr: Who

F: Well either Dunn or Moffatt

H.M.Jr: I don't hear you

F: Either Dunn or Moffatt

H.M.Jr: Well, I'll talk to you in the morning

F: All right. I'll see you tonight as a matter of fact.

H.M.Jr: All right.

F: I'll drift over - I should say I'll get there about half past four or something like that.

H.M.Jr: By half past four, they'll be just warming up to it.

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F: That's right. Thank you very much Henry.

H.M.Jr: Not at all.

F: Right.

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H.M.Jr: He wants to come over and he'll be here at 9:30 tomorrow. And then - you heard what he said - he's coming over this afternoon.

September 20, 1937.
3:37 p. m.

H.M.Jr: The result of that meeting Herbert, they gave me a memorandum of a letter from Bonnett to them and their proposed answer.

Herbert
Feis: Yes.

H.M.Jr: And I told them to come in tomorrow morning at 10:30 and I'd say yes or no. They wanted me to say yes or no tonight and under my -

F: A letter to Bonnett or from Bonnett -

H.M.Jr: It's from Bonnett to Sir John Simon -

F: Yes.

H.M.Jr: And their proposed answer.

F: Yes.

H.M.Jr: Now, what I want to ask you is now that we are working with these and with Butterworth here, do you want to sit in on these or how would you like to work it?

F: - when are you meeting again?

H.M.Jr: Well, the boys are going into a - they're going into a meeting right now.

F: With him.

H.M.Jr: No, my own crowd, and they are going to give me an answer at 9:30, tomorrow morning.

F: Yes - it's important is it

H.M.Jr: Well, they say - they say - yes because it's an answer, it sums up the British attitude on this whole monetary thing. I'd say that was fairly important.

F: Well, suppose I come over a little bit later anyway.

H.M.Jr: All right, now (aside: What's your room number - what) well, it will either be in Taylor's room or 296.

F: Taylor's room or 296.

H.M.Jr: Taylor's room or 296.

F: And they're just starting work on it, are they

H.M.Jr: Yes.

F: Right you are.

H.M.Jr: And then they are going to give me a definite answer at 9:30 tomorrow, why don't you drop in anyway at 9:30 surely.

F: I'll be there at 9:30.

H.M.Jr: You'll be there at 9:30 see?

F: All right.

H.M.Jr: And then, I'm having a very informal dinner Wednesday night for him and I'd like you to come to that.

F: Thank you, all right.

H.M.Jr: I thought I'd have you and Butterworth, I don't - if you think I ought to have anybody else tell me so tomorrow morning. I don't want it too big.

F:

H.M.Jr: What!

F: I think maybe you should Henry.

H.M.Jr: Who?

F: Well either Dunn or Moffatt.

H.M.Jr: I don't hear you.

F: Either Dunn or Moffatt.

H.M.Jr: Well, I'll talk to you in the morning.

F: All right. I'll see you tonight, as a matter of fact.

H.M.Jr: All right.

F: I'll drift over - I should say I'll get there about half past four or something like that.

H.M.Jr: By half past four, they'll be just warming up to it.

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F: That's right. Thank you very much Henry.

H.M.Jr: Not at all.

F: Right.

RE EXCHANGE OF VIEWS WITH
BRITISH ON FRENCH SITUATION

September 21, 1937
9:30 a.m.

Present: Mr. Taylor
Dr. Feis
Dr. Viner
Mr. Lochhead
Mr. Riefler
Mr. White
Mr. Haas
Mr. Butterworth

H.M.Jr: Good morning, gentlemen.

Dr. Feis himself.

Feis: Yes sir.

Taylor: (Hands to Secretary draft of proposed message to British)

I don't know whether you can read that the way it's marked up.

H.M.Jr: "I agree in general with the proposed note to M. Bonnet. There is one point, however, which I wish to bring to your attention. On the basis of the transcript of M. Bonnet's message, which you were good enough to send me, and also of the discussion which M. Bonnet had with Mr. Bullitt, of which you have already been informed, your sentence 'I hope therefore that possibility of restoration of franc to a higher level which you anticipate may be realised and that steady progress towards stability may be achieved' does not appear to express exactly M. Bonnet's position as I understand it. It is my impression that M. Bonnet went little further than expressing a wish that it might be possible to restore the franc to a higher level, rather than anticipating France's power to do so.

"With regard to the underlying subject matter at issue in this statement, my general feeling is as follows: At the present time the French Treasury, even though willing to make every reasonable effort, may not be able to maintain the value of the franc at a level which would be consistent with the equilibrium contemplated by the tripartite understanding. They appear to me to be confronted with a most

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difficult problem of judgment as regards the wisdom of drawing heavily upon their gold reserves in an attempt to sustain the value of the franc at any calculated point. However, while I believe it necessary to recognize this situation, I am of the opinion that upon the cessation of the existing abnormal pressure, an equilibrium level for the franc might well be established and maintained at a point which would be distinctly higher than the level that may be reached during the period of abnormal pressure."

Which says what? Doesn't mean anything to me.

Taylor: Well, the first part - you get that.

H.M.Jr: I'll read it again. (Reads again silently)

I'm not going to fuss much with it. I'd say - I mean I'd say something in the beginning about the "note which you were kind enough to send me" - see, start off that way. You say "I agree in general with the proposed note to M. Bonnet." I mean I'd bring it up to the beginning and then go on. I mean I think the time to identify the note as the one he was kind enough to show me is in the opening sentence.

Viner: "I thank you for transmitting to me the note which you propose sending to M. Bonnet." Then say "I agree in general....."

H.M.Jr: Yes. Say that at the opening and then go on. I mean it's not important but it's just a matter of order. Huh?

Viner: Yes.

H.M.Jr: What is this fine distinction? - "It is my impression that M. Bonnet went little further than expressing a wish that it might be possible to restore the franc to a higher level, rather than anticipating France's power to do so." Isn't that the whole thing?

Taylor: That's really the whole story.

H.M.Jr: Did he do that in his conversation with Bullitt?

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Taylor: No, he does that right in the note here.

H.M.Jr: Who?.

Taylor: Bonnet does. Bonnet says, "I have sincerely wished to be able to return to a higher figure," you see. And the British say, "I hope therefore that possibility of restoration of franc to a higher level which you anticipate may be realized," you see; and he doesn't anticipate it a damn bit.

Viner: Certainly doesn't say it.

Taylor: Yes. And then it is tied up with the conversation with Bullitt, which you read, in which he talks about always believing that - his belief that approximately 145 to the pound was the true value of the franc, you see. We thought it was necessary to call attention to both the text of the note - of Bonnet's note itself, and to the conversation that he had with Bullitt.

H.M.Jr: Well, if you don't mind my being as frank as I always am and like you to be with me, I don't think you make yourselves plain in that. We're always frank with each other, and if you don't mind....

Taylor: Not a bit.

H.M.Jr: Because you just don't make it - now, what I would say, in diplomatic language, is "There seems to be a discrepancy as between what Mr. Bonnet said to Mr. Bullitt and what Mr. Bonnet said in his letter to Sir John Simon."

Taylor: No, there isn't any.

Viner: A discrepancy between what they report M. Bonnet as having said to them and what they interpret it as meaning. There is no anticipation in M. Bonnet's statement to them; just a wish.

H.M.Jr: I'm trying to get it straight myself. Let's do it again. Let me put it this way. Let's put it the other way around. Am I right in saying it this way: that in what Mr. Bonnet said to Mr. Bullitt and what

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Mr. Bonnet wrote in his note seems to be consistent?

Viner: They may be consistent; you can't tell.

H.M.Jr: All right, say, "They may be consistent. But may I take the liberty of pointing out that in your answer to Mr. Bonnet you seem to be putting thoughts into his mind which he didn't have."

Taylor: That's what we tried to say.

H.M.Jr: Well, you're too damned - it's too vague.

Viner: I think they'll get it.

H.M.Jr: Well, I don't - if you don't mind, coming from me, I want to be right to the point. I don't want to be so vague. I'd like to come right out; let's say what we think. I mean I'm perfectly willing to couch it in as diplomatic language - "May I take the liberty of pointing out to you that you seem to find in Mr. Bonnet's message certain ideas which upon careful reading I don't find." Something like that, see? What? I mean it's so vague I don't get it. I mean you know me; we go over and over this thing, and then we usually - when we send these things we usually come to a conclusion.

Feis: My own predilection would be not to put that in writing at all. That is, I think, a doubtful point - doubtful wisdom in writing - getting into that kind of difference with the Chancellor of the Exchequer. I think verbally to Phillips it will be very easy to say, "Incidentally, we're not sure that we can read Mr. Bonnet's note in the same way you do." I think it is very much easier to get across beyond misunderstanding verbally instead of in writing.

H.M.Jr: Let me understand it first. If I may remind you, Herbert, we went through this before and Mr. Sir John Simon was very glad to accept my interpretation. Let me just get this. Let one person explain this thing; see if I can explain it. Because I didn't study this last night.

In his conversation with Bullitt, leaving out all the

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political stuff, he said, "We're going to try to keep the franc around 145." Is that right?

White: (Nods yes)

H.M.Jr: In that first paragraph.

Lochhead: He also said he always thought that was about the natural level - best level.

Taylor: "He told me that it was his belief and always had been his belief that approximately 145 to the pound was the true value of the franc. The present fall of the franc was not therefore disturbing to him, and it was his belief that it would indefinitely fluctuate in the neighborhood of 145."

H.M.Jr: "Would fluctuate indefinitely in the neighborhood of 145." All right. Now on that particular subject what does Bonnet say in writing to Simon?

Taylor: He says nothing except that.... I'll read Bonnet's note through.

H.M.Jr: Please.

Taylor: "Finally, in so far as currency is concerned, I have the firm intention of avoiding exchange control and of continuing in the framework of the tripartite agreement to seek a point of equilibrium of our currency. But one must take account of considerable increase of costs which has taken place in France during last year. This is one of essential reasons which justify present rates.

"It is moreover my intention to defend within limits within which resistance is possible, since I do not wish to exhaust the gold reserves of France. The powers which have been given to our Government for financial rehabilitation were conferred 'for defense of metal reserves'.

"Exterior events encourage me equally on this point to be extremely prudent, since our gold reserves would be very precious for our national defense. I am anxious however to declare to you that there is no question for me of using this wealth for an economic object. I have sincerely

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wished to be able to return to a higher figure."

H.M.Jr:

Now, how do they answer that?

Taylor:

"I note with special satisfaction your determination to avoid any exchange control. X

"The Tripartite Agreement of a year ago was as you know regarded by my Government as by yours as a very notable step towards restoration of greater stability in international monetary and economic relations. Subsequent events have, it must be frankly confessed, disappointed high hopes which we and indeed the whole world entertained a year ago. The equilibrium which we then hoped would be lasting was not achieved so far as franc is concerned.

"I fully appreciate your reluctance to see further reductions in your gold reserves. On the other hand I am sure that you will agree with me that stability of franc at a reasonable level is an objective for which it would be worth while to face considerable sacrifices. The recent movements of French currency have inevitably impaired value of monetary declaration of last year in....."

H.M.Jr:

Louder.

Taylor:

"The recent movements of French currency have inevitably impaired value of monetary declaration of last year in eyes of the world and if they should continue there is clearly a danger that beneficial effect of that declaration will be dissipated. It would indeed be most regrettable if effort of three great democratic financial centers to cooperate with each other and with other countries to a common end should fail to achieve lasting success.

"I hope therefore that possibility of restoration of franc to a higher level which you anticipate may be realised and that steady progress towards stability may be achieved."

H.M.Jr:

Say that last sentence.

Taylor:

"I hope therefore that possibility of restoration of franc to a higher level which you anticipate may be realised and that steady progress towards stability

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may be achieved.

"I hope also that it is part of your program to resume the relaxation of quotas and other trade restrictions as proposed in tripartite declaration. Such action should effectively assist in keeping down internal prices."

H.M.Jr: (To Kieley) Phone Mr. Mallet whether Sir Frederick Phillips could come at 11 instead of 10:30. I'm not quite ready. Then if Oliphant and Helvering come in, tell them I'll see them. But put off Mallet until 11.

Of course, they don't say an awful lot either, do they?

Taylor: The one thing we all agree that you have to call attention to is this "anticipating" as compared to the fact that he just wished; he would wish to do it.

Viner: I think you can't go on record as approving of the note unless you make that reservation.

H.M.Jr: The word "anticipate"?

Taylor: Yes. We called their attention to that yesterday. Remember?

H.M.Jr: Yes.

Taylor: And they both agreed it was a rather unusual....

H.M.Jr: Now, on Feis's thing, why don't I simply read that paragraph and simply say to them, "Now gentlemen, after giving this matter thought, may I call the attention to John Simon that I can't find anything in which - what Mr. Bonnet said to Mr. Bullitt or in Mr. Bonnet's note to you that he anticipates steady progress and so forth."

Taylor: I think you can handle the whole thing in conversation much better than by trying to draft a note. And this is something to talk from.

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- White: You mean with respect to that one word, not with respect....
- Viner: I think the whole thing.
- Taylor: The whole thing.
- Viner: It's a little funny that we should be working through this rather unsatisfactory channel when Phillips is here.
- Taylor: Let him (Phillips) do the interpreting.
- White: Except that the point in the next paragraph should be clearly understood.
- Taylor: That's right.
- White: The difference between the tone they have and the tone meant to imply here is a significant difference which should be fully appreciated.
- H.M.Jr: That clears up that point and then comes the next thing. What we are trying to say - "My general feeling is as follows: At the present time the French Treasury, even though willing to make every reasonable effort, may not be able to maintain the value of the franc at a level which would be consistent with the equilibrium contemplated by the tripartite understanding." What you are simply saying, or want me to say, is that while Mr. Bonnet says he hopes he can keep the franc around 145, I question his ability to be able to do so.
- Taylor: No.
- H.M.Jr: Then what are you trying to get over here?
- Viner: That you don't want to embarrass him now; he's got difficulties and you concede it to be a hard position for him to decide.....
- H.M.Jr: I didn't get that.
- Viner:now to surrender gold, but you do think when the pressure subsides he will be able to get back to a higher level.

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H.M.Jr: I didn't get that at all.

Now, I have "Elephant and Delvering; that will only take 10 minutes. Then we can have another 50 minutes to think this thing through. I think it's pretty important, see? I mean I want to absorb what you fellows have and then I'll give you what I thought.

Taylor: Herbert had a very important point there which he wrote into that paragraph, and I'd like to have him state his position.

H.M.Jr: All right.

Peis: The British response to the French note seems to me minatory - I mean semi-threatening and withholding, and rather cold and very unclear. I think we can be at the same time both more understanding and more definite. And the understanding part of our reply would be in the event that we were directly talking to the French, to the effect that "we understand that you have been trying for a considerable time to control the fall of the franc, and in doing that a vast amount of your gold reserves has already left the country. We realize you are down at a point that justifies anxiety on your part. If you continue just on the sacrifice idea, the standard central banking idea, to let considerable amounts go each day in trying to resist these very strong pressures that will keep on until there is some change in the French situation, your gold reserves, vital to you now, may be very substantially further reduced. We understand that problem and your caution, and your justified caution." And that is tantamount to saying "Therefore, if you let the franc go even somewhat further rather than use up vast amounts of gold, we are not protesting to you.

"On the other hand, we want to bring it out very clearly that we think that this is an abnormal period and it is very likely that the franc rate that will result will not be an acceptable rate all around; that it would represent, in the light of permanent cost and price relationships, too low a franc; and we therefore anticipate that upon the

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cessation of those abnormal pressures, when the speculators begin to move capital back to France, and the rest, that this question of the franc rate should still remain completely open to discussion and quite possibly be distinctly higher than the rate the franc may touch during this period."

That's about - isn't that about it?

H.M.Jr: Now, Herbert, in this room, you and I are one hundred percent in accord, see? But let me tell you what happened, let me get this approach, see whether we can agree. With the exception of ten minutes I want out, I've got from now until 11. I want to talk this out.

Trentham takes me aside last night - I can't make out whether he's naive, or a fool, or very brilliant - ...

Fels: It's the second.

H.M.Jr: What?

Fels: It's a little over-strong. He's not - he's on his way to being a fool.

H.M.Jr: All right. This is what he says to me last night. He said, "Now, don't be surprised tomorrow if I pop a question out that - I haven't had a chance to talk to Phillips, but I'll most likely pop it out tomorrow. I'm going to ask him, 'How can we let the tripartite agreement go with our own political situation, internal situation, the way it is, and give the Germans a chance to have the satisfaction of a collapse in France?'" He said, "How can we let loose?" He said, "I'm just going to pop that question out."

Viner: It's a good question.

H.M.Jr: It is, but that's why I ask - I mean he tells me, "Now, I haven't talked to Phillips about it." He says, "I'll try and get a chance, but if I don't, I'll pop it out at your meeting tomorrow." Now - which brings me around to the thing that I think I want to use a little diplomacy here. In my talk

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yesterday with Phillips I said, "What the French franc does isn't particularly our concern." Now, I knew what I was saying. And while I agree entirely with you (Feis) in what you said and I want to give the French every chance, and we have held their hand now for about three years until they've gotten callouses.....

Viner: We haven't really done anything for them, I wouldn't say.

H.W.Jr: Oh, I disagree with you heartily, and I will answer that in a minute, if I may finish this thing. I mean - then you just haven't read, Jake; but I don't want to.... I think my attitude with these people would be just to point this thing out and say, "Well, if you want to take that attitude at this time, that's all right, if that's the way you feel. Then I think it is all the more important that we talk about what is going to happen after the French conduct their financial matters in a way that would just automatically force them out of the tripartite." I mean I don't want to seem concerned about it.

I'd like to point out that there seems to be a discrepancy between what Sir John Simon is saying - "I think if you read this thing over more carefully you'll see that the French don't say at any place that they anticipate steady progress towards stability." I mean I just - I don't even know that I want to go in that thing; but I'd simply point out that if this is the way the British Treasury - British Government feels, all right, but I don't think it is helping the French any at this time. "Now, if that's the way you feel, all right."

You (Viner) don't want me to argue with you or go over the list of what we have done for the French, do you?

Viner: (Nods no)

Feis: The French - the French Treasury, not the French people - the French Treasury and the French Government have always done an exceptional deal.....

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H.M.Jr: Pardon me?

Feis: The French Government has always shown an exceptional disposition to try to make the agreement work: firstly, in the extent of the gold losses; and secondly, in its stern avoidance of exchange control. There are extraordinarily few nations in the world that would have gone through what they have been going through without controlling exchanges.

H.M.Jr: Well, this is a good time to stop. If I can clear these people and come back - because if we talk for another 50 minutes, I think we can have a meeting of the minds. But we're not together now; I don't think we are.

Taylor: I don't get any sense of not being together.

H.M.Jr: Well, I do.

White: I think so.

H.M.Jr: Where we are differing, I think, is, we all - am I correct that we all agree that we want to do everything that we can to help the French stay in the tripartite agreement and handle their situation as well as they can, because it is to our interests. As long as - for the time this summer while they were handling their situation well and didn't lose gold, it meant we stopped gaining gold. So it's all to our interests. Now, I think we are all in agreement. Certainly the last time we had this conversation with Sir John Simon - I mean we softened him down some; and certainly at that time in June there was a crossing of the roads and we softened the situation considerably down.

Now, the only place I think we are differing is this, that I don't want to be too emphatic in showing the English that we are worried about the French thing. And I think that my attitude should be to say that I don't want to get into a question of words or sentences, but as long as Sir John Simon has asked me I think his note is pretty stiff, under the circumstances, and I don't think it's going to be particularly helpful; but if that's the way he feels,

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all right, but it isn't the way we feel. And let it go at that. And I can say that I do want to point out that when he says about this possibility of restoration that they "anticipate" - but I don't even know that I will get into that.

Taylor: I think it is quite necessary to go into that particular point, because the rest of it.....

H.M.Jr: Well, doesn't that lead....

Taylor: The tone isn't quite the way you'd say it, but there's nothing that we can really argue about in the rest of it. It's a lot of pious.....

White: I agree with the Secretary that if you make a point of what in the light of the broader criticism is unimportant, then you weaken the other.

H.N.Jr: It weakens it.

White: The general position is that he doesn't think the tone will be helpful.

H.M.Jr: Then if I come out and say I think that the French didn't say that they "anticipate" that - I think that pointing out that sentence weakens the other argument.

White: You can point it out cursorily somewhere in the conversation, not make a major point of it. I think it would.....

H.M.Jr: I think it weakens it; it looks as though "I think you're right but you haven't gone far enough." You see what I mean? I say, "You haven't gone far enough because you're trying to say to the French, 'Oh, fine, you anticipate this thing,' and 'Swell'." Then I say, "Wait a minute, the French haven't said that they anticipate the thing." I mean I think the two statements are in direct - contradict each other directly. My pointing out that paragraph and then, on the other hand, saying, "Now, we want to be as helpful as possible" - I think if I do the two things, they clash.

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- White: May I say, Mr. Secretary, I think you misunderstand that, because I don't think they clash. I think they're in accordance.
- Viner: The English are establishing a record. A month from now, if the franc goes down much lower, they say, "Well, we were agreed that you expected to raise the franc from the present level, instead of which you have let it go lower."
- H.M.Jr: Now look, I'll say as politely as possible, "Now gentlemen, the French are in a bad way. I think what you're saying is a little bit hard." See? - and so forth and so on. Then I turn around and say, "But may I point out that when you say that the French are anticipating that they're going to have steady progress towards stability, that the French don't say it." I'm as much as saying, "You are being too kind to them."
- Viner: That's not kind to the French.
- H.M.Jr: Oh yes, I'm saying, "You're putting words into their mouth which they don't say."
- Viner: It's commitments. It's a sort of commitment that they put into the mouth of the French.
- H.M.Jr: Well, I'm willing to sit back and listen.
- Feis: My own - I think with the Secretary that to discuss the point raised in the first paragraph is apt to be at least confusing, unless perhaps it is done very incidentally. And I don't see much significance in doing it, because you'd be raising a difference over either words or over the making of a record.
- Viner: Or perhaps over a translation.
- Feis: Or perhaps over a translation.
- White: That is, assuming it wasn't intentional.
- Feis: And that was behind my thought: that certainly if the material in the first paragraph is used at all, it should be used only warily and incidentally as possible; and that the only substance of our comment, significant substance, would lie in the second

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paragraph. Then, if you're going to use the second paragraph, whether you'd want to - which has a very important underlying point of difference with the British - whether you'd want to add to it by any general characterization of their communication to the French I don't know; my own inclination is to avoid general characterization and concentrate on the only significant point I see, which is what we bring out in the second paragraph.

White: I think the significance of that lies in the position that the Secretary is taking, that the tone of the thing is too pressing, it's too hard, and he could just make that generalization and make the other rather incidentally, if he wants to raise that later in the discussion.

H.M.Jr: Now, may I for a moment add something entirely new in this discussion, thinking of the United States first. Would it be such a calamity if the French put on exchange control?

White: I don't think so.

Feis: I think from the State Department point of view, Mr. Secretary, it would have a certain gravity - psychological gravity more than actual economic.

H.M.Jr: I'd like to discuss that. I'll go downstairs a minute. I'd like to discuss that. I'd like to point out that the Japanese have done it, and what I am thinking about is our own problem, which is gold. Let me just throw this in, and I'll come back - I won't be downstairs five minutes; we'll have 40 minutes to discuss this thing. And what I'd like to discuss with you: What are the chances of the French winning on their present basis of letting the franc float and letting it cheapen all the time, and can they win? Or wouldn't it maybe be better that they put on exchange control quickly, conserve their gold, and then we stop getting a lot of this gold, and Holland wouldn't get nervous and Belgium wouldn't get nervous and Switzerland wouldn't get nervous. Now, I'd like to come back and.....

Feis: Oh, it's a very - it's a leading question.

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- B.S.Jr: I'd like to discuss this thing. I admit this idea of exchange control sounds terrible, but is it terrible? And let's just take a look at it.
- Viner: I think if we could be sure that if they adopted exchange control that's all it would be, I'd say that that would probably be the easiest choice. But exchange control is one stage in a movement towards something else.
- Taylor: Anything approximating this government falls if they put it in.
- H.M.Jr: I simply want to say to the State Department and our own people that I don't think we have done an intelligent job unless we take a look at that too.
- Taylor: Exchange control as such - I mean in this particular situation - doesn't bother me a damn bit, but the other stuff is what you ought to think about.
- Feis: I think they're going to have no alternative if the franc goes to 160 and the same situation remains. At present I think you're in a trial area, as we were talking about this morning with Archie, to discover whether at about, let's say, 145 to 150, if their internal affairs are improved at all, whether the best speculative bet is not to begin to bring capital back to France rather than the contrary.
- White: It isn't the level of the rates which is determining the speculative element.
- H.M.Jr: May I come back and discuss this thing with you.
- (Secretary leaves)
- B'worth: There are many bona fide capitalists who took their money out, and it's not a speculative movement. We're not talking about the franc in terms of exchange rates.
- Viner: I think it would be wise to let considerations of that sort influence our way of dealing with the Simon note, but I think it would be a mistake for us in the next 50 minutes to decide whether we want them perhaps to move on to exchange control or not.

* * * *

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(Secretary returns after absence of
about 15 minutes)

Taylor: I don't think we ought to lecture him on the tone of the note. I want to read their note, the British note, over again and have you comment at each place where you don't quite like what they say.

H.M.Jr: Just don't - sit down a second, Wayne, I just buzzed.

(Mrs Betts comes in with ticker clippings)

Lochhead: I just checked on the bonds. Very good tone.

H.M.Jr: All right, at your service.

Taylor: I want to do this, because this is what we did yesterday. I mean we're not enthusiastic about the exact wording of it. So I'm going to take each sentence and you pick out what you want. See?

"I note with special satisfaction your determination to avoid any exchange control.

"The Tripartite Agreement of a year ago was as you know regarded by my Government as by yours as a very notable step towards restoration of greater stability in international monetary and economic relations.

"Subsequent events have, it must be frankly confessed, disappointed high hopes which we and indeed the whole world entertained a year ago.

"The equilibrium which we then hoped would be lasting was not achieved so far as franc is concerned.

"I fully appreciate your reluctance to see further reductions in your gold reserves. On the other hand I am sure that you will agree with me that stability of franc at a reasonable level is an objective for which it would be worth while to face considerable sacrifices.

(Secretary nods "No comment" after
each sentence)

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"The recent movements of French currency have inevitably impaired value of monetary declaration of last year in eyes of the world and if they should continue there is clearly a danger that beneficial effect of that declaration will be dissipated.

"It would indeed be most regrettable if effort of three great democratic financial centers to cooperate with each other and with other countries to a common end should fail to achieve lasting success."

H.M.Jr: Are you through?

Taylor: Yes.

H.M.Jr: Now, can I tell you a story before you get on. When you read that - I don't think I ever told you; it's one of my father's favorite stories. The wife comes in and she finds her husband angry and storming up and down. "Well, what's the matter, Bill?"

"Look at this impertinent letter that I got from my son at school."

Have I told you that?

Taylor: No.

H.M.Jr: "Just look at it."

"What did he say?"

"Bill sits down and writes me a letter: 'Dear Dad, please send me ten dollars right away. Your loving son, Bill.'" He said, "Have you ever heard of such impertinence?"

The mother said, "Let me read it. 'Dear Father: Would you please send me ten dollars. - Your loving son, Bill.'" (The last intoned with a gentle inflection, as compared with the previous harsh tone.)

Honestly, by the time you got through reading that note - that intonation of yours.

(All laugh heartily)

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H.M.Jr: Let Harry White read it.

Taylor: (Laughs)

H.M.Jr: Honestly, I couldn't wait until you got through.

Viner: Just think what Bonnet could reply to that last sentence. He says, "I'm all for cooperation in the three countries. Lend me half a billion dollars."

H.M.Jr: That was marvelous, Wayne, really. Your talents are wasted here. You should go on the stage. Well now.....

Taylor: Then we have the sentence that we argue about.

H.M.Jr: Aren't you through?

Taylor: Those are the opening remarks, as you see.

H.M.Jr: Are you going to continue the same tone of voice?

Taylor: No, I'm going to change this one a little bit.

White: He doesn't like this one.

Taylor: "I hope therefore that possibility of restoration of franc to higher level which you anticipate may be realised and that steady progress towards stability may be achieved.

"I hope also that it is part of your program to resume the relaxation of quotas and other trade restrictions as proposed in tripartite declaration. Such action should effectively assist in keeping down internal prices."

Oh, how true!

H.M.Jr: May I have a look at that, Wayne?

(Taylor hands note to Secretary,
who reads silently)

Well, of course, there is another thing which may be raised in your own discussion. All this takes time;

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I'm a little bit rushed today. I mean - not rushed - do you think that the British will say, "Well now, we have shown this to the United States and they concur," and they'll use us as a big stick? In handing this to them, do you suppose they'll say, "Well now, Mr. Bonnet, you'll be interested in knowing that this was shown to the United States Treasury and they concur in what we say"?

White: Why should they avoid that opportunity?

B'worth: Sir, this note is much weaker than the previous communications that the British sent the French, but which they showed us, remember, at the last crisis. This note is milk and honey as compared with those others. And I think the reason that they have - I was surprised that it was as moderate in tone as it was; I think that is due to the present political situation in the Mediterranean. But Phillips made clear, I thought, yesterday, that even if the franc went to 170 to the pound, there was nothing that Great Britain could really do except read them out of the tripartite, and that he was against that because he was against exchange control. Well, that more or less showed his hand. What they are really trying to do is trying to bring moderate pressure on the French, because they really couldn't use a big stick. X

Taylor: After all, those are a lot of rather pious statements. I don't see that there is any one we can pick out and say that....

Viner: All along there, as you read it again, I got the other side more clearly than I have before - the side I wasn't supposed to get, and....

White: That's a dirty trick.

Viner: "The tripartite agreement hasn't worked well because you haven't done the right thing." It gets to be a catalog of French failures.

Taylor: It's not a question of their having done the right thing. There isn't a word - there isn't a word in there about their not having done the right thing. There is a question of disappointment, and the

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world's disappointment.

Viner: "...because of you guys. After all, you see, we haven't failed....."

White: Wayne, it's one of those things in which you add up the parts and the whole is a little different than the sum of the parts.

Viner: "....so we hope you'll mend your ways."

B'worth: Mr. Secretary, I'm not sure that Bonnet will find that British note embarrassing. In his complicated French set-up, he may be well able to use the British note on some of his colleagues to make them whip into line a bit. If there is anybody capable of using that note two ways, I think he is.

White: Mr. Secretary, it seems to me the issue is very simple. They are sending a note. If you feel that that is not quite the kind of note that you would have sent if you were sending a note, the position you take is that it's all right in general, but you feel that if you were sending a note, your attitude would be a little bit more sympathetic. This is their note; it's all right; they can say what they want. There's nothing special wrong with it.

Taylor: Why give them a lot of gratuitous advice? Just emphasize that it is their note.

White: There is a possibility that they will say that they have shown it here and will say it is satisfactory to us, and since it is not a note that we would write, we might object to that implication, since we would be a little more sympathetic. For them it's all right; that is, the British Government.

B'worth: I'd say White is absolutely right, except for the fact Phillips is here and if we give a more or less general consent to the note and then in the course of our discussions which take place right afterwards go into the French position in detail, they will get our point of view about the whole position.

H.M.Jr: Now, what I was going to add - can you hold your

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thought a minute - what I could say is this. "I think it is unfortunate, Sir Frederick Phillips, that before we have a chance to exchange our views on the French situation you ask me to approve a note. Now, what I'd like to do is sit down.... If you feel - your government feels this note must go, all right. I'd like to tell you that if we were sending a note it wouldn't be couched in this kind of language at all, and I think that after you've been here a couple days you'll find out how we feel. But I can't do this thing without sitting down and having several long talks with you. This undoubtedly expresses the way your government feels, but it doesn't exactly express the way our government feels." Now, that leaves it open for me to go ahead and discuss.

"But you say you have to have an answer. All right. But this doesn't answer all the questions which I brought up the other day: What are we going to do jointly, your government and mine, if the French put on exchange control or they let the franc go above 150? So forth and so on. And I take it that one of the things that you'd like to do while you're here is to find out how we feel."

That leaves it perfectly open. Then they can't say, if I start talking tomorrow about it, "Why didn't you tell us that yesterday?"

"And I might simply add that in reading the thing over carefully I frankly don't see where you have arrived at the conclusion that the French anticipate steady progress towards stability, so forth and so on. I don't see where you arrive at that conclusion. Possibly the wish is father to the thought."

And that leaves it open for us to go in and say, "After you have been here a couple of days I think you'll find out just how the United States Treasury does feel."

Taylor:

Well, except that on this particular point you covered a lot of ground yesterday.

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- H.M.Jr: No, I don't think we got very far yesterday.
- Taylor: Well, that you both wanted to keep them in on crutches. Exactly where the level of the franc went - why, it didn't make - certainly didn't make so much difference to us, and they said it didn't make so much difference to them.
- H.M.Jr: You see, before I - after all, I want to be very fair on this thing and before I'd want to send a joint note or give my approval, I'd want to be in direct communication with Mr. Bonnet and find out just how he feels. I don't know how Bonnet feels, and I'd like to be in direct communication with Bonnet.
- Riefler: You can always say you "have no objection" to their sending the note, the phrase they used with us.
- Esas: "...but..."
- Riefler: "...but..."
- H.M.Jr: As a matter of fact, I think that if the franc continues to slip I'd send for Mr. Henry - a note to Mr. Cochran or a note to Mr. Henry - would Mr. Bonnet please send for Mr. Cochran and tell him just what is in his mind; we'd like to know.
- Riefler: I think that brings up what we meant by the second paragraph, which it seems to me is the more important of the whole business, and that is that the British are very properly concerned, and also the United States, at a permanent French franc at 150 or 160 or 170, God knows what. We feel that this kind of small pressure at this time is a little inopportune. Obviously Bonnet is working his head off to get control of the franc; he hasn't got control of it. It doesn't matter what he wants; he can't perform, he can't deliver the goods. So what we were trying to say in the second paragraph is that we must realize that Bonnet cannot perform at this moment; that he is trying, but - and therefore we must be prepared to see a lot of things we don't like.
- H.M.Jr: But, Win Riefler, my - you've worked for me now long enough to know that until the thing is entirely

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satisfactory in my own mind I hold my fire, don't I; and this thing, this whole question of our attitude towards France hasn't cleared yet in my own mind. And I think it is terribly important as far as the Treasury goes. Until I am satisfied and you people become satisfied, satisfy each other, I'd rather simply say nothing, simply say that I'd rather say nothing. Because the thing - I don't know yet what attitude I want to take, and, not being satisfied myself, I'd rather say, "No, perfectly frankly, Sir Frederick" - just say that "I don't know and until I've had further conversation with you and with the French I don't want to commit myself. Now, as far as this note is concerned, I have no objections, but on the other hand....."

Viner: I'd rather say then, "I have no comments to make. I'm grateful that I have been given the opportunity to see it and I prefer to withhold any comments on it of any sort." If you say you have no objections, then it justifies him in saying that you have no objections to it.

H.M.Jr: I'd rather say I have no comment and explain why I have no comment - because "this is too important and I haven't had a chance to talk this thing over with the French and I am not satisfied as to just what Bonnet can or will do."

Viner: Well, I certainly say that if you haven't definitely made up your mind as to what the position is, say as little as possible.

H.M.Jr: Well, Jake, I haven't. Now, you take this question of exchange control. I want to thrash it out with you people. I mean I want to thrash it out as to whether it would be good for the United States or whether it wouldn't be. Now, I want to thrash it out, see? I mean I'd like to go all around this lot, inside and out, and just satisfy myself. And I haven't. And that's the way we work and usually we come out pretty well agreed - about 90 percent agreed or 85 - that that's the way we want to go. Some person hangs back, but on the whole we usually agree. Don't we, Wayne?

- Taylor: Yes. Just one point in that approach that you've got there. I wouldn't emphasize too much in this particular conversation that you're going to have, your desire to find out what is in the French mind. In other words, you are the two strong members of the club talking about what to do with the weak sister, and I think it's very important to emphasize that it is the two strong members of the club talking about the weak sister.
- H.M.Jr: (On phone) Put in a call for Mr. Cochran for 2:30 this afternoon please. Thank you.
- Taylor: What Bonnet may have in his mind is important, but I don't think I'd rank it in importance with what Phillips might have in his mind.
- Viner: In other words, you would stress in talking to Phillips that one of the things you want to wait for before you make up your own - take up your own position definitely, is what you can learn from your conversations with him.
- Taylor: Yes, that's right.
- Viner: I think there is something funny about this process of replying definitely to a note like this in this hurry-up manner, as if there's a fire, while Phillips is here, and not getting the advantage of being able to talk these things over with him.
- H.M.Jr: Well, that certainly would be pleasing to him, that he could report back that, pending conversations - and maybe they will unburden themselves and freshen him up and bring him up-to-date and use him while he's here.
- Taylor: See, after all you've told him yesterday - and that's why I'm making this point - that your opinion has been right along, and certainly recently, that the burden of maintaining stability of world currencies is on Great Britain and the United States, you see.
- H.M.Jr: Well, I haven't changed since yesterday.
- Taylor: Well, if you emphasize wanting to find out what is in Bonnet's mind and not replying.....
- H.M.Jr: I see.

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- Viner: It's not what is in Bonnet's mind, but the course of French developments over the next few weeks which will be important; but also in - what is in Phillips' mind.
- Taylor: In other words, here are the two big boys at the table, sitting down to talk about what is going to happen to the little fellow.
- H.M.Jr: May I ask Herbert Feis something - do you mind sitting over here? Nothing to do with this conversation. (Confers quietly with Feis)
- Now, in view of what opens up today, that gives me a chance to discuss this thing tonight. We can sit down quietly and take some time. This is terribly important and it takes time; it takes time.
- Herbert, you staying at 11?
- Feis: If you wish.
- H.M.Jr: Be delighted.
- Now, what I'll do is again - we'll do it the same way. Butterworth, you stay and make notes, then hotfoot it out and dictate it. And then we'll.....
- Viner: What are you going to do about this thing?
- H.M.Jr: I'm simply going to say, "Sir Frederick Phillips, I wish you'd tell Sir John Simon I appreciate the courtesy of letting me see this note, but I don't wish to make any comment on it because I feel that with your visit here I'd like to use this opportunity to explore this whole question of our relation in the tripartite agreement, and all angles of it, and of course the fact that the French are having difficulties brings that up. But there are other angles, and I feel that this is an opportunity that I want to use to the fullest extent, and so forth and so on. And pending that, I wish to withhold comment on this." Then go on and go right into discussing this thing.
- Viner: In an exploratory manner, in other words.
- H.M.Jr: Yes.

DDM

CODAT

PARIS

Dated September 21, 1937

Rec'd 11:30 a.m.

Secretary of State
Washington

RUSH

1518, September 21, noon.

FROM COCHRAN

In broadcast speech last night Minister of Finance Bonnet promised that nineteen thirtysight ordinary budget would show surplus of one billion six hundred million francs which would be used to diminish amount of treasury bills to be issued. He said that his operations for conversion of treasury bonds payable October five are succeeding. He condemned recourse to exchange control and reasserted loyalty of France to policy of cooperation with United States and Great Britain inspired by tripartite accord. He plead for increased production and for social peace and order.

In AGENCE ECONOMIQUE this morning Flandin referred at length to recent interview in Paris in which Largo Cabellero of Valencia threatened direct action by Communist and labor organizations if states fail to act against Fascism. Flandin warned that sympathy of French friends of Cabellero and his cause and moves toward political and social agitation in France threaten Bonnet's success and will be fatal to

French credit and currency.

In LE CAPITAL Germain Martin today also stresses degree to which political agitation of extremists as elections approach to which terrorist attempts have been added will make Bonnet's task difficult.

STRICTLY CONFIDENTIAL. At Bank of France this morning at eleven thirty I learned that Bonnet's speech had not been found sufficiently reassuring by the market. On the other hand the remarks by Flandin and Germain Martin had depressed sentiment. As a consequence control had to yield six hundred thirty thousand pounds up to the time I was at the Bank to bring rate from one hundred fortysix point six to one fortysix point thirty. Even though the operation was expensive the control was proceeding here and gave orders to London to bring the rate during the noon hour to at least one hundred fortysix it being felt that France could not afford to see the franc show a decline after Bonnet's speech.

My friends asked Cobbold of Bank of England last night why the British had not yet objected to the latest decline in the franc. The reply was that Phillips was absent. Cobbold is remaining here until tomorrow discussing the general situation.

I am informed most confidentially that a Swiss banking representative came to Paris Saturday night and that there is a chance Swiss bankers may be willing to assume half the British banking credit to France if the British will extend one half thereof.

BULLITT

MBo

CODAT

Paris

Dated September 21, 1937

Rec'd 2:05 p.m.

Secretary of State,
Washington.

1320, September 21, 5 p.m.

FROM COCHRAN

French control managed to bring sterling rate down to one hundred forty-five point sixty during the official bourse but this semipolitical maneuver was quite expensive for the fund. Improvement in rates also attributed to official support. Forward franc more offered.

Referring to Washington talks Lombard editor FINANCIAL NEWS today said in part: "It is a pity that so far as it is known there is no French representative in Washington to participate in the discussions for the presence of such a representative would be taken as a reaffirmation of the solidarity of the partners in the tripartite agreement and would thus create a good impression."

BULLITT

CSB

September 21, 1937.
2:34 p. m.

Operator: Go ahead.

H.M.Jr: Hello.

H. Merle

Cochran: Hello, Mr. Secretary.

H.M.Jr: How are you?

C: Fine, thank you.

H.M.Jr: What's new in Paris?

C: Did you get one wire from me today?

H.M.Jr: I don't know. I haven't read it anyway.

C: The situation is not good here today.

H.M.Jr: A setback?

C: No. Your colleague made a speech last night and the market did not find it very reassuring.

H.M.Jr: Uh-huh.

C: But to make a good impression - at least to prevent the franc from weakening the control went in this morning to bring it up and it cost them very heavily.

H.M.Jr: Yes.

C: Right - so they strong for today but it was a heavy expense.

H.M.Jr: Uh-huh.

C: And the market was so - so familiar with what they were doing that it made really perhaps a worse impression than if they had let it go.

H.M.Jr: You don't know how much it cost them.

C: About eleven thirty when I was up there, it cost them about six hundred and thirty thousand pounds.

H.M.Jr: That's a lot of money.

C: And it certainly cost them more than double that for today. I can get the figures early in the morning. Certainly a couple of million pounds, I expect.

- H.M.Jr: Yes - now when are you sailing?
- C: The 25th. I had a sailing for tomorrow but they postponed the sailing of the Normandie until the 25th, that's Saturday.
- H.M.Jr: Well now, before you sail, I want you to see Bonnett.
- C: All right. I'll try to see him tomorrow, or Thursday.
- H.M.Jr: I want you to see him and have a talk with him, see?
- C: Right, sir.
- H.M.Jr: And - I want you to talk - get down to brass tacks, I don't want to know a lot about their legislation or anything else.
- C: Oh, no, no.
- H.M.Jr: I want to know about our Tripartite Agreement and what he's got in mind, and what he expects to do.
- C: All right, sir.
- H.M.Jr: I've got a right to ask, see?
- C: Oh, no question about it. I'll try very definitely to get an appointment before I sail.
- H.M.Jr: Yes, do you want me - should I do anything from this end on it or not?
- C: No, I can get it all right.
- H.M.Jr: I see.
- C: No; I can get it quite all right.
- H.M.Jr: You- you're sailing Saturday.
- C: Yes.
- H.M.Jr: Uh-huh - on the Normandie.
- C: Yes - and my Chief here is on the same ship.
- H.M.Jr: Good.
- C: He's coming at the same time.

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- H.M.Jr: Uh-huh.
- C: Going to put his little girl in school over
- H.M.Jr: Oh, yes. Well, I would very much like you to see Bonnett and have a heart to heart talk with him.
- C: I'll see him - and I was out at the bank this morning and the Governor wasn't there, but I am going to see him also and I'll make two or three other calls on and some others.
- H.M.Jr: Uh-huh.
- C: I'll make a particular point to see ~~the~~ Minister of Finance.
- H.M.Jr: Right. Well, anything else you can tell me.
- C: No, there's not very much - I'm not very optimistic on this situation.
- H.M.Jr: Uh-huh.
- C: Because I can't see just where it's going to stop.
- H.M.Jr: Uh-huh. Just a minute - Lochhead's making funny faces at me - just a minute.
- C: All right.
- H.M.Jr: All that Archie wants to know is how much gold they have left in their stabilization fund.
- C: Between eight and eight and one-quarter billion francs.
- H.M.Jr: Between what -
- C: Between eight and eight and a quarter.
- H.M.Jr: All right.
- C: I got those figures this morning. I didn't put them in the wire.
- H.M.Jr: Now, wait a minute
- C: Just a minute - I'll ask Taylor. How much is that down from the high?
- C: Well they - they revalued their gold, you see, in July. They had over ten billion when they revalued -

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it was some place between ten and eleven.

H.M.Jr: Uh-huh.

C: They nominally have ten billion -

H.M.Jr: I see.

C: Endowment - and then when they revalued it went over that for a while.

H.M.Jr: Uh-huh - now let me ask you something. Any particular curiosity about this visitor I've got here?

C: It's quieted down a little bit today.

H.M.Jr: Uh-huh.

C: Because the statement -rather a brief statement came out from London to the effect that he had been on a visit in Canada and that there was no particular agenda and so on.

H.M.Jr: Uh-huh.

C: But I told you in my wire that these people were rather quick to play it up.

H.M.Jr: Uh-huh.

C: Expecting some assistance.

H.M.Jr: And in my wire this afternoon - you haven't had it yet?

H.M.Jr: No.

C: I mentioned the possibility of the British expending half of the credit which falls due in - December - November - December.

H.M.Jr: Uh-huh.

C: Swiss bankers may take the other half.

H.M.Jr: Uh-huh.

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- C: That's still - that's still very much in the air. But, if you want me to come, now is really the best time for me to leave because they have these local elections -
- H.M.Jr: Uh-huh.
- C: October 10, and October 17.
- H.M.Jr: Yes.
- C: And if they go left - that is go further to the left wing.
- H.M.Jr: Yes.
- C: Then that may precipitate their rush on the franc a little more.
- H.M.Jr: So it's as good a time as any.
- C: Yes. And I tried to find out today whether the next statement of the franc will kill further lending to the States.
- H.M.Jr: Yes.
- C: If it doesn't it will simply mean that they've covered it up some way.
- H.M.Jr: I see.
- C: Because it's - it's going to be necessary for them to come on the bank almost every week, it looks now.
- H.M.Jr: Uh-huh.
- C: And that's what precipitated the trouble two weeks ago, you see.
- H.M.Jr: I see.
- C:
- H.M.Jr: Are you at home.
- C: Yes, I'm at home, yes, by myself.
- H.M.Jr: All right. Thank you very much.

- C: That's about everything that I have to tell you.
- H.M.Jr: Well, if you get anything that's emergency in your interview, why, you'd better cable it, otherwise I'll wait till I see you.
- C: All right. I shall arrive there the 30th so I'd come on the same evening to Washington.
- H.M.Jr: Yes, but I mean, if in your interview you get anything - I'd cable it because we are hungry for news.
- C: I can't hold that - I'll wire it over if it's anything at all.
- H.M.Jr: All right. Well, I'll be glad to see you.
- C: Thank you so much.
- H.M.Jr: Goodbye.
- C: Goodnight.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 21, 1937, 8 p.m.

NO.: 1323 SECTION ONE

STRICTLY CONFIDENTIAL FOR THE SECRETARY AND THE SECRETARY OF THE TREASURY.

I had a visit this evening from Monick, the French Treasury Attaché in London. He said the following:

Tomorrow morning he will return to his post in London. Today he had had a talk with Fournier, the Governor of the Bank of France, and the Minister of Finance, Bonnet. The Governor said that he was in absolute despair, that he could see no way of stopping the franc's continuous fall.

Bonnet was equally pessimistic, according to Monick.

Monick said that Bonnet, Fournier, and he ~~were~~ himself were of the general opinion that in about five or six weeks an acute financial crisis was to be expected in France. They might put off the evil day somewhat longer if Chautemps would issue decrees modifying the forty-hour law before the cantonal elections take place. The effect however would only be temporary. The franc was being driven down by two main forces, i.e., fear of war in Europe and distrust by the French capitalists, large and small, of any Government which was dependent for its life on the votes of Communists whom Moscow controls.

- 2 -

Monick and Bonnet had discussed in detail the necessity for mobilizing all forces of public opinion possible against a demand for establishing exchange control in France. A drop in the franc to a point as low as 200 to the pound had been envisaged by Monick and Bonnet, and they agreed that there would be almost overwhelming pressure to establish exchange control as the franc dropped lower.

Monick asserted that Bonnet had ordered him to see Sir John Simon tomorrow and tell him that he hoped in all conversations with French Government representatives Sir John would take the position that to establish exchange control in France would be directly contrary to the spirit and letter of the Tripartite Agreement and the end of that agreement would result if such action were taken. I was asked to convey the same message to the American Government. Monick did not (répeat not) say specifically that he had been requested by Bonnet to give me this message.

BULLITT.

EA:LWW

PARAPHRASE

SECTION TWO. No. 1323 of September 21, 1937, from Paris

In conclusion Monick said that he, Bonnet and Fournier felt that should the American and British Governments take this position, exchange control would not be established by the French Government.

Then I asked Monick what would happen, in his opinion, if France did not establish exchange control. He believed, he said, that during the next month the franc would continue to fall and might perhaps go to 200 to the pound, and that the present Government would be forced out. Thereupon for a week or more it would be impossible to form any Government in France - which week would be filled with intense excitement and rioting. A national government would be formed at the end of that period, which government would command not only the support of the country, but also a ~~xxx~~ majority in the French Chamber of Deputies. Three possible members of such a government, he said, were Daladier, Paul Reynaud, and Bonnet. In Monick's opinion the Communists would be excluded from this government, and the great majority of Socialists would vote against it. However, he said that a few Socialists would support it in addition to all the Radical Socialists and the parties of the moderate Right and of the Center. Should such a government be formed, he predicted that it would at once attack the two causes of the decay of the financial position of France. Every encouragement

agement

- 2 -

agement would be given to capital to return to France, and a great effort to reach reconciliation with Germany would be made.

Monick asserted, in the course of further discussion, that Bonnet had told him that so far as exchange control was concerned, both Bonnet and Chautemps had burned their bridges - exchange control could not be accepted by them. They were aware that great pressure would be put on them to institute exchange control, and they hoped that the British and American Governments would assist them by taking the line given in the first part of this telegram.

During the past month I have seen Chautemps and Bonnet nearly every day; since neither has spoken to me in the sense indicated by Monick, I have the feeling that Monick may be playing an individual game once more, as he has so often done in the past. It is my personal conviction that neither Chautemps nor Bonnet regards the situation so pessimistically as does Monick. It is true, on the other hand, that so long as fear of a European war continues to be as great as it is in France today, and so long as the Communists continue to have it in their power to overthrow the Government at any time, it is unlikely that a return of confidence in France will take place. Therefore I should be unwilling to predict that the crisis might not be as severe as envisaged by Monick.

END MESSAGE.
EA:LWW

BULLITT.

September 21, 1937

Herman Oliphant and Robert Jackson, of the Department of Justice, called at 8:30 in regard to prosecution of collusive bid cases.

Jackson wanted to make the point that he did not have the right kind of man or the necessary funds to carry out this prosecution, so I told him that he and Oliphant should have thought of this before they started me on this campaign.

Jackson said that he brought to the President's attention, sometime ago, that the practice of collusive bidding was in general force throughout the United States. I told him that if his idea of coming to me was that I would talk to the President about it, I wanted to tell him, point-blank, that I would not; that I considered it improper; it was up to him to get the Attorney General to fight for it. He seemed to think that there would not be much chance to get the Attorney General to do anything about it.

I told him that as a friend I would lend him all the money he wanted personally, but as Secretary of the Treasury I wouldn't get him a dime. We parted on this basis.

September 21, 1937

10:15 a. m.

Present:

The Secretary
Mr. Oliphant
Commissioner Helvering
Mr. Kent

HM, Jr: It won't take long, because I can handle this, and this is a matter which certainly ..

Mr. Oliphant: is of first importance.

HM, Jr: Here's the thing. This Executive Order that has been given the run-around since August 3rd -- it was held up for various reasons -- in my discussion with the President yesterday we arrived at this conclusion: that the Order would go out as written today, and that as the request came down from the Hill for particular income taxes it would normally go to the Commissioner's desk. The President wants Commissioner Helvering to personally look at each request. If they are germane to the work of the Interstate Commerce Commission, they would automatically receive them.

Mr. Oliphant: Is this the Committee or the Commission?

HM, Jr: To the Committee. Isn't it known as Interstate Commerce Committee of the Senate, of which Senator Wheeler is Chairman?

Mr. Oliphant: That's right.

HM, Jr: Well, if they do not appear to you to be germane to the work, then he would like you to ask them why they want that particular income tax blank and put the burden of proof on them.

Now, that seems to me, is a perfectly reasonable, common-sense way to proceed and I would like to know if that is entirely agreeable.

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Mr. Helvering: It's agreeable to me, but here's the way they proceed. For instance, they will give me notice that so and so has been designated to examine returns. After this has been approved, then of course they just come over there, and then give me a long list of returns that they want to examine. Maybe 100 or 1000. They don't give them to me singly.

HM, Jr.: Well, suppose they send you and ask you, let's say, for the return of a milk company. You say, Well, as interstate commerce, why do you want a milk company. What's that got to do with railroads? If they send to you that they would like to know the returns of Associated Gas and Electric, you would say, What's that got to do with interstate commerce. But if they want anything that has to do with the Interstate Commerce Commission, they are entitled to it, but they are not entitled to anything that has not got anything to do with the work of Interstate Commerce. Now, I want you thoroughly satisfied that what I am asking you to do for the President is reasonable.

Mr. Helvering: Of course, you have to make an analysis. You would have to find out what the company did. For, of course, -- you give an illustration of a milk company. If a milk company out here at Fairfax, or Fredericksburg, Va., or Frederick, Md., or some place like that, shipped milk into Washington, of course

HM, Jr.: .. if that's what they want it for, all right; but they might ask for the Association Gas or they might ask for the XYZ Tool Company, or they might ask for anything. But as the President said, during the war the State Department had to buy certain information. After the war Woodrow Wilson was out or was going out and the Republican Congress wanted to find out who those people were whom the State Department had paid for giving them secret information and they felt that under the statute it is not in the public interest and they refused to give them that information because it was felt it was not in the public interest and in complying with future requests of future Committees they would say this rule would apply to everybody; that they would get the income tax for individuals and companies which applied to their particular Committee, but it does not give them the right to ask for income taxes of companies

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or individuals which can't by any possible stretch of the imagination apply to that Committee. That was the thing. As a matter of fact, it sounds like common sense.

Mr. Oliphant: I think that's the law. There is no authority for Guy to give out returns beyond the scope of the Resolution. Now, what is the border line on that Resolution? You take the case of Associated Gas. It looks like it has no connection. What the President suggested, if on the face it looks like it has no connection, ask them to state why and if they say Associated Gas is paying rebates on coal shipments or we suspect they are and we would like to find out, his thought is

HM, Jr.: Put the burden of proof on them.

Mr. Kent: I know of a case where a witness was called as a Congressional witness. They thought he might have some information relevant to the purpose of the inquiry and one member of the Committee started right off by asking him for information regarding the contents of his individual income tax return and he objected right away that that had no possible relevance to the purpose of the inquiry and was sustained by a majority of the members of the Committee.

HM, Jr.: Now, will you report to Magill what's taken place, Kent?

Mr. Kent: I will be glad to.

HM, Jr.: What is the machinery for releasing this information?

Mr. Kent: It goes forward to the Federal Register and will be published.

HM, Jr.: Will you let it go forward today?

Mr. Oliphant: When Guy gets one of these where on the face it appears there is no reason, is it the thought that he will write a letter or call up the Committee?

HM, Jr.: I would do it in a letter.

Mr. Helvering: I would like to have it on record.

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HM, Jr: I would do it in the form of a letter.

Mr. Helvering: You understand how these are put out. The Executive Order comes out and then there is a T. D. in conjunction with it. Now I think it might be well for us to go over pretty carefully this T. D. because here is the one that has been issued heretofore.

HM, Jr: I just want to lay down the principle because there has been a great deal of discussion about this particular request. As to the principle, I am perfectly happy and I want to know if you gentlemen are perfectly happy. As to the machinery, if you ~~are not~~ ^{are not} ~~mind~~, that's your job. O. K., Guy? I want you to tell me if you are perfectly happy.

Mr. Helvering: They are calling on us for returns by the hundreds.

Mr. Oliphant: And this is the general rule.

HM, Jr: This is the general rule.

Mr. Kent: And if Congress is not satisfied and if Congress wants to give the Committee broader powers, it can do so in Resolution.

Mr. Oliphant: They did that, by the way, in the Pecora investigation. They put it in the Resolution.

oOo-oOo

The proposed Executive Order relating to inspection of income, profits, and capital stock tax returns by the Committee on Interstate Commerce, United States Senate, has been carefully reexamined and appears to be no broader in respect to the scope of the authority to inspect created by it than the objects of the investigation stated in the Senate Resolution authorizing such investigation. The Executive Order and accompanying Treasury Decision are virtually identical in their terms with the Executive Order and Treasury Decision issued under date of August 23, 1935 which opened to inspection of this Committee returns made under revenue acts prior to the Revenue Act of 1936.

There is appended for your information a list of cases arising in recent years in which income, profits, and capital stock tax returns have been opened to inspection by standing committees and special committees of the Senate and House of Representatives authorized by resolution to investigate particular subject matters.

The Executive Order once having issued, it would not be possible, within the long settled practice of the Department, to withhold the returns of individuals contained in groups of returns requested by the Committee to be made available for inspection pursuant to the provisions of the Order.

Special Senate Committee Investigating Foreign and Domestic, Ocean and Air Mail Contracts (so-called Black Investigation), Senate Resolution 349, 72nd Congress. Executive Order dated August 3, 1933.

Special Senate Committee Investigating Receivership and Bankruptcy Proceedings (so-called McAdoo investigation), Senate Resolution 78, 73rd Congress. Executive Order dated October 18, 1933.

Special Senate Committee Investigating the Munitions Industry (so-called Nye investigation), Senate Resolution 206, 73rd Congress. Executive Order dated June 15, 1934.

Special Senate Committee Investigating Lobbying Activities in Connection with the So-called Holding Company Bill (so-called Black investigation), Senate Resolution 165, 74th Congress, 1st session. Executive Order dated July 25, 1935.

Committee on Agriculture and Forestry, U. S. Senate, Investigating the Causes of the Rapid Decline of the Price of Cotton upon the Cotton Exchanges, Senate Resolution 103, 74th Congress, 1st session. Executive Order dated August 23, 1935.

Special Committee, House of Representatives, Investigating Old Age Pension Organizations (so-called Townsend Plan investigation), House Resolution 443, 74th Congress, 2nd session. Executive Order dated April 20, 1936.

Special Senate Committee Investigating Production, Transportation, and Marketing of Wool, Senate Resolution 160, 74th Congress, 1st session. Executive Order dated November 2, 1936.

No Executive Order and treasury decision authorizing inspection of tax returns were issued in the case of the Banking and Currency (so-called Pecora) investigation by reason of the fact that the joint resolution authorizing this investigation specifically directed the Secretary of the Treasury to make such returns available to the Committee or its agents upon request.

GROUP MEETING

September 22, 1937
9:30 a.m.

Present: Mr. Taylor
Mr. Gaston
Mr. Lochhead
Mr. Gibbons
Mr. Haas
Mr. Thompson
Mr. Riefler
Mr. Oliphant

H.M.Jr: Herbert, if you could get the original of this (cartoon, "This Cock-Eyed Age," by Herbert Johnson) I'd like to add it to my collection.

Gaston: I'll get it.

H.M.Jr: Oh, Wayne, I wanted to show you something. (Shows Taylor a telegram)

Taylor: Swell.

H.M.Jr: Isn't that nice?

Taylor: Very nice.

H.M.Jr: Couldn't be better.

Taylor: Oh, grand, yes.

H.M.Jr: Have you (Lochhead) got that Japanese stuff?

Lochhead: They're working it up now.

Gibbons: I just handed Wayne a telegram there; the Japanese arrived on the West Coast - I just got it this morning - studying narcotics with the metropolitan police. I think we ought to bring him on here; I don't know what he's going to do out there.

H.M.Jr: Got a new head of coordination, Mr. Irely; might take it up with him.

Gibbons: Yes. Just so you'd know that.

Just glance at this. There's four days with 8,000 passengers - collected \$1.64 apiece.

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- H.M.Jr: On, on that the President made a suggestion - on handling these ships, why you didn't make these ships - he was quite interested in this - radio in, oh, when they're a couple days out and get their time schedule, see, and then tell them - instead of having three ships all arrive at the same time, tell them, for instance, "The Queen Mary - you can come in at 8 o'clock" - "The Bremen - you can come in at 10."
- Gibbons: In other words, the Queen Mary, before he had this schedule of bringing them right up to lay there one day, 16 hours, down the bay, you know, just about got enough room. Yes, that's been - we tried to take that up.
- H.M.Jr: O.K.
- Gibbons: Remember Senator Smith coming down to see you about a guard that was in the Penitentiary?
- H.M.Jr: I don't want to do that stuff.
- Gibbons: Nobody here wants to do anything.
- H.M.Jr: The man's got a very good job - perfectly good job at Atlanta Prison.
- Gibbons: I'm writing a letter telling him a sad story.
- H.M.Jr: Got a perfectly good job at Atlanta. Perfectly ridiculous. Isn't he a guard in the Atlanta Prison?
- Gibbons: He's a guard in Atlanta Prison. He has to work seven days. At first he was willing to take a decrease in salary, then he said he wouldn't take a decrease.
- H.M.Jr: Why should I worry about him?
- Gibbons: I thought you'd like to do something for him.
- H.M.Jr: Oh, I would like to do something to Senator Smith. Very much so.
- Taylor: It seems this fellow is very religious; can't go to church on Sunday down in Atlanta.

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- H.M.Jr: While you were away Monday we had to do some awful fast stepping to get this fellow Wenchel approved by the Senate. I asked the White House to do it and they did it for me. For your information, the White House cleared Wenchel, the new Chief Counsel of Internal Revenue, with the two Maryland Senators. If anybody says....
- Gibbons: I was just going to ask about that.
- H.M.Jr: It was cleared by the White House. They phoned us at five minutes of four that it was O.K. If there is any question about it, it was done by the White House, so - I mean if Jim Farley should ever say anything, the White House called me. First place, the President signed it Monday morning. He didn't even tell me to try to clear it with the Senators, but I wanted to be on the safe side. I called up the White House - Thompson did - and they called the Senators and called back at five minutes of four - "Everything's lovely."
- Gibbons: Fine.
- H.M.Jr: Got anything else?
- Gibbons: No. I'd like to talk to you about my trip up to New London some day, and my associate on the trip with me.
- H.M.Jr: All right.
- Gibbons: Little gossip.
- H.M.Jr: O.K. I love gossip.
You (Thompson) all clear?
- Thompson: All clear.
- H.M.Jr: Somebody's efficient around here.
Wayne?
- Taylor: Jesse called me up yesterday afternoon about this - to explain this Commodity Credit deposit - possible request for additional capital stock. He said he thought that was coming up today.

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H.M.Jr: At 10:15. Will you be here?

Taylor: Yes.

H.M.Jr: I'm not going to do anything on it until Danny Bell gets back, but it's coming up at 10:15.

Taylor: He's - I mean he's all right on it. It's what was done before.

H.M.Jr: Well, there's no hurry.

Taylor: There's no reason why R.F.C. should take the rap for that particular thing.

H.M.Jr: Well, I'd like to fix that. And would you make a note on this - don't have to do this today - ask Jesse what loans he has in the works. Now, for your own information, the President told me - this is very confidential - Jesse said, "I've got three loans in the works aggregating about ten million. Can those go through?" The President said, "Yes." Now, I'd like to know what those three are, how much, if and when they go through. Furthermore, you understand, in case of any great emergency - well now, you might say, "Jesse, if you've got any great emergency, remember, I, Wayne Taylor, am here, and we're interested." Do you mind doing that?

Taylor: No, no.

H.M.Jr: Can you do it without making it....

Taylor: Yes, because I can call him up after this, you see.

H.M.Jr: But I'd very much like to know what those three loans are. And if anybody here has not read the President's statement on the P.W.A., I recommend it to you all. I also recommend that leading article - first article on P.W.A. in this week's Saturday Evening Post, on the three dams in Nebraska. Ten million dollars to dam up - I forget the name of the river - no water. But I guess the aggregate for the three, about 50 million dollars. But if anybody wants to read it - it's heavy reading, but - the first article in this week's Saturday Evening Post. Check. All right, Wayne?

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Taylor: (Nods yes) Mr. Lochhead and I were in there pitching last night.

H.M.Jr: Pitching pennies?

Lochhead: No, no, didn't get down that far.

H.M.Jr: What?

Gibbons: He said he hadn't gotten down that far.

Lochhead: Not last night. Couldn't get them down that far.

H.M.Jr: You mean at dinner. I suppose it was a nice jolly affair.

Taylor: We had a professional entertainer there - Wilmot Lewis took over - so that made it much easier.

H.M.Jr: But besides that?

Taylor: Oh, it was all right.

H.M.Jr: Where does he give that?

Taylor: Trentham gave it in the Shoreham. He had a dining room upstairs somewhere that he took over. Then they moved up to his place afterwards.

H.M.Jr: All clear?

Taylor: (Nods yes)

H.M.Jr: George?

Haas: I have an invitation here, just a couple lines; you might read it. (Letter signed by A. F. Woods, Department of Agriculture, inviting H.M.Jr to attend an exhibit of scientific work).

H.M.Jr: I have.

Haas: You have? About the disposition of it. You don't want to go over. I'd send Harry or Harry's assistant, Glasser. I can go myself if you want me to. I think that's the same stuff we have here - you know, that Smith has talked to you about.

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H.M.Jr: Well, let Taylor handle that, and let him assign whoever he wants to.

And while you're on your feet, here's this thing that you sent up to the house last night from Seltzer, and here's Danny Bell's recommendation before he left. They're not very far apart. But Danny Bell's is a much easier one to read. He's got here what takes you fellows ten pages to say.

Haas: Well, we explain it.

H.M.Jr: I know. Also, price of tung oil in China. And I'd like you and Taylor to see that, then I'd like to talk about it in a day or two. You're not very far apart. The boys are all... Danny wanted more 9-months and then go into the March tax bills. And these fellows, Haas' crowd, say three more 9-months. Just a question of....

Taylor: Just where it fits there.

Haas: I didn't know you were talking about that.

H.M.Jr: But personally I'd like to see those 9-months - see now far they'd go down.

Taylor: Just curious.

H.M.Jr: Just curious, especially after today's New York Times editorial that the 300 million is defective, it's finished; they can't see that it had any good effect - just washed out.

Loonhead: Government market is about 1-32d, 2-32ds higher.

H.M.Jr: All right, George?

Haas: That's fine.

H.M.Jr: And listen, I've got, I hope, tomorrow to take your fellows and give them a talk on what I have in mind for November 10.

Haas: Yes, I know.

H.M.Jr: For my speech. Because they've got the figures. The figures are perfectly grand. Now I want to tell them

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what I want to do with them.

Haas: Fine, fine.

H.M.Jr: The figures are simply grand.

Haas: Fine. Thank you. We're working up that other material too.

Riefler: Nothing.

H.M.Jr: Where am I here? Well, you (Taylor) are going over with me.

Taylor: Want me at...

H.M.Jr: 10.

You (Riefler) might be here at 10:30. Tell Viner. Archie, be here at 10:30. Have White here at 10:30.

Gaston: Did you listen to any of our show last night?

H.M.Jr: I must confess I didn't.

(Hands Gaston Paul Mallon's column of September 21 and foreign letter of Waley)

Gaston: I take it that's just a disclaimer, his denial that he inspired any such reports.

H.M.Jr: Everything all right, Herbert?

Gaston: Yes, I think so.

Oliphant: (Nods nothing)

H.M.Jr: Mr. Oliphant, I refuse to adopt your children. You're papa and mamma to that (tie bid case). I refuse to....

Oliphant: We wanted to get some suggestions from ^{you} about calling some pretty big people in here.

H.M.Jr: In the meantime that's your baby, - you and Mr. Peoples.

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Oliphant: May I handle it with Peoples?

H.M.Jr: Yes.

Oliphant: Inasmuch as it's partly administrative...

H.M.Jr: Just keep Thompson informed what you're doing.

Oliphant: All right, and I'd like, if you like, to work it up with this man Taylor, because he's kind of interested.

H.M.Jr: I have no objection. But it's your baby. I don't like these doorstep babies.

Oliphant: Well, I'm quite happy if I've got clearance; and I'll do the administrative side with Peoples, because that needs...

H.M.Jr: When you come to a conclusion....

Taylor: Senator King doesn't go with this one, Herman.

H.M.Jr: This is collusive bids.

Taylor: Yes, I know what it is.

Oliphant: Tires.

H.M.Jr: All right?

Oliphant: Yes, I'm thoroughly satisfied.

H.M.Jr: Listen, I was terribly disappointed that you didn't get Rogge. Have you given up hope on that?

Oliphant: Well, Rogge was extremely anxious to come, and Throop, his General Counsel - Rogge's very conscientious and said that he wouldn't want to leave over there unless Throop felt all right about it, and Throop took what I thought was an unheard of position by saying to me in Rogge's presence, Rogge sitting with him, that he considered Rogge under personal obligation to him to stay, regardless of how advantageous this position might be for him.

H.M.Jr: Who's this General Counsel?

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Oliphant: Allen Throop.

H.M.Jr: Why is that name so familiar? What was he before that?

Taylor: R.F.C.

H.M.Jr: Oh.

Oliphant: Well, Rogge - he's got the Cardozo type of make-up. Just, that's all - if he thinks he's under personal obligation, his word is as good as his bond. And I'm still thinking about it, but I don't yet see any hope of making it.

H.M.Jr: All right, anything else, Herman?

Oliphant: Not a thing.

H.M.Jr: I hope you people all saw last night the headline that the President was going to stop priming the pump and all that business of stopping the P.W.A. the day before; also the story discontinuing N.E.C. For your own confidential information, he said this time he's going to do what he hasn't done since he's been President - what he did up at Albany; consider the budget hearings himself. Well, I'm all pepped up.

I suppose we have to continue reading for a couple more days a few more Shafroth editorials, but....

Oliphant: I thought the way the newspapers handled the Wenchel thing was very good.

H.M.Jr: Yes. I got over the career stuff.

Gaston: Yes, yes.

H.M.Jr: They got that.

Gaston: Yes, they handled that all right.

H.M.Jr: All right.

September 22, 1937

Dr. Leonard Hsu came in with the Ambassador today to see the Secretary. Taylor and Hamilton of the State Department were present. He brought a message to the Secretary from Professor Buck (who is now staying in Nanking and Shanghai) that he is ready to report now and wanted to know whether he should return to the United States.

The Secretary thanked Dr. Hsu for bringing this message and said that he would cable Professor Buck to use his judgment and if he thinks he has something worth while to report, to come home.

The Secretary said that he would like to ask several questions, but that Dr. Hsu should feel free not to answer them if he did not wish to.

HM, Jr then said: "The newspaper reports show that the Chinese Government is sending a lot of silver down to Hongkong. If that is true, I wonder if they had in mind what disposition they were going to make of it." Dr. Hsu replied, "I am not in a position to answer that." The Ambassador remarked that he had heard of the silver movement but did not know anything about its disposition. He also said he would be glad to find out and would get in touch with Kung, who is in Germany now, and he in turn would communicate with China.

The Secretary said, "I am curious how you are going to redistribute your shipping, your foreign commerce; what channels, which rivers and what ports you will use for your imports and exports." Dr. Hsu answered, "First Hongkong; in spite of the blockades we can get there. Second, Indo-China and, third, the Northwest through Russia."

HM, Jr: remarked, "As I understand it, when you go up from Haiphong on the railroad to Yunnanfu, you have to go by trucks." The Ambassador answered, "Yes." The Secretary then inquired, "Is that highway under your control?" The Ambassador answered, "Yes." HM, Jr asked, "I understand that the port of Hongkong is terribly overcrowded." The Ambassador replied, "Yes. They have to work double shifts to unload." When the Secretary inquired, "They don't try to stop any ships except Chinese ships?", Dr. Hsu replied, "Yes. Thus far."

The Secretary then concluded the meeting with the Ambassador and Dr. Hsu by saying to the latter, "I appre-

-2-

ciate your giving me that message from Professor Buck and I will get off a cable to him tonight and hope that he receives it."

The Ambassador and Dr. Hsu left and HM, Jr said to Mr. Hamilton, who remained, "They are trying to make a contact between the Generalissimo and myself. I am not going to encourage it. I did not ask for this interview. When we were working on the monetary thing I was perfectly willing to have them contact me, but on anything else I feel that they should work directly with the State Department. If I want to know something about China I will call on you. We still get cables from Nicholson. I doubt whether I will see this fellow, Dr. Hsu, again."



TREASURY DEPARTMENT

WASHINGTON

Nanking

August 22, 1937

Honourable Secretary Morgenthau
Secretary of Treasury
Washington, D. C.

Dear Mr. Morgenthau:

I take pleasure in introducing Dr. Leonard Hsu who is now representing the Chinese Government on an important mission and who is a friend.

He has much information on the inside of the present situation which he has given me but which is inexpedient to send by message. I have asked him to frankly pass it on to you. I think it would be a good plan to have him see President Roosevelt, Secretary Hull and Secretary Roper.

Dr. Hsu represents modern China and his spirit conveys the spirit of the the China of to-day.

With best personal regards,

Sincerely yours,

J. Lansing Buck

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 22, 1937, noon

NO.: 1328 RUSH

FROM COCHRAN.

Yesterday the French control spent three hundred million francs of foreign exchange in holding the "electoral" franc - a term applied by a Lazard trader. The control was able to sell a few francs in New York yesterday evening. This morning the franc opened rather encouragingly here after firm closing at New York. However, the market soon reacted and the control has been yielding sterling with policy of keeping rate a little under 145. A policy of watching and waiting is being followed by most operators. This forenoon/a Paris-American Bank which is operating for the control had been obliged to yield only 19,000 pounds at a rate of 144.95. The renewed threat of metallurgical strikes has caused some nervousness here.

At 11 o'clock I had a telephone conversation with President Trip of the Netherlands Bank in Amsterdam. Conditions there are calm and the outlook is good, said Trip. They had not been entirely successful in the conversion operation for the Netherland East Indies, but this was attributed to technical reasons and he said he was not worried about it. The recent stock market crashes he said had been beneficial in one way, they had made everyone forget

- 2 -

forget the gold scare. The French financial situation, in Trip's opinion, was due primarily to internal politics. He felt that if the October 10-17 elections should go further Left it would make the outlook very discouraging. The Washington conversations interested Trip; he said he was happy that the Americans and the British were in direct contact. Trip asked that I visit him in Amsterdam after I get back from my visit to the United States.

Today Cobbold is leaving Paris for Helsingfors. Incidentally, on September 27 and 28 the Scandinavian Central Bank governors will hold a meeting there.

BULLITT.

EA:LWW

RECEIVED
SEP 27 1938
FEDERAL RESERVE BANK
WASHINGTON, D. C.

MBo

CODAT

Paris

Dated September 22, 1937

Rec'd 2:26, p.m.

Secretary of State,
Washington.

RUSH.

1333, September 22, 7 p.m. (SECTION ONE).

FROM COCHRAN

This afternoon I called on Bonnet and Rueff at Ministry of Finance to say goodbye. Minister Bonnet told me that he had worked out for 1938 an honest ordinary budget which would be found in balance without any "forcing". He said that people were more alarmed over French prices than they should be. He realized that French industry could not conserve the margin of profit which now results from the latest depreciation but he did not think costs would rise sufficiently to wipe out a fair measure of remuneration. From the budgetary and economic standpoint he thinks therefore that a franc of from 140 to 150 to the pound is adequate. He thought 160 would involve excessive and uncalled for depreciation from the viewpoints indicated above. He reminded me however that the psychological factor was one which could not be counted on and that if not controlled there was no telling to what limit
a currency

170 2- No. 1333, September 22, from Paris.

a currency might be lowered.

Bonnet reminded me that he was prohibited by law from resorting to exchange control and that even if this preventative did not exist he would not be a party to putting exchange control into effect or to resorting to economic autarchy. He realizes that cooperation with the United States and Great Britain involves avoidance of these two measures.

I told the Minister that certain French financial writers were interpreting his speech of Monday night as promising that France's gold stocks would be preserved as a war chest and not wasted in defense of the franc. He corrected this by emphasizing that he did not intend to let the stabilization fund exhaust its resources which he distinctly listed separately from those of the Bank of France in maintaining the franc at an uneconomic level. It may be fair to infer that the Minister would be somewhat reluctant to draw any further upon the resources of the Bank of France for replenishing the stabilization fund. Bonnet reminded me that if the franc were definitely stabilized at its present level, revaluation of the gold reserves would be ample to repay advances made to the treasury by the Bank of France.

CSB

BULLITT

MBo

CODAT

Paris

Dated September 22, 1937

Rec'd 2:47 p.m.

Secretary of State,
Washington.

~~HOUSE~~
1333, September 22, 7 p.m. (SECTION TWO)

He said his Treasury needs were guaranteed for the next few months and that he was satisfied with the budgetary outlook in 1938 except for the fact that no nation in this time of rearmament can tell exactly what its extraordinary budget is going to be obliged to carry. The Minister would make no more definite commitment with regard to the future of the franc than indicated in the foregoing statements.

Rueff thought that the present franc was satisfactory from most viewpoints except perhaps that of cost of production. He feels that the social legislation most particularly the forty hour week has imposed a charge upon French industry which certainly necessitates a franc as weak as presently obtains and probably even lower. He thinks this very point may cause an upset of the present government to be followed by one probably headed by Bonnet himself as premier which would change labor legislation. With the elections

MEMO 2- No. 1333, September 22, from Paris.

elections coming on and so many factors to be considered. Rueff thought it impossible to be any more specific in regard to the future of the franc. He reassured me however that France was gaining no unfair competitive advantage in the depreciation so far accomplished.

Rueff was very much interested in the Morgenthau Phillips conversations since with their coming just at the time of the French crisis there is a tendency on the part of certain observers and particularly financial writers to expect either a decision from the American and British partners in the tripartite agreement with respect to the franc or material assistance from these two partners in favor of the third. Aside from a British extension of the banking credit Rueff had no suggestion to make as to any concrete help that was possible but he reminded me that outsiders were inclined to expect more from the tripartite agreement than those of us on the inside. He was a little nervous lest considering the difficulty of any concrete assistance being promised from the Washington meeting and considering the absence of a French representative whatever statement is given out at the conclusion of the talks might be interpreted as unfavorable to the franc. Rueff was much interested in obtaining from me details in regard to the position of general manager of the BIS and with respect to living in Basel.

Control

MBo 3 - No. 1333, September 22, from Paris.

Control continued to support the franc at 144.95 this afternoon giving up considerable sterling but not so much as yesterday. By official intervention three months rate was brought down to five and three quarters but later lapsed to six and three eighths. Observers say control was only seller of sterling and buyer of francs on the market today and trading continued fairly narrow awaiting developments. (End message).

BULLITT

CSB

01711328
SEP 22 1948
TREASURY DEPARTMENT
WASHINGTON, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 22, 1937, 8 p.m.

NO.: 1334

STRICTLY CONFIDENTIAL FOR THE SECRETARY AND THE
SECRETARY OF THE TREASURY.

I refer to my telegram of September 21, 8 p.m.,
No. 1323.

Today in the course of a conversation with Bonnet
he made the following remarks to me - I was careful, dur-
ing this conversation not to allude in any way to my
conversation with Monick.

Bonnet expects that during the next few weeks there
will be a widespread demand for exchange control. He
told me he had not yet seen Blum with regard to this
question. He expressed the belief that in opposing ex-
change control he would have the personal support of
Blum. However, he was not sure that Blum could carry the
Socialist party on that program.

Bonnet himself is violently opposed to exchange
control; he does not think it could be established effec-
tively in France without imposing a virtual dictator-
ship. The door/^{of power}would be opened to de la Rocque and the
Croix de Feu through the imposition of exchange control.
The whole financial program of the present Government
would be affected thereby, since the object of this
Government was to ~~produce~~ restore confidence and thus
produce

- 2 -

produce a return of capital. The greater portion of the liquid capital of France was in flight abroad at the present time. Bonnet said he believed that French flight capital abroad today amounted to 150,000,000,000 francs.

This figure was high, and I questioned it; Bonnet reduced his estimate to 120,000,000,000 and finally said he was certain that French flight capital abroad amounted to 100,000,000,000 francs. I asked Bonnet whether in his opinion more than half this sum was in our country; he said he did not think so, that there was an enormous amount of French capital in Switzerland.

None of this capital would return should exchange control be imposed; it would be entering a financial mouse trap if it did return.

I was told by Bonnet that he and Chautemps would be greatly strengthened in their opposition to exchange control if they could say confidentially to their colleagues in the Ministry and to other leading politicians that the United States and Great Britain would look on such action by the French as a violation of the spirit and letter of the Tripartite Agreement, and that financial collaboration between the three great democracies would be ended thereby.

I specifically asked Bonnet if he wanted me to pass this message on to the United States Government, and he replied emphatically that he wanted me to do this. He expressed the hope that the President, Secretary Hull,

- 3 -

Secretary Morgenthau, and all other officials, in any conversations with members of the French Embassy in Washington, would make it clear that the Government of the United States would look on the imposition of exchange control in France as a complete breach of the Tripartite Monetary Agreement. He felt it would be valuable, he said, if I could be in the position to make such a statement to Chautemps and to himself; it would be of even more assistance if the French Embassy in Washington could report by cable that the American Government took this view.

Further, Bonnet said that he felt confident that the British would take the position he was asking us to take; he had had a talk with Sir Robert Kindersley today, and Sir Robert had told him categorically that he was certain that not only would the British Government regard exchange control in France as a breach of the Tripartite Agreement, but also the British bankers would not extend or renew a single pound of the French loans and credits which are outstanding in London at the present time.

The fundamental causes of the weakness of the franc were then discussed by Bonnet and myself. Bonnet talked in a manner not dissimilar to that in which Monick had talked to me last night. The main causes of the franc
weakness

- 4 -

weakness, he said, were unquestionably fear of war in Europe and the present Government's dependence on Communist votes which Moscow controlled. Bonnet alluded to the rather vigorous remarks of Chautemps regarding the Soviet Union. He indicated that he personally would not be optimistic so long as the French Government depended on Communist votes.

Monick was more specific and more emphatic than Bonnet in his remarks, but the difference was not one of substance but one of degree.

END OF MESSAGE.

BULLITT.

EA: LWW

Remainder of topics for possible discussion with Sir Frederick.

1. Proposed bill for raising reserve requirements against foreign deposits.

(Copy of bill prefaced by brief summary of contents and brief statement of pertinent factual data attached.)

2. Tentative proposals designed to impose higher taxes on foreign investments in the United States; to be discussed in detail by Mr. Magill if Sir Frederick is interested.

3. Exchange of information on Russian gold production.

Possibly the British Treasury has access to some information with respect to Russian gold production which they would give us.

Attached is a statement of U.S.S.R. gold holdings here and the imports of gold from U.S.S.R. into the United States and into U.K.

4. Information with respect to foreign holdings in U.K.

Attached is such information as is available to us. It would be interesting to us if we could know the British Treasury estimates of sterling deposits in London of foreign countries.

TREASURY DEPARTMENT

177

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Mr. Haas

Subject: Proposed bill to increase reserve requirements on foreign deposits

1. Summary of the proposed bill

- a. The Board of Governors of the Federal Reserve Banks will have the power to establish the reserve ratio requirements against foreign deposits, up to 100 percent.
- b. Reserve requirements against foreign deposits will apply to all banks in the United States, whether member banks, non-member banks or private banks.
- c. Banks with total deposits of less than \$10 million are exempt. Deposit amounts of less than \$7500 are exempt.
- d. Banks, except the Federal Reserve Banks, can be prohibited from accepting deposits from foreign central banks or foreign governments.
- e. Banks subject to the law are required to submit all information about foreign deposits that the Board of Governors may require.

2. There are \$1.8+ billion of foreign deposits now in United States banks

\$ 200	are in Federal Reserve Banks
460	are in private banks
1,030	are in New York member banks
110	are in other banks
<u>\$1,800+</u>	

Only a small part of foreign deposits are in banks of less than \$10 million total deposits, and only a small part are in accounts of less than \$7,500.

CONFIDENTIAL

June 29, 1937

TO Board of Governors
FROM Mr. Vest

SUBJECT: Revised Summary of Bill
Regarding Reserves Against
Foreign Deposits

There is submitted herewith for the information of the Board members a brief non-technical summary in revised form of the more important provisions of the proposed Bill to regulate bank reserves against foreign deposits. There is also submitted a copy of a revised draft of the Bill itself. The draft, of course, is still in preliminary form and is being constantly changed and revised to meet new suggestions.

Respectfully,

(Signed) George B. Vest

George B. Vest,
Assistant General Counsel.

Attachments.

C O N F I D E N T I A L

June 29, 1937

REVISED SUMMARY OF BILL TO REGULATE BANK RESERVES
AGAINST FOREIGN DEPOSITS

There is set forth below a summary of the principal provisions of the proposed bill to regulate bank reserves against foreign deposits. The bill would be in the form of an addition of a new section to the Federal Reserve Act known as section 19A and the references below are to subsections of the new section.

Reserves against Foreign Deposits

Every bank in the United States or its territories or possessions, having total deposits of all kinds aggregating more than \$10,000,000, would be required to maintain against its foreign deposits a reserve balance with the Federal Reserve bank equal to such percentage of its foreign deposits as the Board of Governors of the Federal Reserve System may from time to time require. (Subsecs. (a) and (b))

The law would not apply to a bank whose total deposits are less than \$10,000,000, but would affect every bank having deposits of more than this amount, whether or not a member of the Federal Reserve System and including in the term "bank" every person or organization engaged in the business of receiving deposits. (Subsec. (a)(1))

"Foreign deposits" are defined to mean those (a) of a person who is not domiciled in the United States, (b) of a corporation or other organization organized abroad or having its home office or principal office abroad, (c) of a foreign central bank, foreign government or political subdivision thereof, or (d) of a foreign branch of an American bank. (Subsec. (a)(2))

Reserve balances required against foreign deposits must not exceed the amount of deposits against which they are required and must be uniform as to all banks having foreign deposits. (Subsec. (b))

Different reserve percentages may be prescribed, however, against foreign demand deposits, savings deposits, and time deposits and against foreign deposits of banks located in central reserve cities, reserve cities, or elsewhere. (Subsec. (b))

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A member bank of the Federal Reserve System which would be required under the new law to maintain reserve balances against foreign deposits would be excused from carrying reserves against foreign deposits under the now existing reserve requirements of the law. (Subsec. (b))

Deposits of Foreign Central Banks and Foreign Governments

The Board of Governors would be given authority to require that all deposit balances maintained in this country by foreign central banks and foreign governments be carried in a Federal Reserve bank, by prohibiting any other bank from receiving such deposits. This authority could be exercised by the Board from time to time whenever it found it necessary to do so. (Subsec. (c))

Such prohibition against banks other than Federal Reserve banks receiving deposits of foreign central banks or foreign governments would not apply to banks having total deposits of less than \$10,000,000. (Subsecs. (a)(1) and (a)(2))

Obtaining Information as to Foreign Deposits

Each bank subject to the new law would be required to furnish from time to time to the Federal Reserve bank such reports and information as the Board may require with respect to the bank's deposits and depositors or otherwise for the effective administration of the law. In making such reports a bank would be entitled to rely upon information which it may obtain in good faith from its foreign depositors or their representatives or agents. (Subsec. (d))

Penalties

Banks would be prohibited from using the mails or any instrumentality of interstate or foreign commerce in order to effect any act with respect to a foreign deposit unless it is at the time complying with the requirements of the new law.

A bank would be subject to a penalty of \$_____ per day for violation of any provision of the new law or any regulations issued thereunder, and this amount could be collected by the Federal Reserve bank by suit or otherwise upon direction of the Board. Also, the Board could direct a Federal Reserve bank to bring suit to enjoin a bank from violating the law. (Subsecs. (e)(1) and (e)(2))

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Any depositor or representative or agent thereof who, with intent to deceive, gives false information or conceals information from any bank which is endeavoring to obtain information in order to comply with the new law would be guilty of a misdemeanor and subject to fine. (Subsec. (e)(5))

Regulations by the Board

The Board would be given authority to define terms and to prescribe rules and regulations necessary in order to effectuate the purposes of the law and to prevent evasions thereof, including regulations ~~and~~ the method of determining whether a bank's deposits are more or less than \$10,000,000. (Subsec. (a)(4))

(Confidential Preliminary Draft)

June 29, 1957.

A B I L L

To regulate bank reserves against foreign deposits in order to prevent or mitigate injurious credit expansion or contraction or injurious effects upon the foreign trade or commerce of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Reserve Act is amended by inserting therein, immediately following section 19 thereof, a new section reading as follows:

"Section 19A. (a)(1) The word 'bank', as used in this section, shall mean any person, firm, corporation, association, business trust or other similar organization, including any branch or agency thereof, engaged in the United States in the business of receiving deposits subject to check or to repayment upon presentation of a pass book, certificate of deposit or other evidence of debt or upon request of the depositor, except a Federal Reserve bank; provided that the requirements of subsection (b) and subsection (c) of this section shall not apply to any bank having aggregate deposits of all kinds in an amount not exceeding \$10,000,000.

"(2) The term 'foreign deposits', as used in this section, shall mean deposits, made in or payable in the United States, standing to the credit of or in which

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any part of the beneficial interest is in, (A) any person who is not domiciled in the United States, (B) any firm, corporation, association, business trust or other similar organization which is organized under the laws of a foreign country or which has or maintains either its home office or its principal office outside of the United States, (C) any foreign central bank or any foreign government, whether such deposits are made by or are owing to such foreign government directly or indirectly, (D) any political subdivision of any foreign government, (E) any bank's branch, agency or office located outside of the United States, whether such deposits are in an office of the parent bank or in any other bank, and (F) any other person, firm, corporation, association, business trust or other similar organization making or maintaining such deposits for the purpose of evading the provisions of this section, either at the instance of or on behalf of or as an intermediary of any person or organization of the kind specified in clause (A), (B), (C), (D), or (E) of this sentence or otherwise.

"(3) Wherever the term 'United States' is used in this section in a geographical sense, it shall be held to mean the States of the United States and the District of Columbia and the territories, dependencies and possessions of the United States, including the Canal Zone.

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"(4) The Board is authorized from time to time, in order to effectuate the purposes of this section and prevent evasions thereof, further to define the term 'bank', 'foreign deposits' or 'United States', to define other terms used in this section, and to prescribe such rules and regulations as it may deem necessary. Such regulations may include among other things provisions as to the method of determining from time to time the aggregate deposits of all kinds of any bank and as to the dates or periods with respect to which such determination shall be made from time to time for the purposes of this section.

"(5) The term 'Board', as used in this section, shall mean the Board of Governors of the Federal Reserve System.

"(b) Every bank shall establish and maintain with the Federal Reserve bank of the district in which it is located actual net balances equal to such percentages of its foreign deposits as the Board may from time to time determine to be necessary and prescribe by regulation in order to prevent or mitigate injurious credit expansion or contraction or to prevent or mitigate injurious effects upon domestic credit conditions or upon the foreign trade and commerce of the United States which may be caused by the inflow of gold into or the outflow of gold from the

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United States or which may be caused by changes in the amount of foreign deposits in the United States. The percentages authorized to be prescribed by the Board by this subsection shall be uniform as to all banks having foreign deposits and may be applied to foreign deposits which are demand deposits, savings deposits, or other time deposits or all of them, and different percentages may be required with respect to such classes of foreign deposits respectively and different percentages may be required with respect to foreign deposits in banks located in central reserve cities, reserve cities, or elsewhere; but the required amount of such reserve balances shall not exceed in any case the amount of foreign deposits against which they are respectively required to be maintained. A member bank of the Federal Reserve System which is required to maintain reserve balances against foreign deposits under this section shall not be required to maintain any reserve balance against such foreign deposits pursuant to the provisions of section 19 of the Federal Reserve Act.

"(c) No bank shall accept or maintain any foreign deposits of the kinds specified in clause (C) of paragraph (2) of subsection (a) of this section except to the extent, if any, as may be permitted under such regulations, conditions and limitations as the Board may from time to time determine to be necessary and prescribe in order to prevent or mitigate

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injurious credit expansion or contraction or to prevent or mitigate injurious effects upon domestic credit conditions or upon the foreign trade and commerce of the United States which may be caused by the inflow of gold into or the outflow of gold from the United States or which may be caused by changes in the amount of foreign deposits in the United States. The prohibition of this subsection shall not be effective except during such periods of time as the Board may determine to be necessary and fix, by the regulations which it is authorized to prescribe, in order to carry out the purposes of this subsection. In addition to the authority contained in subsection (a) of section 14 of the Federal Reserve Act, any Federal Reserve bank is authorized, subject to such regulations, restrictions and limitations as the Board may prescribe, to receive foreign deposits of the kinds specified in clause (C) of paragraph (2) of subsection (a) of this section during such periods of time as any bank may be prevented, limited or restricted from receiving such deposits pursuant to the provisions of this subsection.

"(d) Each bank subject to the requirements of subsection (b) or subsection (c) of this section or which appears to the Board may be subject thereto shall furnish to the Federal Reserve bank of the district in which it is located, or to the Board if the Board so prescribes, such reports and other information as the Board shall determine to

be necessary and shall require with respect to deposits and depositors or otherwise for the purpose of the proper and effective administration of this section in accordance with its purposes; and in complying with the provisions of this sentence no bank shall make any false statement or report or give any false information or fail to disclose any material fact. Each bank may obtain from its depositors or their representatives or agents such information or statements in the form of affidavits or otherwise as may be necessary in order to furnish the reports and other information which the Board may require pursuant to the provisions of this subsection, and no bank in classifying its deposits or in furnishing reports or information pursuant to this subsection or in taking any other action necessary to conform to the provisions of this section shall be considered to have violated or failed to comply with any prohibition or requirement of this section or regulation issued pursuant thereto if it does so in reliance upon and in accordance with information obtained by it in good faith from its depositors or their representatives or agents unless it knows such information to be false or has knowledge which would put a prudent person upon inquiry and would if investigated with reasonable diligence lead to the discovery of the falsity of the information so obtained.

"(e)(1) No bank shall, directly or indirectly, make use of the mails or any means or instrumentality

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of interstate or foreign commerce in order to effect or attempt to effect any act with respect to a foreign deposit unless such bank at such time is complying with all the requirements of subsections (b), (c) and (d) of this section and of any regulations issued thereunder. Any bank which violates or fails to comply with any prohibition or requirement of this section or any prohibition or requirement prescribed by the Board pursuant to the provisions of this section shall be subject to a penalty of \$ _____ for each day during which such failure continues, which, by direction of the Board, may be collected by suit or otherwise by the Federal Reserve bank of the district in which such bank is located.

"(2) Whenever it shall appear to the Board that any bank is engaged or about to engage in any acts or practices which constitute or will constitute a violation of the provisions of this section or of any rule or regulation thereunder, it may in its discretion require the Federal Reserve bank of the district in which such bank is located to bring, and thereupon the Federal Reserve bank shall bring, a suit to enjoin such acts or practices, and upon a proper showing a permanent or temporary injunction or restraining order shall be granted without bond. Any suit authorized by paragraph (1) or (2) of this subsection shall be deemed to be a suit to which a Federal Reserve bank is a party within

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the meaning of section 25(b) of the Federal Reserve Act.

"(3) Any depositor or representative or agent thereof who makes any false statement or gives any false information to any bank, or conceals any information from any bank, with respect to any matter regarding which such bank is endeavoring to obtain information pursuant to the provisions of subsection (d) of this section or regulations issued thereunder, with intent to deceive such bank, any Federal Reserve bank, or the Board, shall be guilty of a misdemeanor and fined not more than \$_____.

"(f) If any provision of this section, or the application thereof to any person or circumstances, is held invalid, the remainder of the section, and the application of such provision to other persons or circumstances, shall not be affected thereby."

Gold in U.S.S.R.

Gold Imports from U.S.S.R.

(in millions)

Total January 1, 1936 - July 1937	\$175
Imports into United States	\$ 12
Imports into United Kingdom	\$163

State Bank of U.S.S.R. funds on deposit with New York Federal Reserve Bank September 8, 1937.

(thousand dollars)

Balances	3,692
Earmarked gold	3,877
Short term investments	<u>3,500</u>
Total	11,069

The balance sheet of the State Bank of U.S.S.R. on January 1, 1937 reported gold holdings of 190,615,323 chervontsi or 381 million dollars. The Commissariat for Finance is also reported to hold some gold and estimates of total gold stocks in U.S.S.R. range from 500-1000 million dollars.

Cash Reserves Against Bank Deposits in United Kingdom, France, and United States

Present practice in the United Kingdom, France, and the United States.

A. United Kingdom:

(1) Joint stock banks. At present there are no legally imposed cash reserve requirements for the joint stock or private banks. However, the Big Five traditionally maintain a reserve in the form of cash in hand and with the Bank of England which constitutes between 20 and 25 percent of demand deposits. It very rarely goes beyond this narrow limit.

(2) The Bank of England. The Bank of England is allowed by law a fiduciary issue of £200,000,000 in notes and has to cover all its further issues, pound for pound, by gold. The amount of the fiduciary issue has been varied several times in the last few years. The Bank has the right, with consent of the Treasury, to increase its fiduciary issue by not more than £15,000,000 without any special legislative permission.

(3) Reserve against foreign deposits. England at present has no reserve requirements against foreign deposits. Figures on foreign deposits with English banks are not published. The MacMillan Committee of 1931 found in a special investigation that total deposits held on account of foreigners were £227,000,000 in March 1931. Total deposits, sterling bills, advances, and acceptances held on account of foreigners amounted to \$560 million pounds sterling at the end of March 1931.

Estimates of short-term liabilities of London to foreigners, for the years 1927 to 1934, were published in a recent study "Problems of International Investments" by the Royal Institute of International Affairs. The figures they give for those years are as follows:

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(In million pounds)

1927	419	1931	235
1928	503	1932	302
1930	435	1933	435
		1934	450

(These figures are for the total at the end of the year. A discrepancy is to be noted between the figures given by the MacMillan Report and those cited in the table above, and may probably be explained that on the grounds between March and the end of the year there was a very large out-flow of funds.)

Since 1934 the London liabilities to foreigners have unquestionably increased. They are probably within the range of about \$3 billions. These figures refer to total short-term foreign investments in London. If foreign deposits constitute the same proportion of total foreign short-term investments as they did in 1931, foreign deposits in England now cannot be much less than a billion dollars and they will be more. In view of the very low interest rates prevailing on short-term funds, the likelihood is that the proportion to short-term funds consist of deposits is not less than it was in 1931, but more.

According to the last report of the Bank for International Settlements, sterling assets held on account of nationals of the United States, the Scandinavian bloc, South Africa, Egypt, New Zealand, Australia, India and the Irish Free State totalled £315 million, or \$1,575 million at the end of February 1937. This total does not include the balances of France, the Netherlands, Switzerland, Belgium, Japan and Russia and other countries which are known to have sterling balances in significant amounts.

England might reasonably maintain that the cash reserves which she now holds against her deposits, foreign as well as domestic, are almost as high as those established here after the recent increase in reserve requirements. If England were to decide to impose a reserve requirement against foreign deposits, the requirement would have to be at least 25 percent to, in effect, bring about any increased cash reserves.

September 23, 1937.
10:25 p. m.

H.M.Jr: Now, we got your cable.

H. Merle

Cochran: Yes, sir.

H.M.Jr: And, the State Department people are here and also Sir Frederick Phillips. Now, we've changed this message a little bit and I'll read it to you again.

C: All right.

H.M.Jr: Ah -

"I thank you for your message. I note with satisfaction your affirmation of your continued opposition to the adoption by France of exchange control. I am also glad to be informed of your ~~conviction~~ conviction that from the budgetary and economic standpoint it will not be necessary to establish a level for the franc of over 140 to 150 to the pound sterling.

"May I assure you that I am following with sympathetic interest the efforts of France....." - Before that we had the Government, you see. ".... the efforts of France to cope with difficulties which I trust will be merely temporary. It is my hope that your country will succeed in its endeavor to meet the existing situation without recourse to any measures which are not in conformity with the spirit of the Tripartite Declaration, the successful operation of which our governments so urgently desire."

C: Yes.

H.M.Jr: Now, to give you a little background on this. The British Treasury expect a call tomorrow from the French.

C: I didn't hear that.

H.M.Jr: The British Treasury expect a call tomorrow morning from the French in London.

C: Yes.

H.M.Jr: And they have to give them some kind of an answer.

C: I see.

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- H.M.Jr: And we've worked this out together and we don't feel here that there is anything in this that the present French Government or any succeeding government could make public.
- C: How's that?
- H.M.Jr: Could not make public if they wished.
- C: Well, of course, they have not been willing to make any public statement to the effect that they were going to hold the franc between 140 and 150.
- H.M.Jr: True. But, in this report, in both - but you mentioned that in your cable.
- C: I do, yes.
- H.M.Jr: Well.
- C: But he seems not to be willing to give any indication to the market, you see, to the public.
- H.M.Jr: Oh, but he did say that to you?
- C: Yes, he did.
- H.M.Jr: Well, we're just throwing it back at him, that's all. Hell?
- C: Yes.
- H.M.Jr: I said we're just putting it back to him.
- C: Oh, I see. Yes.
- H.M.Jr: Now, the way we feel at this end, we're - we don't intend to make this public.
- C: No.
- H.M.Jr: And, if the French are going to make it public we'd like to know it, that's all.
- C: That is, if they intend to make it public you want to know it?
- H.M.Jr: Yes, I'd like to know it in advance.
- C: Yes.

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H.M.Jr: But at this end, as far as we're concerned, we have no intention of making it public.

C: Yes.

H.M.Jr: And I don't believe the British have either.

C: They're willing to draw their next statement, are they?

H.M.Jr: Well, they haven't - the Government hasn't seen it but I have reason to believe that it will meet with their approval.

C: I see.

H.M.Jr: But they'll receive this as a suggestion tomorrow, and they'll have to take it and consider it. But, as far as one can tell, without having definite word, I believe that they're apt to accept it.

C: I see. Your visitor is still there, is he?

H.M.Jr: Pardon me?

C: I say, the visitor is still there, isn't he?

H.M.Jr: He's in the room here with me now and I am looking right at him.

C: I see.

H.M.Jr: And when I said that he nodded his head.

C: (Laughs) Yes.

H.M.Jr: And -

C:

H.M.Jr: Hello?

C: Hello.

H.M.Jr: Furthermore, we'll give a copy of this to Henry here in the French Embassy. We'll give it to him in a little while.

C: Yes.

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- H.M.Jr: And I frankly can't see anything in this but it simply gives an expression of how we feel and simply throwing back at them their own words.
- C: I feel this - if you want my opinion any further.
- H.M.Jr: Go ahead.
- C: That the people here had no confidence following Bonnet's statement. The reaction was quite bad.
- H.M.Jr: Yes.
- C: I don't believe a statement coming from you people now will greatly alter the situation. There is so much speculation against them right now and there's so much unpopular spirit that I think there must be a political straightening out before there is any possible chance of holding the currency.
- H.M.Jr: Yes. Well - let me give you, so that you have my feeling.
- C: I see.
- H.M.Jr: We're not doing this for the public effect it will have in France. We're simply doing it, first, because Bonnet sent us this message, and he's entitled to an answer; and second, because our other friends are in the position that they have to give an answer tomorrow.
- C: I see.
- H.M.Jr: Now, I feel that it's most important that two of us are shoulder-to-shoulder in this affair.
- C: Yes.
- H.M.Jr: And that that is more important than anything else.
- C: That's my idea, that it is so important that you people stay together.
- H.M.Jr: Pardon me?
- C: Your visitor there.
- H.M.Jr: What is that, Cochran?
- C: I say, I said the big part of our Tripartite agreement now is to keep the Americans and British together.

H.M.Jr: Well, we are together.

C: As far as this position is concerned, I think it's almost hopeless.

H.M.Jr: Well, of course, my visitor here can't commit himself, but as far as he is concerned, personally, he and I are together.

C: Yes.

H.M.Jr: And, of course, I don't expect him to commit his government, but as far as he is concerned we're together.

C: Yes sir.

H.M.Jr: And, as I say, they have the situation that they have to meet at nine o'clock tomorrow morning.

C: I see.

H.M.Jr: And if they take, I mean, if I was so situated, I imagine that they will accept this.

C: I see.

H.M.Jr: Because, I mean, they are under no obligations to accept it.

C: Uh huh.

H.M.Jr: But - I mean - And if they do why then once more two of the Governments are having a united front.

C: Yes.

H.M.Jr: Which, at this time, is, I think, the most important consideration.

C: Yes. Absolutely.

H.M.Jr: And then the other consideration is what effect would this have domestically in the United States if it became public that all of us feel here that it would be all right.

C: Yes.

H.M.Jr: We simply again have expressed our sympathy with the French and have told them - just repeated their own words, that's all.

C: Yes.

H.M.Jr: And I don't see what else we can do. And just - will you hold on a moment? - But I wanted to let you know, the reason of this call is I wanted to let you know how I felt so that when you delivered this tomorrow, personally, you would have - be able to express to Mr. Bonnet how I felt.

C: And You will cable the message to me tonight?

H.M.Jr: Yes.

C: - personally, will you?

H.M.Jr: Dr. Feis is sitting here - it'll go off at once.

C: I see.

H.M.Jr: Hello?

C: Yes.

H.M.Jr: Now just a moment, Mr. Taylor wants to say something.

C: Yes.

H.M.Jr: Just hold on.

(Short pause.)

H.M.Jr: Mr. Taylor makes a very good point. Hello?

C: Hello.

H.M.Jr: This message will be sent to you with instructions to hold it until we hear from the British that it's acceptable to them.

C: To hold it until I hear from the British that it is acceptable to them?

H.M.Jr: No, until you hear from the State Department.

C: Until I hear from the State Department?

H.M.Jr: Yes. What we'll do, we'll send this over to you.

C: Yes.

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H.M.Jr: If we get word from the British that it's all right, I'll ask them to use the telephone and we'll just phone you and say, "Release it."

C: Fine, I'll wait until I hear from you.

H.M.Jr: Yes.

C: Yes.

H.M.Jr: We'll simply say to release it.

C: Yes.

H.M.Jr: You - you see?

C: And I will get word personally from Bonnet -

H.M.Jr: That's right.

C: - that until I hear from he won't release it.

H.M.Jr: Yes, and we have no intentions of giving it any publicity, but if he should decide to give it publicity we want 24 hours' notice.

C: And when you refer to his message, do you mean the information which he gave me and I sent forward in a message?

H.M.Jr: That, and the one from Bullitt.

C: The two combined.

H.M.Jr: The two combined.

C: I see.

H.M.Jr: Yes.

C: Fine.

H.M.Jr: Now just hold on please.

(Pause for aside conversation.)

C: Hello? Yes.

H.M.Jr: What the people here say is, not to raise the publicity thing unless he does.

C: I see.

H.M.Jr: And take it perfectly for granted that - that it's just a message between governments.

C: I see.

H.M.Jr: See?

C: Yes, sir.

H.M.Jr: Now just hold on, please.

(Pause for aside conversation.)

H.M.Jr: Cochran, the point that we want to make sure of, and ~~we'll~~ we have to let you use your judgment on the ground - if there's going to be any publicity, we want 24 hours' notice. Hello? - Hello? (Clicks instrument.) Hello?

Operator: Just a moment, please.

H.M.Jr: Are you calling him?

Operator: Yes, sir.

H.M.Jr: He's gone.

Operator: Who? Fine - Something wrong? Can't you hear?

H.M.Jr: So far. But he's just -

Operator: Oh, you mean he was cut off?

H.M.Jr: Yes.

Operator: Oh, wait till I get him back for you.

(Very long pause)

H.M.Jr: Hello?

Operator: I have him back.

H.M.Jr: Thank you.

Operator: Go ahead.

H.M.Jr: Hello? Hello?

C: Hello.

H.M.Jr: Cochran?

C: Yes.

H.M.Jr: The point that they want to make here is that we take it for granted, there will not be any publicity, but -

C: For granted there will not be any publicity.

H.M.Jr: Yes. But if he brings it up or if you feel from his conversation that he is going to give it the publicity -

C: Yes.

H.M.Jr: - that we want 24 hours to think it over, as to whether we want it or not. See?

C: I see.

H.M.Jr: See?

C: Yes, sir.

H.M.Jr: In other words, this is not one of those notes which we expected to give it publicity.

C: I see.

H.M.Jr: Ah - but as far as I'm concerned, personally, if it did get in the papers - I mean it wouldn't worry me, because it's written so that there's nothing in there but what could be put on the front page if it had to be.

C: No, it - it would worry him more than it would worry us, I should think.

H.M.Jr: You've got it. You've got it. Now - ah - ah - I had a chance while we were cut off to check with our visitor and he said I stated his position accurately.

C: Fine.

H.M.Jr: Now, just a moment.

(Pause.)

H.M.Jr: And - hello?

C: Yes.

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H.M.Jr: The State Department will send you a confirmation of my instructions that you should not sail until further notice.

C: Not sail until further notice.

H.M.Jr: Please.

C: All right, sir.

H.M.Jr: Just a minute. (Aside: Wayne? -)
Well, go back and have a good night's rest.

C: All right, fine.

H.M.Jr: Good night.

C: Good night, sir.

FEDERAL RESERVE BANK
OF NEW YORK

W. C. ...
203

OFFICE CORRESPONDENCE

DATE September 23, 1937.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knack

I called Mr. Bolton at 11:45 today. As regards the French franc, he said that a very strong movement had continued against that currency since he spoke to me last. The French demand had principally been for sterling but a good deal of that sterling, he thought, was subsequently converted into dollars. There had been no substantial seasonal demand for dollars in London recently, so that it seemed safe to assume that the European demand for that currency had been for investment purposes.

We discussed at length the situation in Belgium. He agreed with me that technically the position of the belga was strong but that the principal trouble there was of a political nature; if Van Zeeland stepped out - and as to that, it was much of a toss-up - the danger was that the Socialists would demand leadership of the new government, which probably would split the Liberal group which, for the last three or four years, had supported the government. There was no question that people in Belgium distinctly worried about this political situation.

I inquired whether there was any pressure against the Swiss franc but he answered in the negative. That currency, he said, had been firm on the whole this year. As the Swiss got in gold they had turned it into dollars or sterling; they had also steadily bought dollars outright in the Zurich market.

Bolton then spoke of the London gold market where, he said, quite evidently a hoarding demand for gold, and particularly for gold coin,

OFFICE CORRESPONDENCE

DATE September 23, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knake

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was developing. There was so little around of the latter that 1/2% premium was freely bid for any gold coin. The demand, he continued, was primarily from West Africa, the British Indies and the Dutch Indies, which countries seemed to have enjoyed a measure of prosperity. Investment in commodities, in securities, or for that matter, in foreign exchange seemed to have been discouraged by the recent action of these markets, with the result that gold once again was looked upon with favor.

I brought up the subject of Russia and mentioned that the Russians had just asked us to release from earmark the balance of \$5,000,000 of gold which we had received only a few days ago. This, I continued, according to the best information available to us, brought the total cash balances of the Russians in this market up to about \$25,000,000 and the question was what were they going to do with it. Belton thought that they, in London, were facing the same problem; the Russian balances were distributed over the London market and nobody knew what the Russians did with them. It looked to him, however, that they were really spending the money possibly because, as they were led to believe from all the information obtainable, Russia was facing a general breakdown in production. As an example, he mentioned oil of which, according to the latest information, there was no surplus at all in Russia. I inquired whether he had heard anything of the rumors to the effect that within the last two weeks the Russians had jumped into the sterling market in Paris with both feet, buying all the sterling they could lay hands on.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE September 22, 1937.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knobe

BANK OF ENGLAND.

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Bolton question this very definitely because he felt that this could not have been done without his or Cariguel's knowledge.

LWK:KMC

RECEIVED
SEP 24 1937
TREASURY DEPARTMENT
Office of the Director
Federal Reserve Bank of New York

MBC

CODAT

Paris

Dated September 23, 1937

Rec'd 2:38 p.m.

Secretary of State,
Washington.

1336, September 23, 5 p.m.

SECRET ~~CONFIDENTIAL~~

French control began supporting franc at 144.95 when trading opened this morning and has even pressed rate down to 144.8075. There has been little market reaction in sympathy with the official intervention. Real sentiment of market is seen in widening of three months sterling premium to seven and one fourth. Bank of France statement as of September 16 showed no new advances to state and no significant changes; coverage 51.81 versus 52.08. One private banking informant has reason to believe, however, that ~~between~~ now and end of month the bank statements will have to show new advances of at least four billion francs to the state.

Discussing the nervousness of the franc FINANCIAL TIMES, London, today said in part under money market notes: "As pointed out here yesterday the dismissal of the idea of exchange restrictions by Monsieur Bonnet was received favorably

MBo 2- No. 1336, September 23, from Paris.

favorably but there persists a view that circumstances may yet prove too strong unless, before next November, French nationals awaken to the dire necessity for producing and exporting more in order to adjust the trade balance."

In criticizing policy of French control in improving franc after Bonnet's speech Lombard, editor of FINANCIAL NEWS, said in part writing Wednesday evening: "Both yesterday and today the natural undertone of the market was adverse to the franc but in spite of this the authorities artificially produced an improvement of the rate. The artificial character of this movement was so obvious to market operators that it could not deceive any but the most timid of bears. The bear squeeze was carried out with much vigour but unfortunately the bears refused to be squeezed. On the contrary the appreciation of the franc was accompanied by an increase of the speculative selling pressure."

BULLITT

WWC

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: September 23, 1937, 8 p.m.

NO.: 1338

RUSH.

STRICTLY CONFIDENTIAL FROM COCHRAN.

Between six and seven o'clock this evening, I visited Governor Fournier and Cariguel separately at the Bank of France. Today the French control lost two hundred eighty-three million francs of foreign exchange. Yesterday the control lost two hundred three million francs, and on Tuesday it lost three hundred eighteen million. Thus it has been very costly to try to make the franc appear strong after the speech of Bonnet. There has not been any development of short covering. There was an increase in the discount on the forward franc.

When I saw Fournier he had just come from a long conference with Bonnet at which they discussed the question of raising the official discount rate. It is the conviction of technicians of the Bank of France that in the present circumstances an increase in the discount rate would not hold capital that is here, nor would it draw capital to France. They believe it would be interpreted as indicating weakness in the French position, and failure of control tactics followed during the current week.

Officials of the Bank of France have as frankly as
tact

- 2 -

tact would permit informed Chautemps and Bonnet that political factors are responsible for the present franc weakness and that technical means within the power of the Bank of France and the stabilization fund are not sufficient to right the situation. Fournier and Cariguel had no suggestion as to any possible technical aid from the authorities in the United States. From the French standpoint, so far as international cooperation is involved, the Tripartite Monetary Agreement has worked perfectly.

My contacts at the Bank of France do not expect foreigners to show any greater confidence in the French currency than the French citizens themselves are prepared to give it.

Exchange control is prohibited by existing laws. It is opposed by the Bank of France, and the officials fear that vigorous application of exchange control would result in many Frenchmen following their funds out of France. A policy of opposition to exchange control has been emphatically declared by both Chautemps and Bonnet. Exchange control is opposed as a matter of politics by the Radical Socialist party to which Chautemps and Bonnet belong.

It is certain that a crisis in the franc is imminent, the remedies lie within France. Technical grounds were the basis for the Tripartite Monetary Agreement. I see no

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reason for the French appealing to us at the present time within the terms of the Tripartite Agreement, unless it might be for consultation, but I fail to see how consultation could be effective in solving the situation facing the French now.

I do not claim to have any insight into French politics, but I do have the feeling that no matter how honest and sincere the efforts of Bonnet have been in the past, he is now as the crisis develops possibly looking for a way to get out of the present government before the crash comes, and to manipulate the setting up of a government consisting more of the Right, the head of which would presumably be Bonnet. It is generally believed among my acquaintances that the cantonal elections in October will go to the Left. In the circumstances my frank opinion is that the United States as a party to the Tripartite Agreement should not take any action or make any statements which might be interpreted as mixing in or endeavoring to influence internal politics in France.

END MESSAGE.

BULLITT.

EA:LWW

RE FRENCH MONETARY CRISIS

September 23, 1937
8:30 p.m.

Present: Mr. Taylor ✓
Mr. Lochhead ✓
Mr. Gaston ✓
Mr. White ✓
Dr. Viner ✓
Mr. Riefler ✓
Mr. Butterworth
Dr. Feis ✓
Sir Frederick Phillips (at about 9:10)

H.M.Jr: I called Cochran because I wanted to make up my mind - before I sent this, I wanted to know.

Gaston: That's the thing we discussed: that Cochran gave all the facts, but all Bullitt added to it was a plea to send the message.

H.M.Jr: Have you (Feis) got Cochran's urgent message?

Feis: I haven't, no.

H.M.Jr: He said, "Please, Mr. Secretary, don't send your message until you hear from me." He says, "You're making the mistake of your life."

Feis: I don't know just what that means.

H.M.Jr: He says Bullitt hasn't talked to him, hasn't consulted him, he doesn't know what Bullitt is doing; that Bonnet has laid a trap to get this message out of me so he can resign. He said he hasn't the foggiest idea what Bullitt is doing. He says Bullitt doesn't talk to him. He says the whole thing is a trap. He said, "Please!"

Feis: This much I am certain of - do you want me to talk now as Herbert Feis, not as of the State Department? - the fellow's a politician to his fingertips.

Kieley: Code Room calling Dr. Feis.

H.M.Jr: You'd better get it.

White: It's very fortunate you had that idea to call.

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H.M.Jr: It's - I don't like to say it about myself, but it's uncanny.

(Viner comes in)

H.M.Jr: You (Viner) better touch me. I just called Cochran on the telephone. He says, "Please, Mr. Secretary, don't send that message. The whole thing is a trap to get you to send an answer so that Bonnet can use it politically and resign." And he says, "Bullitt hasn't talked a word to me," and he says, "Bullitt is just as hysterical as Bonnet and Bonnet has gone completely off his nut." He says, "The whole thing is a political trap which they have laid for you." And he's sent an urgent message which they sent at three o'clock. Urgent.

Feis: He's bringing it over.

H.M.Jr: Under the new system I don't like - under the new system I should get it.

He said, "May I be blunt?" I said, "Be as blunt as you want." He said, "Please don't send it until you get my message."

Feis: Sure, if he's got something on the way....

H.M.Jr: But the idea of Bullitt sending all this stuff, and here's Cochran, Financial Attaché, and he doesn't even talk to him.

(On phone) Miss Carr? Good evening. You better start working on a call now and put it in for 9:15 for Mr. Cochran, because the other one took so long. Do you get what they call the diplomatic channel, or stick to.... If you please. Thanks, Miss Carr.

Feis: Well, am I - do you want a speech? This is, as I say, personal, not the Department.

H.M.Jr: Herbert Feis.

Feis: Apart....

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- H.M.Jr: Now, if you don't mind, tonight I'm going to run the thing the way I want it, and if Sir Frederick Phillips doesn't like the machine, he can go back to London. I mean I'm not going to leave these important things to memory and then someone afterwards says I did or didn't say it.
- Feis: Apart from the question of
- H.M.Jr: Excuse me - but I mean I can't charge my memory with all these things and have somebody say I did or didn't say it.
- Feis: ...the succession of messages from Bullitt and Cochran. Beginning with the assumption that Bonnet is an ambitious politician, like everyone that has moved up to his school, I still say the man has consulted you about a line of policy.
- H.M.Jr: Who has consulted me?
- Feis: Bonnet. That is in strict conformity with the lines discussed in the formulation of the tripartite arrangement. His avowed end, and the only one that he should be called upon to acknowledge, or that would be in any way wise to acknowledge, has been an end to which three governments have striven and announced as desirable principles. A man working in the same direction has every just reason to feel he is playing your game; that is, a line of his policy - not your personal game, but the game of the American Government, the game of the British Government. In reaching that decision, he naturally leads into a political situation for himself; that is conscious in his mind. He may actually be prepared to go out and resign. There are indications in the cable that he was prepared to take some action.
- Therefore, it looks to me quite simple that the transmission to him of a message of the precise type that he requested is completely out of the question, for all the reasons we discussed this afternoon. But an expression indicating still that that line of policy that he says he intends to take is the one that still appears to you the desirable one, if achievable, and that, if necessary, as a public utterance, will be

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nothing more than carrying along what you have been doing for months. And to do anything less at this stage - I don't see how it possibly could be explained.

H.M.Jr: Well, Cochran very, very seldom goes off half-cocked. Mr. Bullitt does. Every time we have a French situation over there and he butts in on the thing - I mean I'm talking very confidentially here, Butterworth - and he's given me poor advice. He catches this French excitement. You (Feis) remember the last time.

Feis: I'm speaking quite apart from that.

H.M.Jr: And this time again he cabled that - they are not temperate cables, I mean - and the fact that a man sits there and here you've got an accredited financial representative of the State Department in the Treasury and he doesn't even tell him what he's doing, I think, is terrible. And here.....

Feis: I don't know what Cochran will say in his message, but as far as we know all that Bullitt has done is, in the course of a conversation with Bonnet, received an expression of Bonnet to the effect that if he received such a message it would probably augment his force; and then, not being certain as to how Bonnet wished him to handle this, said to him, "Well, Mr. Minister, is this for transmittal to my government?" And Bonnet says, "Certainly, yes," as emphatically as possible, and that is transmitted by Bullitt without comment or recommendation. That's all that Bullitt has done.

H.M.Jr: Let me give you some figures. Tuesday the French stabilization fund lost 318 million francs, Wednesday 203, and today 283. As of the beginning of business today, this morning, they had left 7 billion, 680. Now, whether you deduct from that 283 I don't know; but that's losing it pretty fast, and I - I want you people to listen to Cochran. And Harry, if you don't mind - you'll have to look at my spelling (handing a note to White).

Taylor: Here's the present question: whether you send any

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message at all or

H.M.Jr: I didn't have a very good connection, but Cochran begged me not to send this message.

Riefler: You read him this message?

H.M.Jr: I read him this message and he begged me not to do it; said I was simply falling into a trap which had been laid by Bonnet for me.

Taylor: Even as moderately worded as this?

H.M.Jr: Yes. I put in a call at 9:15 and you gentlemen can hear. And I thought that I'd let Sir Frederick Phillips in. And, Butterworth, if you don't mind, when he comes would you explain to him that he's coming in this time to - that I'm - how would you speak - I'm on the firing line tonight and therefore that I make it a business of keeping a record, and this record of what I am doing is simply for me, and I hope he won't object. Do you see? Do you mind, when he comes - it's my custom, that when I do this thing I can't trust my memory, therefore I always make a record; and that if he wants to talk to me after I get through I'll be very glad to stop making a record, but while I'm doing this, consulting with my people - I mean I have to make a record.

B'worth: Righto.

H.M.Jr: That all right, Jake?

Viner: (Nods yes)

H.M.Jr: I mean these things are so valuable so often when things are coming so fast, and then we can go back to it.

And if you don't mind, later, Herbert, will you send a confirmation that I told Cochran to stay there until this thing blows over?

Feis: Of course, anything you want.

H.M.Jr: Will you?

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Feis: Of course. A confirmation of what....

H.M.Jr: I told him over the telephone not to sail Saturday night.

Feis: Oh, of course. Suppose I write that out and give it to Sam Smith when he turns out - up with this other message.

(To Kieley) Is Mr. Smith out there? Tell him to wait one minute, will you?

I'll say, "Confirming instructions given you on telephone, defer sailing until further notice."

H.M.Jr: Yes, until further notice.

Taylor: Do you think the situation has materially changed from what you did before as a result of Cochran's conversation with Bonnet? I mean you knew all that before.

H.M.Jr: I didn't know it was as bad as that, Wayne.

Viner: Did I hear you aright that Cochran told you he was about to resign?

H.M.Jr: Yes, that Bonnet wants just something - I couldn't get it - I think he - I understood him to say that Bonnet hopes to join the Right Government and hopes to become Premier.

Taylor: Oh sure, that's always been part of it.

Feis: Sure.

H.M.Jr: And that he just wants something like this to hang it on.

Riefler: Wants to resign the issue of exchange control.

Taylor: That's it.

H.M.Jr: See?

Feis: Yes.

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- H.M.Jr: Now, I don't know whether you've come around to the point which I was saying today, that I don't think we can join Great Britain in telling France what she can do or not do. I mean if it's water over the dam, if you're in agreement with this latest message, I won't backtrack about whether we should or shouldn't tell them that if they have exchange control they are out of the tripartite agreement. If you're satisfied with this, I don't want to go back and start arguing all over again. This is the one you all agreed to.
- Feis: (After reading) Let's see what Cochran's got before I say anything.
- B'worth: Is Cochran telephoning again?
- H.M.Jr: Yes, I telephoned again.
- Go ahead, Harry.
- White: Jake answered my question. I wondered which of the three drafts you selected, and he told me.
- H.M.Jr: I'll read this out loud.
- "Rush. Strictly Confidential from Cochran. I visited Governor Fournier and Cariguel separately at the Bank of France."
- Feis: Can we get all these back? They are originals of confidential code.
- H.M.Jr: I'll read slowly here.
- "I visited Governor Fournier and Cariguel separately at the Bank of France. Today the French control lost two hundred eighty-three million francs of foreign exchange."
- Did I get that almost right?
- Gaston: Yes, that's right.
- H.M.Jr: "Yesterday the control lost two hundred three million francs, and on Tuesday it lost three hundred eighteen million. Thus it has been very costly to try to make

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the franc appear strong after the speech of Bonnet. There has not been any development of short covering. There was an increase in the discount on the forward franc.

"When I saw Fournier he had just come from a long conference with Bonnet at which they discussed the question of raising the official discount rate. It is the conviction of technicians of the Bank of France that in the present circumstances an increase in the discount rate would not hold capital that is here, nor would it draw capital to France. They believe it would be interpreted as indicating weakness in the French position, and failure of control tactics followed during the current week.

"Officials of the Bank of France have as frankly as tact would permit informed Chautemps and Bonnet that political factors are responsible for the present franc weakness and that technical means within the power of the Bank of France and the stabilization fund are not sufficient to right the situation. Fournier and Cariguel had no suggestion as to any possible technical aid from the authorities in the United States. From the French standpoint, so far as international cooperation is involved, the Tripartite Monetary Agreement has worked perfectly.

"My contacts at the Bank of France do not expect foreigners to show any greater confidence in the French currency than the French citizens themselves are prepared to give it.

"Exchange control is prohibited by existing laws. It is opposed by the Bank of France, and the officials fear that vigorous application of exchange control would result in many Frenchmen following their funds out of France. A policy of opposition to exchange control has been emphatically declared by both Chautemps and Bonnet. Exchange control is opposed as a matter of politics by the Radical Socialist party to which Chautemps and Bonnet belong.

"It is certain that a crisis in the franc is imminent; the remedies lie within France. Technical grounds were the basis for the Tripartite Monetary Agreement.

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I see no reason for the French appealing to us at the present time within the terms of the Tripartite Agreement, unless it might be for consultation, but I fail to see how consultation could be effective in solving the situation facing the French now.

"I do not claim to have any insight into French politics, but I do have the feeling that no matter how honest and sincere the efforts of Bonnet have been in the past, he is now as the crisis develops possibly looking for a way to get out of the present government before the crash comes, and to manipulate the setting up of a government consisting more of the Right, the head of which would presumably be Bonnet. It is generally believed among my acquaintances that the cantonal elections in October will go to the Left. In the circumstances my frank opinion is that the United States as a party to the Tripartite Agreement should not take any action or make any statements which might be interpreted as mixing in or endeavoring to influence internal politics in France."

White: That's Cochran speaking?

H.M.Jr: That's Cochran speaking.

Herbert, just so there's no misunderstanding on this - I have only one set, where's the rest - do you all mind giving yours back to him? (Others return copies to Feis)

Boiling it down, the only thing he adds is that he doesn't want us to send any note.

White: That was your first position.

H.M.Jr: No. No, he doesn't want us to send anything.

Taylor: Well, I don't think there is any news in that cable.

White: Well, there is this much news: that it is a very deliberate device to make it possible to further Bonnet's end. Whether it is toward the end that we may or may not like to see it go, it certainly is going to be used for a purpose which implies - carries with it the connotation that we are interfering with French politics.

Taylor: It all depends on what you say, Harry. I don't think

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there is the slightest bit of news in that cable that we didn't know before.

Gaston: The cable is a cable of personal advice from Cochran - Cochran's personal advice that any message would be a mistake. That's what the cable contains.

H.M.Jr: May I just interrupt a minute? Let's say that Bonnet resigns in the next day or two and this message comes out. Is this a temperate message or isn't it? I think the way it is written now it is a very temperate message.

Viner: I don't see, if he were to resign, that it would do any harm, and it might do very much good if we care about the principles we state in the note. We are stating our views about what we hope France can do in the tripartite agreement. If he can use it to his advantage, all right.

White: Let me take the other position, just to....

Feis: May I read it again - the note.

White: Supposing the Left Government is established and supposing as a consequence the interpretation of that - they feel that the United States has put - admittedly very slight, but some pressure in that direction. Would we wish that? Irrespective of what political allegiance they may maintain, it will be the government in power, and it is one government with another government. And irrespective of what position you may take on technical-legal grounds, the implication is clear; for the very reason that Bonnet wants it - that very reason, they will interpret it as having been of assistance to the other side.

H.M.Jr: He's not getting what he asked.

Gaston: No.

White: But he's getting it very much modified, that's true.

H.M.Jr: May I look at it entirely differently? Supposing that we didn't know anything about Bonnet resigning

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or not resigning, that there was a crisis in the government, but we are interested in the tripartite agreement and we see this thing slipping. Now, is this the kind of note which we'd send, which is in a sense a note of warning, simply an indication, and ask them, "Well, it is now 140 or 150 and of course we take it for granted you're going to stay at that?"

Now look, not knowing the internal thing - I mean I don't think it's necessary to go back over the other business; the thing that he asked for - I think that's quite obvious. Now, that's out. And if I may say so, my so-called intuition is correct on that, that when - I was talking in terms of two months; this may be two days. I frankly can't see any harm in it and I think it may be rather good.

Because - let's put it the other way around. Let the world say, "Well, what did the American Treasury do in facing this thing? Why didn't they make a record?"

Viner: Mr. Secretary, may we hear that note again? Perhaps the atmosphere has cleared somewhat, and I'd like to do what Herbert has done.

H.M.Jr: The atmosphere has changed. That's a very gentle way of putting it. Was that - you mean in this room.

Viner: Yes, I'd like to hear it again.

Weis: "I note with satisfaction your affirmation of your continued opposition to the adoption by France of exchange control. It is my hope that your country will succeed in its endeavor to meet the existing situation without recourse to any measures which are not in full conformity with the terms and spirit of the tripartite declaration, whose continued and successful operation our governments so urgently desire.

"I am also glad to be informed of your conviction that from the budgetary and economic standpoint it will not be necessary to establish a level for the franc of over 140 to 150 to the pound sterling.

"May I assure you that I am following with sympathetic

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interest your attempt to cope with your difficulties, which I trust will prove temporary."

Kieley: Sir Frederick Phillips.

H.M.Jr: Five minutes.

Feis: Now, may I make one suggestion? There is one word in there which in its location might be taken - where you say "not in full conformity with the terms and spirit of the tripartite declaration, whose continued and successful" - the mere use of that word "continued" carries a faint implication of "discontinuance"; everything carries a connotation of its opposite, and I think you might....

H.M.Jr: Would you mind coming over here with it?

Feis: I want to study that word.

H.M.Jr: Where?

Feis: You say "whose continued and successful operation." He may think that's an implied threat that it will be discontinued. I'd say "the successful operation of which." I'd just cut it out.

Taylor: Don't need it.

H.M.Jr: "...conformity with the terms and spirit of the tripartite declaration, whose successful...."

Feis: "...the successful operation of which our governments so urgently desire."

H.M.Jr: All right.

White: There is a more serious objection to that as compared with one of the others that I think is important, and some of the rest did too, I think: the juxtaposition, the connection of the first sentence and the second sentence. Wayne Taylor explained that and.....

H.M.Jr: Well, I read all three; I think this is the smoothest.

White: From the point of view of English and logical thought, yes, but from the point of view of logical significance

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I think there is an effect there that....

- H.M.Jr: You mean bringing the tripartite thing up makes it more important?
- White: Makes it appear that the failure, or the establishment of exchange control, is a violation of tripartite agreement. In other words, you are saying what I thought you didn't wish to say.
- Gaston: I think so. I think that very clearly states that if they adopt exchange control they have abandoned the tripartite agreement. I don't see how you could say it much plainer.
- Fels: If Herbert Gaston gets that impression, then I think it ought to be studied again.
- H.M.Jr: Well, just rearranging the thing doesn't change it.
- Gaston: Oh yes, it changes it quite a bit.
- H.M.Jr: Where is the other one?
- Taylor: It's there.
- Fels: May I perhaps - of course, this is the only point - just say to you what I said to Wayne, that I talked to Mr. Hull about the thing and while I don't feel that perhaps he feels that he's had time to deal with it - I mean it's been a terrible day over in the Department - I gathered that his mind was playing around with the idea of whether this mightn't be best done by some independent public declaration, perhaps a press conference, rather than by a message to Bonnet. I gather that's what his - his mind was circling around that idea.
- H.M.Jr: (To Butterworth) Tell him we're delayed a few minutes, if you don't mind.
- B'worth: You'll send word in?
- H.M.Jr: Yes.

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- Taylor: If you do want to take Bonnet out of it completely, you simply have to change that last sentence there, in which you have "you," and change that to "France."
- Hiefler: Yes.
- H.M.Jr: Well, is this the draft that you like better?
- Taylor: Number four.
- H.M.Jr: "I thank you for your message. I note with satisfaction your affirmation of your continued opposition to the adoption by France of exchange control. I am also glad to be informed of your conviction that from the budgetary and economic standpoint it will not be necessary to establish a level for the franc of over 140 to 150 to the pound sterling.
- "May I assure you that I am following with sympathetic interest your attempt to cope with your difficulties, which I feel will be temporary." I can't help saying, "Here's hoping that your troubles will all be little ones."
- Gaston: They're getting littler and littler every day.
- H.M.Jr: "It is my hope that your country will succeed in its endeavor to meet the existing situation without recourse to any measures which are not in full conformity with the terms and spirit of the tripartite declaration, whose continued and successful operation our governments so urgently desire.
- Gaston: See, in that position it makes it general in its application; it doesn't specifically apply to that thing of exchange control.
- White: I think there is a substantial difference between the two.
- H.M.Jr: Do you still feel, Herbert, that this "whose continued and successful operation".....
- Fels: I'd leave "continued" out. It carries a necessary implication.

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Gaston: "...the successful operation of which....."

H.M.Jr: What's that?

Gaston: "...the tripartite agreement, the successful operation of which....."

H.M.Jr: ".....the successful operation of which....."

All right, now let me read it again.

"I thank you for your message. I note with satisfaction your affirmation of your continued opposition to the adoption by France of exchange control."

"Adoption by France" - is that the thing, or is it "adoption by your government"?

Viner: Well, we don't want to say "your government," because it may be somebody else's government by that time. It's just France.

Feis: Just say "your opposition to exchange control."

H.M.Jr: I'll read the rest of it.

"I am also glad to be informed of your conviction that from the budgetary and economic standpoint it will not be necessary to establish a level for the franc of over 140 to 150 to the pound sterling.

"May I assure you that I am following with sympathetic interest your attempt to cope with your difficulties, which I trust will be temporary. It is my hope that your country will succeed in its endeavor to meet the existing situation without recourse to any measures which are not in full conformity with the terms and spirit of the tripartite declaration, the successful operation of which our governments so urgently desire."

How about it?

Taylor: If you use that one or the other one, say "the efforts of your government" instead of "your efforts."

Riefler: Yes, I think so.

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- H.M.Jr: Where's that? I don't see that.
- Taylor: Right here - "I am following with sympathetic interest the efforts of your government....."
- H.M.Jr: "...following with sympathetic interest...."
- Taylor: "...the efforts of your government to cope with the difficulties which face....."
- H.M.Jr: "...with the difficulties...." Not very much difference.
- Taylor: "...with difficulties which I trust will be temporary."
- H.M.Jr: "May I assure you that I am following with sympathetic interest the efforts of your government to cope with..."
- Taylor: "...difficulties which I trust will be temporary."
- H.M.Jr: "With difficulties" or "with the difficulties"?
- Taylor: If it's that way, you want the "the" out.
- H.M.Jr: What particular difficulties? It's "the" difficulties.
- Riefler: "With difficulties."
- Taylor: I think you can leave "the" out. "...with difficulties which I trust will be temporary."
- Riefler: You're speaking in general rather than specific terms.
- H.M.Jr: "May I assure you that I am following with sympathetic interest the efforts of your government to cope with difficulties which I trust will be temporary."
- Taylor: That's right.
- Riefler: "...which I trust will be temporary."
- H.M.Jr: "...with difficulties...." I think you've got put in "the" - maybe it's the 40-hour week.

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- Riefler: That's why you leave "the" out.
- Taylor: In other words, you'd have to say what the difficulties are.
- Riefler: It's a whole host of difficulties.
- White: "...cope with a difficult situation." Then you can just say it's temporary.
- Riefler: "...which I hope may abate soon."
- H.M.Jr: I'd like to take time to go over it after we see him and talk to him. I never rush this thing; never can do this thing in two minutes, then make a mistake. I'd rather give up the movie that Wayne and I were going to.
- Viner: You can say that this is the approximate wording.
- Fels: I have an alternative way of expressing that idea.
- H.M.Jr: Would you mind have him come up, giving a little window dressing as to the way we work, because I work most likely differently.

(Sir Frederick Phillips comes in)

- H.M.Jr: I just wanted to explain that we are under a little tension here, because.... You haven't met Mr. Gaston - Sir Frederick Phillips.

(Gaston and Phillips shake hands)

And Mr. Cochran was quite upset over what we are proposing to do, and he'll be on the phone in about five minutes, and I think I've got just time to read you his cable, which just came in.

- Phillips: Yes, sir.

- H.M.Jr: And he phoned me and he's quite upset about this thing. He thinks that we are simply walking into a trap. This is - I think I got time.

This is the message: (Reads Cochran's cable, quoted on pages 7, 8, 9)

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Now of course he arrived at that without talking to me. Then I read him this note over the phone at my hotel and he begged me not to send it. He'll be on the phone in a few minutes and we'll hear what he has to say.

Now, this is the note, about the way we want it. We've been kind of fussing over words, but this is approximately - I mean there's a little difference here as to words. We haven't got it quite defined yet.

"I thank you for your message. I note with satisfaction your affirmation of your continued opposition to the adoption by France of exchange control. I am also glad to be informed of your conviction that from the budgetary and economic standpoint it will not be necessary to establish a level for the franc of over 140 to 150 to the pound sterling.

"May I assure you that I am following with sympathetic interest your attempt to cope with your difficulties, which I trust will be temporary. It is my hope that your country will succeed in its endeavor to meet the existing situation without recourse to any measures which are not in full conformity with the terms and spirit of the tripartite declaration, the successful operation of which our governments so urgently desire."

And that's a draft which - the people here want to change a couple words in it, but that's the spirit of it.

(Hands Phillips copy of note)

Phillips: Thank you. (Reads over note)

Taylor: That call probably won't come through at exactly 9:15, so that we could have the benefit of any of Sir Frederick's comments on the situation.

H.M.Jr: I'll ask them how it's coming.

(On phone) Hello. How is that call coming? - -
All right. Well, if that circuit isn't working, ask if there is any other circuit. - - Pardon me? - -
Ask her what other circuit she has. Please.

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Phillips: Am I on the record?

(Reporter instructed not to take Sir Frederick's remarks at this point)

H.M.Jr: What we were arguing here was, supposing he gets this note from your government and ours, and supposing he does resign, and supposing he does make this note public. Is there anything in it that might embarrass either the British or the American Government?

Phillips: Well, sir, the only sentence I could see in it which has specific reference to M. Bonnet or the present French government is that third sentence: "May I assure you that I am following with sympathetic interest the efforts of your government to cope with difficulties which I trust will be temporary." If you leave that out, the rest of the message simply refers to any French government which might be in existence.

H.M.Jr: You mean leave that whole sentence out?

Phillips: Yes.

Taylor: But if you change that to "the French government".....

H.M.Jr: I rather like that.

White: They would interpret - be apt to interpret that "your government" in the British sense rather than in the American sense of "your government."

Phillips: Yes.

H.M.Jr: I can't see why we can't leave that whole sentence out.

Taylor: Very easily leave it out.

H.M.Jr: Then talk about 140 to 150, then I say: "It is my hope that your country will succeed in its endeavor to meet the existing situation without recourse to any measures which are not...." - I don't see - I feel happy, I think. Riefler?

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- Riefler: I rather like it in. I mean a note of sympathy in their crisis seems to me to be not political dynamite. I mean they are up against terrific difficulties, and we can show the French people, if it should become public, that we are aware that this isn't just a technical matter and that this is a real difficulty.
- Lochhead: Substitute "country" for "government."
- Riefler: I'd like the spirit of the sentence in.
- White: Substitute "France" for "your government."
- Taylor: If you change that from "the government of France" to "the French government".....
- Viner: Why not "France" or "your country"?
- H.M.Jr: "May I assure you that I am following with sympathetic interest the efforts of your" - everybody says "country."
- Riefler: We're friendly to the country.
- H.M.Jr: Wouldn't it be simpler simply to say "the efforts of France" instead of "your country"?
- Riefler: "...the efforts of France...."
- H.M.Jr: "...the efforts of France...."
- White: That's right.
- H.M.Jr: "....to cope with difficulties which I trust will be temporary." Does that sound all right to you?
- Phillips: Yes, perfectly.
- H.M.Jr: Takes one word. One word takes the place of three. "May I assure you that I am following with sympathetic interest the efforts of France to cope with difficulties which I trust will be temporary." I suppose having that sentence in is a little bit more courteous.
- Phillips: Yes, oh yes.

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- H.M.Jr: If you jump into - right into the other, it's a little more abrupt.
- Phillips: My only feeling was that as it was drafted it might look like a kind of testimonial to the present .. French government.
- H.M.Jr: How about the way it is now?
- Phillips: I think it's all right now.
- Feis: I may be seeing ghosts....
- H.M.Jr: Jake, do you mind sitting up here where I can see you, get the benefit of your eyebrows.
- Feis: Mr. Secretary, I may be seeing ghosts, but a thought of a wholly different character comes in my mind as regards that sentence. "May I assure you that I am following....." Will that be a signal to every bear operator in the world? That's a sort of weak - it has a note of sort of weak last hope about it, I should think. They'll say, "This is the last sacrament."
- Riefler: Does it matter if it is? I mean there's going to be a crisis; I think we're all expecting that.
- Taylor: He isn't going to publish that the way it is anyhow.
- Viner: That's for them to judge. They have control over its publication.
- Feis: Well, the French have leaks.
- H.M.Jr: Just right on this point, Sir Frederick, was it your idea that your government and ours would make this statement simultaneously, or just send it and leave it to the French?
- Phillips: It was my idea, sir, that you would send this to the French and the question of publication would rest entirely with the French; I would simultaneously cable this to London and it would be the text of a speech in which the Prime Minister would tell the French Ambassador tomorrow morning.

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- H.M.Jr: But leave it to the French as to whether they would publish it.
- Phillips: Yes, absolutely.
- Lochhead: They'd hardly make it public; you mentioned rates.
- Taylor: That guarantees it won't be made public.
- B'worth: Well, that's a question which the French took up with us, and presumably they'd have a tendency to do it.
- Riefler: They wouldn't dare publish it while the rate was below 145 or 150.
- Viner: But it would be peddled among the political leaders and that's what it's for.
- Taylor: O.K., what difference would it make?
- Riefler: It seems to me the crisis is there.
- H.M.Jr: It's the efforts of France, isn't it? "...efforts of France to cope with difficulties which I trust will be temporary." I think it's very polite, Herbert Feis.
- Feis: I wasn't urging - I just thought I'd mention that one thought - it did come into my mind - as to the effect on the market.
- H.M.Jr: Well, I don't think - I think it's all right to raise the point, but....
- Riefler: That will guarantee against publication of the note until the franc has passed that. I can assure that.
- Feis: All right, sir. This again probably is not better, but again letting you have such suggestions, I can see an alternative way of presenting the thought in the final sentence.
- H.M.Jr: Please.
- Feis: It may slightly avoid danger if it would go something like this: "It is my strong hope that your government will overcome the difficulties of the existing situation

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and that thereby both the principles and methods of the tripartite agreement will be successfully sustained."

- Viner: That's saying that "we hope, Mr. Bonnet, that this present cabinet survives and thereby keeps alive the tripartite agreement, which otherwise collapses."
- H.M.Jr: I'm pretty well jelled on this now unless Sir Frederick tells me that he is entirely out of sympathy with this thing.
- Phillips: No, sir, I can't say that I'm not in sympathy with it.
- H.M.Jr: I mean is it down to sentences? Let's - does the idea sound all right?
- Phillips: Yes.
- H.M.Jr: Then the sentences are all right?
- Phillips: I think so, sir.
- H.M.Jr: Are there any words you'd like to change?
- Phillips: I think myself, if I had been drafting it, I should have said "in conformity" rather than "in full conformity."
- H.M.Jr: Pardon me?
- Phillips: I should have said "in conformity" rather than "in full conformity."
- Riefiler: Yes, that could go off also.
- Taylor: Cut out the "full."
- H.M.Jr: That's right. "...any measure which are not in...." - not the word "full." Good suggestion. Anything else?
- Phillips: Well, do you want that word "the terms"? "...which are not in conformity with the spirit of the tripartite declaration." Do you actually want "the terms" in?

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- Taylor: There aren't any terms, are there? It is a declaration.
- H.M.Jr: Better leave that out.
- Viner: Leave out "terms" and leave out "spirit."
- Taylor: Leave in "spirit." Leave "spirit" in. "Terms" are out.
- Viner: That means "All right, you can stretch things as far as terms are concerned."
- Riefler: "...any measures..." - leave out "any"?
- H.M.Jr: I don't see "any."
- White: "...any measures" - in the third line from the bottom, - "recourse to any measures" - the word "any" might be deleted.
- Riefler: "Measures" makes it a little....
- Phillips: I'd leave "any measures," that's all right.
- H.M.Jr: All right. "...conformity with the spirit" - what would you say, leave out the word "terms" - "in conformity with the spirit"?
- Phillips: Well, personally, I see no objection, sir, whether you say "in conformity with the spirit of the tripartite agreement" or, more simply, "in conformity with the tripartite agreement."
- H.M.Jr: I rather like the idea of "the spirit."
- Gaston: I had another suggestion here somewhat along the line of what Herbert Feis had, making that last sentence read: "It is my hope that your country will succeed in its endeavor to meet the existing situation in such a way as to insure the continued cooperation of our countries under this tripartite declaration."

(All nod no)

- Taylor: Uh-uh.
- Phillips: That's a threat.

-25-

Feis: That's a threat.

Gaston: Do you think it is more or less of a threat than that "not in full conformity"?

Viner: The "full" is out, the "terms" are out.

H.M.Jr: Let me read this sentence the way it is now. "It is my hope that your country will succeed in its endeavor to meet the existing situation without recourse to any measures which are not in conformity with the spirit of the tripartite declaration, the successful operation of which our governments so urgently desire."

I don't think there is any threat in that.

Phillips: No.

Feis: Here's something I might as well read - as an alternative: "It is my distinct hope that the existing difficulties can be met by the French government, that the cooperation between the three treasuries for order and stability in the international monetary field which rests on the tripartite agreement will continue to operate with unimpaired effect."

H.M.Jr: Let somebody else argue with you. My brains.....

Feis: Not put up for argument. I'll keep it in my pocket.

(Hearty laughter)

H.M.Jr: I didn't say "No." Let some of these people argue with you.

White: I don't think it's any improvement.

(Rest of meeting not taken)

Thursday
September 23, 1937
10:25 p.m.

HMJr: Now, we got your cable.

H. Merle
Cochran: Yes, sir.

HMJR: And, the State Department people are here and also Sir Frederick Phillips. Now, we've changed this message a little bit and I'll read it to you again.

C: All right.

HMJr: Ah -
"I thank you for your message. I note with satisfaction your affirmation of your continued opposition to the adoption by France of exchange control. I am also glad to be informed of your conviction that from the budgetary and economic standpoint it will not be necessary to establish a level for the franc of over 140 to 150 to the pound sterling.

"May I assure you that I am following with sympathetic interest the efforts of France -- Before that we had the Government, you see. -- the efforts of France to cope with difficulties which I trust will be merely temporary. It is my hope that your country will succeed in its endeavor to meet the existing situation without recourse to any measures which are not in conformity with the spirit of the Tri-Partite Declaration, the successful operation of which our governments so urgently desire.

C: Yes.

HMJr: Now, to give you a little background on this. The British Treasury expect a call tomorrow from the French.

C: I didn't hear that.

HMJr: The British Treasury expect a call tomorrow morning from the French in London.

C: Yes.

-2-

HMJr: And they have to give them some kind of an answer.

C: I see.

HMJr: And we've worked this out together and we don't feel here that there is anything in this that the present French Government or any succeeding government could make public.

C: How's that?

HMJr: Could not make public if they wished.

C: Well, of course, they have not been willing to make any public statement to the effect that they were going to hold the franc between 140 and 150.

HMJr: True. But, in this report, in both - but you mentioned that in your cable.

C: I do, yes.

HMJr: Well.

C: But he seems not to be willing to give any indication to the market, you see, to the public.

HMJr: Oh, but he did say that to you?

C: Yes, he did.

HMJr: Well, we're just throwing it back at him, that's all. Hello?

C: Yes.

HMJr: I said we're just putting it back to him.

C: Oh, I see. Yes.

HMJr: Now, the way we feel at this end, we're - we don't intend to make this public.

C: No.

-3-

- HMJr: And, if the French are going to make it public we'd like to know it, that's all.
- C: That is, if they intend to make it public you want to know it?
- HMJr: Yes, I'd like to know it in advance.
- C: Yes.
- HMJr: But at this end, as far as we're concerned we have no intention of making it public.
- C: Yes.
- HMJr: And I don't believe the British have either.
- C: They're willing to draw their next statement are they?
- HMJr: Well, they haven't - the Government hasn't seen it but I have reason to believe that it will meet with their approval.
- C: I see.
- HMJr: But they'll receive this as a suggestion tomorrow and they'll have to take it and consider it. But, as far as one can tell, without having definite word, I believe that they're apt to accept it.
- C: I see. Your visitor is still there, is he?
- HMJr: Pardon me?
- C: I say, the visitor is still there, isn't he?
- HMJr: He's in the room here with me now and I am looking right at him.
- C: I see.
- HMJr: And when I said that he nodded his head.
- C: (Laughs) Yes.

-4-

HMJr: And -

C:

HMJr: Hello?

C: Hello.

HMJr: Furthermore, we'll give a copy of this to Henry here in the French Embassy. We'll give it to him in a little while.

C: Yes.

HMJr: And I frankly can't see anything in this but it simply gives an expression of how we feel and simply throwing back at them their own words.

C: I feel this - if you want my opinion any further.

HMJr: Go ahead.

C: - that the people here had no confidence following Bonnet's statement. The reaction was quite bad.

HMJr: Yes.

C: I don't believe a statement coming from you people now will greatly alter the situation. There is so much speculation against them right now and there's so much unpopular spirit that I think there must be a political straightening out before there is any possible chance of holding the currency.

HMJr: Yes. Well - let me give you, so that you have my feeling.

C: I see.

HMJr: We're not doing this for the public effect it will have in France. We're simply doing it, first, because Bonnet sent us this message, and he's entitled to an answer; and second, because our other friends are in the position that they have to give an answer tomorrow.

-5-

C: I see.

HMJr: Now I feel that it's most important that two of us are shoulder-to-shoulder in this affair.

C: Yes.

HMJr: And that that is more important than anything else.

C: That's my idea, that it is so important that you people stay together.

HMJr: Pardon me?

C: Your visitor there.

HMJr: What is that, Cochran?

C: I say, I said the big part of our Tri-Partite agreement now is to keep the Americans and British together.

HMJr: Well, we are together.

C: As far as this position is concerned, I think it's almost hopeless.

HMJr: Well, of course, my visitor here can't commit himself, but as far as he is concerned personally he and I are together.

C: Yes.

HMJr: And, of course, I don't expect him to commit his government, but as far as he is concerned we're together.

C: Yes, sir.

HMJr: And, as I say, they have the situation that they have to meet at nine o'clock tomorrow morning.

C: I see.

HMJr: And if they take, I mean, if I was so situated, I imagine that they will accept this.

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C: I see.

HMJr: Because, I mean, they are under no obligations to accept it.

C: Uh huh.

HMJr: But - I mean - And if they do why then once more two of the Governments are having a united front.

C: Yes.

HMJr: Which at this time is, I think, the most important consideration.

C: Yes. Absolutely.

HMJr: And then the other consideration is what effect would this have domestically in the United States if it became public that all of us feel here that it would be all right.

C: Yes.

HMJr: We simply again have expressed our sympathy with the French and have told them - just repeated their own words, that's all.

C: Yes.

HMJr: And I don't see whatelse we can do. And just - will you hold on a moment? - But I wanted to let you know, the reason of this call is I wanted to let you know how I felt so that when you delivered this tomorrow, personally, you would have - be able to express to Mr. Bonnet how I felt.

C: And you will cable the message to me tonight?

HMJr: Yes.

C: - personally, will you?

HMJr: Doctor Feis is sitting here - it'll go off at once.

C: I see.

-7-

HMJr: Hello?

C: Yes.

HMJr: Now just a moment, Mr. Taylor wants to say something.

C: Yes

HMJr: Just hold on.
(Short pause)

HMJr: Mr. Taylor makes a very good point. Hello?

C: Hello.

HMJr: This message will be sent to you with instructions to hold it until we hear from the British that it's acceptable to them.

C: To hold it until I hear from the British that it is acceptable to them?

HMJr: No, until you hear from the State Department.

C: Until I hear from the State Department?

HMJr: Yes. What we'll do, we'll send this over to you.

C: Yes.

HMJr: If we get word from the British that it's all right, I'll ask them to use the telephone and we'll just phone you and say, "Release it."

C: Fine, I'll wait until I hear from you.

HMJr: Yes.

C: Yes.

HMJr: We'll simply say to release it.

C: Yes.

HMJr: You - you see?

C: And I will get word personally from Bonnet -

HMJr: That's right.

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C: - that until I hear from
he won't release it.

HMJr: Yes, and we have no intentions of giving it
any publicity, but if he should decide to
give it publicity we want 24 hours' notice.

C: And when you refer to his message, do you mean
the information which he gave me and I sent
forward in a message?

HMJr: That, and the one from Bullitt.

C: The two combined.

HMJr: The two combined.

C: I see.

HMJr: Yes.

C: Fine.

HMJr: Now just hold on please.
(Pause for aside conversation)

C: Hello?

C: Yes.

HMJr: What the people here say is, not to raise the
publicity thing unless he does.

C: I see.

HMJr: And take it perfectly for granted that - that it's
just a message between governments.

C: I see.

HMJr: See?

C: Yes, sir.

HMJr: Now just hold on please.
(Pause for aside conversation)

HMJr: Cochran, the point that we want to make sure of, and we'll have to let you use your judgment on the ground - if there's going to be any publicity, we want 24 hours' notice. Hello? - Hello?
(Clicks instrument) Hello?

Operator: Just a moment please.

HMJr: Are you calling him?

Operator: Yes, sir.

HMJr: He's gone.

Operator: Who? Fine. - Something wrong? Can't you hear?

HMJr: So far. But he's just -

Operator: Oh, you mean he was cut off?

HMJr: Yes.

Operator: Oh, wait till I get him back for you.

(Very long pause)

HMJr: Hello?

Operator: I have him back.

HMJr: Thank you.

Operator: Go ahead.

HMJr: Hello? Hello?

C: Hello.

HMJr: Cochran?

C: Yes.

HMJr: The point that they want to make here is that we take it for granted there will not be any publicity, but -

C: For granted there will not be any publicity.

HMJr: Yes. But if he brings it up or if you feel from his conversation that he is going to give it the publicity -

C: Yes.

HMJr: - that we want 24 hours to think it over, as to whether we want it or not. See?

C: I see.

HMJr: See?

C: Yes, sir.

HMJr: In other words, this is not one of those notes which we expected to give it publicity.

C: I see.

HMJr: Ah - but as far as I'm concerned personally, if it did get in the papers - I mean it wouldn't worry me, because it's written so that there's nothing in there but what could be put on the front page if it had to be.

C: No, it - it would worry him more than it would worry us, I should think.

HMJr: You've got it. You've got it. Now - ah - ah - I had a chance while we were cut off to check with our visitor and he said I stated his position accurately.

C: Fine.

HMJr: Now, just ~~a~~moment.

(Pause)

HMJr: And - hello?

C: Yes.

HMJr: The State Department will send you a confirmation of my instructions that you should not sail until further notice.

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C: Not sail until further notice.

HMJr: Please.

C: All right, sir.

HMJr: Just a minute. (Aside: Wayne? -)
Well, go back and have a good night's rest.

C: All right, fine.

HMJr: Good night.

C: Good night, sir.

TELEGRAM SENT

LMS

GRAY

September 23, 1937

10 p. m.

AMEMBASSY

PARIS (FRANCE)

RUSH.

501.

FOR COCHRAN FROM SECRETARY MORGENTHAU.

Confirming instructions given you on telephone
this evening defer sailing until further notice.

HULL
(HF)

EA:HF:SMS

CODAT

September 23, 1937

11 p.m.

A. F. BASSY

PARIS, FRANCE

502.

FOR ~~COCHRAN~~ FROM SECRETARY OF TREASURY.

When you receive release from me deliver the following message to Mr. Bonnet.

Quote From Mr. Morgenthau for Mr. Bonnet.

I thank you for your message. I note with satisfaction your affirmation of your continued opposition to the adoption by France of exchange control. (I am also glad to be informed of your conviction that from the budgetary and economic standpoint it will not be necessary to establish a level for the franc of over 140 to 150 to the pound sterling.)

May I assure you that I am following with sympathetic interest the efforts of France to cope with difficulties which I trust will be merely temporary. It is my hope that your country will succeed in its endeavor to meet the existing situation without recourse to any measures which are not in conformity with the spirit of the Tri-Partite Declaration, the successful operation of which our governments so urgently desire. Unquote.

HULL
(HF)

GROUP MEETING

September 23, 1937
9:30 a.m.

Present: Mr. Taylor
Mr. Oliphant
Mr. Lochhead
Mr. Riefler
Mr. Gaston
Mr. Gibbons
Mr. Thompson

H.M.Jr: I want Seltzer here at 10. He's working on this speech for me, isn't he?

Haas: Yes, sir.

H.M.Jr: Anybody else on ~~that~~?

Haas: Yes, some of Seltzer's assistants. But Seltzer's O.K.

H.M.Jr: (On phone) I want Seltzer at 10.

Who would work with you (Oliphant) if we want to do something with the budget? Who in your office works with you on the budget?

Oliphant: Bernstein?

H.M.Jr: Who?

Oliphant: Bernstein.

H.M.Jr: Do you want to take it firsthand, then pass it along?

Oliphant: Yes.

H.M.Jr: (To Thompson) Any papers?

Thompson: No papers. It may be of interest to know that the Budget Bureau has started its hearings on the 1939 Treasury estimates; making a little progress.

H.M.Jr: Huh?

Thompson: They're planning to hold hearings for about three weeks. I think the Appropriations Committee pushes that thing up; have it in here in October.

H.M.Jr: All right.

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I think what Mr. Bell is doing is to try to get as much done when he's away - be ready for him when he comes back.

Lochhead: Cable came in from London this morning, shows there's a little more hoarding starting in in the gold market for the first time.....

H.M.Jr: That's good, isn't it?

Lochhead: Well, good in this way possibly: it shows people are not worrying about the price of gold if they want to get hold of it.

H.M.Jr: How does that show up?

Lochhead: There's a demand by hoarders for gold - demand for coins; not banking quarters.

H.M.Jr: I'd say that's on the good side.

Lochhead: Well, it's on the good side just at this time; it's the good side to a bad situation.

Riefler: It shows that the Morgenthau-Phillips conversations are giving the impression of stability to the price of gold.

H.M.Jr: Beautifully put. What else?

Lochhead: That's all.

H.M.Jr: I'd like you to stay afterwards. Isn't Jake going to be here?

Riefler: Yes, he's going to. He's inside. Do you want him attending too?

H.M.Jr: Is he sitting outside?

Lochhead: He went back to his own room to study up on something.

H.M.Jr: (On phone) Hello? Tell Dr. Viner I'd like him here at ten, please.

No ill effects from last night?

-3-

Lochhead: (Nods no)

Riefler: (Nods no)

Gibbons: I have nothing.

H.M.Jr: George?

Maas: I have nothing.

H.M.Jr: I'd like you to stay, George, at ten.
Herbert?

Gaston: I have a letter from Herbert Johnson; said he's glad to send you - he'll send you the cartoon, but he's Scotch and he'd like to have you autograph a picture, a photograph to him.

H.M.Jr: Well, you tell him I'm Jewish and I'll do it.

Gaston: All right, I'll write a letter for your signature to him.

(Showing H.M.Jr some papers) About that thing, I don't suppose you want.....

H.M.Jr: Oh, Herbert Feis talked to me about that, and they all agreed it's a crazy idea and that this fellow - Herbert Feis said he told Fisher, who was with the President, to think up something new. But quite frankly, between now and November 10 I think I'm fairly well occupied.

Gaston: I think so, and I shouldn't think you'd want to talk with Bonnet on monetary matters.

H.M.Jr: No, no. Have you (Riefler) seen this cable that came in this morning?

Riefler: (Nods yes)

H.M.Jr: Anything else, Herbert?

Gaston: No.

H.M.Jr: If I get a breathing spell today, I want to talk to you and Oliphant some time about some of that stuff that you sent me in this morning - Tucker's.

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Gaston: Tucker's, yes, yes.

H.M.Jr: McQuillan of New York - is that his name?

Gaston: Yes, McMullen.

H.M.Jr: Has Oliphant seen it?

Gaston: I think he has not seen it.

H.M.Jr: I got a new hunch where it's coming from. Pretty vicious stuff.

Gaston: Strange that they should come on the same day. McMullen's seems to be worse than Ray Tucker's. Ray talked to Oliphant in my presence.

H.M.Jr: Did he?

Gaston: Yes.

Oliphant: Got some direct information.

H.M.Jr: What?

Oliphant: I have some direct information.

H.M.Jr: Well....

Oliphant: Substance of Frank Kent's conversation....

H.M.Jr: What's that?

Oliphant: I have the substance of Frank Kent's conversation with Barney Baruch.

H.M.Jr: I didn't know that. That'll make sense. But I have another source. I told you, Herman, you could incorporate for a million dollars.

Taylor: (Nods nothing)

H.M.Jr: Made up your mind yet about your plans or not?

Taylor: Close to this week-end as I can. I'm going to find out about it.

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- H.M.Jr: I think you'd be interested in staying after ten. I didn't know this was going to be over so soon. But because I did ask the Acting Director of the Budget to come in at ten, see, I think you would be interested.
- Taylor: Fine.
- H.M.Jr: Herman?
- Oliphant: Nothing. I'll be glad to keep you currently informed on developments on the bidding. I don't want any help, but I want to keep you currently informed.
- Gibbons: Just one thing. The Judge is coming into Norfolk.
- H.M.Jr: Who?
- Gibbons: Judge Black. And they want a Coast Guard boat to go out there.
- Taylor: Justice.
- Gibbons: Mr. Justice Black. They want to send two of his subordinates over with him: one fellow on the Shipping Board that gave him a lot of information, and his secretary when he was in the Senate, out to board the ship on the Coast Guard boat, before the newspapermen. They want to get out before the newspapermen get to him. They called Waesche yesterday. I don't think we should let them go out with the newspapermen, but they should attempt to send two tenders out, two cutters, to make the trip.
- H.M.Jr: You mean one goes out with the newspapermen?
- Gibbons: Newspapermen board the ship. They want somebody else, these two fellows, to get out ahead.
- Gaston: Isn't a Public Health cutter going out ahead of the Customs cutter?
- Oliphant: What's the regular practice? What would ordinarily happen previously?
- Gibbons: Well, the Customs and the Public Health and the Immigration go out in a cutter and board the ship; and the newspapermen, if they have passes to go down

-6-

on that cutter, they go - all in just one cutter. Now, these fellows want another one to go out ahead of time and sneak away. And the newspapermen will see them, naturally.

Taylor: One.

H.M.Jr: I don't think it takes very long; I think one cutter. And if somebody else will want a third cutter, he'll get ahead of the Black people.

Gibbons: Maybe Justice Hughes will want to go out.

H.M.Jr: Let's leave it this way. Until somebody else wants - has a different idea, I'd handle it the way everything else is handled.

Oliphant: Usual procedure.

H.M.Jr: Usual procedure. And unless somebody else has an idea, I'd handle it just the ordinary way.

Taylor: He can certainly take his own time about who he sees. If he's got his people there first, why, of course he sees them first. But God, it would be dreadful to send a....

Gibbons: You can't stop newspapermen from going out there. They're entitled to that.

H.M.Jr: How many of you people have read the last two weeks in the Saturday Evening Post the story by Alsop and Turner Catledge?

Gaston: I've read it.

Taylor: Read one of them - the first one.

Gibbons: You mean on the Court?

H.M.Jr: The 168 days of the Court fight. Have you read it, Herman? You ought to read it. Did a beautiful job.

Gaston: Yes, very good story.

H.M.Jr: All right. Why don't Herbert and Oliphant stay a few minutes, then the rest of you come back at ten o'clock.

RE ECONOMY PLANS

September 23, 1937
10:10 a.m.

Present: Mr. Taylor ✓
Mr. Oliphant ✓
Mr. Gaston ✓
Mr. Haas ✓
Dr. Viner ✓
Mr. Riefler ✓
Mr. Seltzer ✓
Mr. Bailey (Budget)
Mr. Bartelt ✓

H.M.Jr: In addition, Mr. Bailey, to what I have already asked you, in view of your memorandum which I read very carefully this morning - that's what made me have this meeting - I wish that you would prepare - if you could have it, say, maybe by Tuesday, because I asked you to have the other thing Monday - a list of the revolving funds, all of them. Let's take them as of the first of July, and then how much money did they have left in there the first of July and how much money is the Budget counting on for this fiscal year, net return from those revolving funds. I mean how much do we expect to take in?

Bailey: By "into the funds".....

H.M.Jr: I mean how much are we counting on balancing the budget - net.

Bailey: Net receipts.

H.M.Jr: Net receipts. What are we counting on as the net receipts from those revolving funds, and how near we are on the time-table for the first two months - I mean if you want to take whatever the last date is that you have, the 15th or 20th, whatever is a convenient date, see; then give me - have that in ink and then give me in pencil what we might really do if we had some backing from the President. Let's say - let's put it this way: either put these revolving funds really into liquidation, you see - I mean if he's really told R.F.C. to stop borrowing, how much could we expect to get over and above what we counted on, see? Now, I think Dan said he needs another 150 million dollars out of R.F.C.; I mean I can't carry these figures.

But I'll go over again what I want. All revolving funds. Where were we on the first of July? How much did we expect to get, net receipts, on the basis of two and a half months, or whatever the figures are?

-2-

How near are we? And if the President put these really into liquidation, how much could we get for the rest of this year?

Bailey: Yes, sir.

H.M.Jr: Then what I want Mr. Oliphant to do is: What do we have to do legally to put these revolving funds out of business and put them into liquidation, see?

Oliphant: (Nods yes)

H.M.Jr: I mean that's what I want out of your shop, you see.

Then the other thing which, if you don't mind, I am not satisfied with: every time - and it's one of the biggest expenditures - every time we talk about road money I'm always told that we can't do it. The law says that on the first of January you have to apportion, as I understand it, for 18 months hence.

Bailey: Yes.

H.M.Jr: Well, one of the reasons that Mr. Oliphant and I are in the Treasury is because they told the President - the Treasury told the President he couldn't change the price of gold and we found a way to do it. Now, the thing that I want Mr. Oliphant to study is this thing, this road money business, I mean, and what do we have to do to get the legislation so that we don't have to pledge the Treasury 18 months in advance for money which hasn't yet been appropriated. Am I right in that statement?

Bailey: Yes.

H.M.Jr: As I understand it, they sit down on the first of January and tell the states that, beginning with July 1, 1938, we will for 12 months hence give them so much money, and the money hasn't yet been voted.

Bailey: That's right.

H.M.Jr: And every time you talk about cutting that down, you go up against that thing. And - I mean that's the reason I asked for this. I mean to show for instance that - we've got this thing here - from

-3-

'34 to '37 public highways got one billion, 179 million dollars; and for the four years previous to '29 they got 377 million. I mean it's just - it's just - well, it's entirely out of proportion.

Then the other thing that I'd like is this. Could you give each of these people that want it one of these, then mark it "extra-confidential." On the back page here you'll find a list of agencies wholly financed by the government funds, and I'd like all of you - each one of you individually - to take that and study it and tell me which of these do you think we could recommend to the President to put out of business without interfering too much with recovery, see?

Now, just for example, Wayne, how important is it to continue the Export-Import Bank?

Taylor: I think reasonably important. I think it does.....

H.M.Jr: Well, how important?

Taylor: I think there is no particular reason why it should be a completely independent agency unless they intend to liquidate some of the others. In other words, if they liquidated the R.F.C. in toto.....

H.M.Jr: Yes

Taylor: Then I think it might be useful to keep this other unit alive.

H.M.Jr: Well now, I'm going to - may I use you as an example?

Taylor: You bet.

H.M.Jr: Taking this as an example, because you happen to be very familiar with it, what encouragement is there to me - I'm in private business - to go ahead and loan money, if there's an Export-Import Bank?

Taylor: Well, there is.....

H.M.Jr: I mean this way, here's your Export-Import Bank, which is here doing a couple million dollars worth of business - government in business - as against the

-4-

psychological value of saying, "Here's another independent agency we wound up."

- Taylor: Well, there's one particular angle in that field, and that is that Export-Import Bank will never finance all of a transaction.
- H.M.Jr: But at this stage of recovery, why should they finance any? I'm just arguing with you. Why should they finance any?
- Taylor: Well, one reason is that there is a certain gap in our credit structure which can not be taken up by the banks - in other words, your intermediate credit in that type.....
- H.M.Jr: Why not tell the A.B.A., who are always telling us how to run our business - why not tell them how to run theirs?
- Taylor: It's partly a question of legislation. That type of paper is not generally eligible.
- H.M.Jr: I still say why not simply put it on the table, and if there's a gap there why not fix the thing up so they can do it? I mean.....
- Taylor: Yes.
- H.M.Jr: Do you get me?
- Taylor: Oh yes.
- H.M.Jr: I mean I'd like to examine it. I could give you a much better reason why we should continue N.E.C., see? But we abolished it. Now, what I'm looking for is - I want to do away with some of these other agencies. I don't want to go so far that we really slow up recovery; but, on the other hand, if I could convince private business that we want them to go ahead and do business - I want to weigh the two things, and I'm asking you people to think it over in that light. See what I mean?
- Taylor: There are some things that could be done to our basic bank laws which would make this type of paper eligible

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and desirable, which should be done. And in that case the first institution that ought to go would be the Export-Import Bank.

H.M.Jr: Well, I'm using that.....

Taylor: Yes.

H.M.Jr: Now, the purpose of this thing here - what I am leading up to is, I first want to set up this thing - now, for instance, show the people that what we have done in '34 to '37 - and I think it's very good to divide - those four years just fall perfectly, and I suppose that's why you chose them; I mean the four years previous to '29 and the four years of the depression, and the next four years; and to me it both is shocking and encouraging, because I can see where we can save a lot of money. And this '34 thing - two billion, one hundred million dollars for the AAA, and - I thought Wallace's speech was pretty good today.

Taylor: Didn't see that.

H.M.Jr: Well, he said that if they gave the farmers a parity price for cotton, have to pay them 19 cents; and he is now talking that they should have what they had for 50 years before the depression; that we couldn't afford to pay parity.

Oliphant: Said he couldn't get that much money out of the Treasury.

H.M.Jr: Couldn't get that much money out of the Treasury. And here AAA has got two billion dollars. Now in the President's statement the other day he said only 500 million dollars for public works, which would include Soil Erosion. And what I am trying to do is - I mean if you - I'd just like to get this group to thinking about it. What I am trying to do is to look forward to the next four years and take that column down here to shoot at. And it takes an awful long time to get all of this together, but in looking forward to the next four years I want to get you people thinking in those terms, in the light of

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what's happened the last twelve years. And these figures are put together just the way I want them.

Now, the other thing, Accounts and Deposits, I'd like you to do for me. Again I'm - now, I asked the Budget why, for instance, when I look at Public Works and see that they spent more in August '37 than they did in '36, and they come back with this statement: "With respect to the increase of expenditures of Public Works Administration for loans and grants to the states in the month of August '37 over the month of August '36, you will realize that these expenditures are on a net basis. The actual payment for the month of August '36 was 34 million, offset by repayments or the liquidation of assets of 18 million, leaving net expenditures of 16. In the month of August '37, the actual expenditures were 19.6 million, offset through repayments or liquidation by 1.6 million, leaving a net expenditure of 18. And it can be readily seen, therefore, that there has been a decline of 14 million in expenditures for Public Works; there has also been a decline of 16 million in repayments."

Now, could you (Bartelt) set me up a dummy daily statement which would have in the one bracket these the way you have now - Public Works; the other thing would give gross expenditures, and then have underneath gross receipts and then the difference; I mean show them separately. I'd like to see a dummy statement put up that way, and then give these people a chance to shoot at it, with the idea that we will publish it that way in the future, showing gross expenditures one way, then underneath show gross receipts, then the net; so that the people can see first what the gross expenditures are and then what we take back, because it's - I don't see - I think they're entitled to it. So I'd like a new dummy drawn up showing it that way. Because I've got to go to you (Bartelt) and I've got to go to you (Bailey) and you tell me that Public Works is spending less but they're taking in much less; well, how the hell shall the public know that? And if I publish this this way, then we begin to get this thing across that if - first, that they are spending less, which we have not yet got across; but, secondly, those receipts are less. Do you see what I mean?

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- Bartelt: Yes, I understand. That involves the revolving funds; that is, money that rolls over.
- H.M.Jr: Yes, but I want to show each month the gross expenditures and then the gross receipts, but show them separately.
- Bartelt: Yes, I understand.
- H.M.Jr: Now, there is nothing against the law to keep you from doing that.
- Bartelt: Oh no.
- H.M.Jr: What?
- Bartelt: No, sir, no legal objection to it.
- H.M.Jr: Well - and then the other thing is on the - and the last thing - I mean that gets back to this revolving fund business, you see.
- Bartelt: Yes, it does.
- H.M.Jr: And I want to say, as far as I'm concerned, I want to recommend the abolishment of all revolving funds.
- Seltzer: Be an awful exaggeration of both expenditures and receipts if you do that.
- H.M.Jr: No worse than it is. How can you exaggerate facts?
- Bartelt: Well, if Congress makes an appropriation, we'll say, for ten million dollars, and you roll over that ten million dollars ten times, you have a hundred million dollars in your expenditures and you get possibly 90 million dollars in your receipts; each time it is spent it goes in your expenditures; when it comes back it goes in receipts. That's one of the objections from a Treasury standpoint, as I see it.
- H.M.Jr: Well, but it's true, isn't it? And on the other hand, if you do away with all revolving funds, make all net receipts come into the Treasury, then Congress has to vote that R.F.C. can rent so much money and it's got to go through the Appropriations Committee and through the Budget. If they say, "All right, next

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year R.F.C. can lend a hundred million dollars," then it has to go through the Budget, through the President, to Congress and through the Appropriations Committee. This way we have no control; we never have had. And if it looks ten times worse than it is, swell. I say, "Swell." The worse it looks, the better. You're certainly kidding everybody now.

The other thing is, Mr. Bailey, on this Resettlement you say that the Administration has an unexpended balance of 89 million dollars, that it needs to complete the program 50 million, leaving it a balance for the year of about 40 million. Could you enlarge on that please? I mean where does that money come from? And the 40 million looks as though it's over. Have we counted on saving that, and if not could we put that into the pot for saving, the 40 million? What?

Bailey: I'm afraid it's counted on, but.....

H.M.Jr: Well....

Bailey: I'll give you a memorandum.

H.M.Jr: I mean I don't overlook 40 million dollars. I mean in the sense that - do you see what I mean?

Now, I've got a couple minutes before - does anybody not understand what I've been trying to get over this morning?

Oh - and, Herman, look up Section 32 where it gives Agriculture one-quarter of Customs receipts. I want to put that down as one of the first things. I want to recommend that we abolish Section 32.

Haas: There's one other matter that you talked about before - subsidies. Do you want to say anything about that?

H.M.Jr: Well, not - I mean it's a big a subject for this. Jake, do you see what I mean?

Viner: (Nods yes)

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Bartelt: I understand.

H.M.Jr: Seltzer?

Seltzer: Yes

H.M.Jr: Wayne?

Taylor: (Nods yes)

H.M.Jr: Herbert?

Gaston: I understand, yes.

H.M.Jr: And you (Oliphant) get what I want.

Oliphant: Yes.

H.M.Jr: And then, as I say, I'd like to keep this terribly confidential, because I don't want the enemy to start shooting at me, because I'm going to shoot first. I'm terribly encouraged at the possibility of what we can do.

Taylor: How much do you want to go into the regrouping or reorganization aspects of this?

H.M.Jr: I'll take any suggestion that will save money.

Viner: Although if I remember rightly, they are really not being presented as an economy proposal, are they?

H.M.Jr: The reorganization?

Viner: Yes.

H.M.Jr: You mean by the President?

Viner: The President's program.

H.M.Jr: The President's attitude on that - he explained to me the other day - he said when he was Governor he looked simply for higher efficiency in government and no saving in money; and the record of the State of New York and the State of Virginia doesn't show

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that any money is saved, but you get much greater efficiency in running the government. He doesn't look for savings. He said all the history of the State of Virginia and of New York does not show that any money is saved. He doesn't expect to present it in that way.

Taylor: If it is there to do, why, that's

H.M.Jr: Oh yes.

Taylor: I mean in this group here - I mean it's just bound to be possible.

H.M.Jr: What I am asking is this. I am trying to ask you people to think about this thing and anybody that has any suggestions - I need all the help I can get. It's the biggest job I've got.

Actual expenditures of the government for fiscal years 1926-1937
(Classifications include expenditures from both general and emergency funds)
(In millions of dollars)

265

	Total 1926-1929	Total 1930-1933	Total 1934-1937	Aggregate 1926-1937
Regular operating expenditures:				
Legislative, judicial and civil establishments	2,816.0	3,256.7	2,749.1	8,821.8
National defense	2,466.8	2,775.9	3,096.9	8,339.6
Veterans' pensions and benefits (including bonus prepayment)	2,829.3	3,542.1	2,415.2	8,786.6
Interest on the public debt	3,029.0	2,522.6	3,193.3	8,744.9
Total	11,141.1	12,117.3	11,454.5	34,712.9
Public works:				
Public buildings	47.1	303.1	281.0	631.2
Public highways	377.9	621.8	1,179.7	2,209.4
Rivers and harbors	292.0	463.0	812.5	1,567.5
FMA (grants and admin. expenses)	-	-	574.6	574.6
Other	31.7	76.4	362.0	470.1
Total	748.7	1,464.3	3,209.8	9,422.6
Unemployment relief:				
Direct relief	-	350.7	3,355.4	3,706.1
Work relief	-	-	3,977.5	3,977.5
Civilian Conservation Corps	-	-	1,639.5	1,639.5
Total	-	350.7	8,972.4	9,323.1
Agricultural adjustment program	-	-	2,098.7	2,098.7
Social Security	-	-	476.2	476.2
Miscellaneous	-	-	36.6	36.6
Total nonrecoverable expenditures (including bonus and debt retirement)	11,889.8	13,978.3	26,248.2	52,116.3
Loans (net)	5.6	1,666.2	456.9	2,128.7
Subscriptions to capital stock	6.0	737.7	1,089.7	2,883.4
Total expenditures (including bonus and debt retirement)	11,901.4	16,382.2	27,794.8	57,028.4
Bonus prepayment	-	-	2,230.2	2,230.2
Debt retirement	2,096.9	1,858.2	1,440.7	5,395.8
Total expenditures	13,998.3	18,240.4	31,465.7	64,754.4

Actual expenditures of the Government for fiscal years 1926-1929
 (Classifications include expenditures from both general and emergency funds)
 (In millions of dollars)

	1926	1927	1928	1929	Total
Regular operating expenditures:					
Legislative, judicial and civil establishments	646.9	589.4	708.6	691.1	2,636.0
National defense	579.7	504.4	624.6	678.1	2,386.8
Veterans' pensions and benefits (including bonus payments)	690.5	721.8	723.9	773.1	2,919.3
Interest on the public debt	651.9	787.0	751.8	678.3	2,869.0
Total	2,769.0	2,602.6	2,808.9	2,920.5	11,101.1
Public works:					
Public buildings	2.1	7.8	6.7	20.5	37.1
Public highways	98.8	91.5	92.1	95.4	377.8
Rivers and harbors	70.3	65.4	72.9	65.4	274.0
IRA (grants and admin. expenses)	-	-	-	-	-
Other	1.4	8.2	9.5	10.4	39.5
Total	172.6	172.9	181.2	191.3	717.9
Unemployment relief:					
Direct relief	-	-	-	-	-
Work relief	-	-	-	-	-
Civilian Conservation Corps	-	-	-	-	-
Total	-	-	-	-	-
Agricultural adjustment program	-	-	-	-	-
Social Security	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total nonrecoverable expenditures (excluding bonus and debt retirement)	2,903.6	2,876.5	2,969.1	3,160.6	11,809.8
Loans (net)	-	-	-	5.6	5.6
Subscriptions to capital stock	-	1.0	-	5.0	6.0
Total expenditures (excluding bonus and debt retirement)	2,903.6	2,877.5	2,969.1	3,171.2	11,921.4
Bonus Payments	477.4	539.6	520.3	529.5	2,066.8
Debt retirement	-	-	-	-	-
Total expenditures	3,381.0	3,377.1	3,489.4	3,700.7	13,988.2

Actual expenditures of the Government for fiscal years 1930-1933
 (Classifications include expenditures from both general and emergency funds)
 (In millions of dollars)

	1930	1931	1932	1933	Total
Regular operating expenditures					
Legislative, judicial and civil establishments ...	789.5	790.9	978.8	697.5	3,256.7
National defense	701.3	699.2	797.6	667.8	2,775.9
Veterans' pensions and benefits (excluding bonus payments)	755.5	939.6	984.8	863.2	3,543.1
Interest on the public debt	659.3	611.6	599.3	609.3	2,479.5
Total	2,905.6	3,041.3	3,370.5	2,817.9	12,135.3
Public works					
Public buildings	43.0	67.7	86.5	109.9	307.1
Public highways	89.3	174.4	209.9	176.2	649.8
Rivers and harbors	106.9	121.3	116.8	116.4	465.0
PWA (grants and admin. expenses)	-	-	-	-	-
Other	11.0	13.9	26.3	25.2	76.4
Total	249.8	377.3	439.5	427.7	1,494.3
Unemployment relief:					
Direct relief	-	-	-	390.7	390.7
Work relief	-	-	-	-	-
Civilian Conservation Corps	-	-	-	-	-
Total	-	-	-	390.7	390.7
Agricultural adjustment program	-	-	-	-	-
Social Security	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total irrecoverable expenditures (excluding bonus and debt retirement)	3,193.4	3,428.6	3,710.0	3,696.3	13,978.3
Loans (net)	194.8	293.0	404.0	674.4	1,566.2
Subscriptions to capital stock	-	-	627.0	110.7	737.7
Total expenditures (excluding bonus and debt retirement)	3,308.2	3,691.6	4,741.0	4,681.4	16,302.2
Bonus payment	-	-	-	-	-
Debt retirement	571.0	460.1	410.6	461.6	1,903.3
Total expenditures	3,879.2	4,151.7	5,151.6	5,143.0	18,205.5

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Actual expenditures of the Government for fiscal years 1934-1937
 (Classifications include expenditures from both general and emergency funds)
 (In millions of dollars)

	1934	1935	1936	1937	Total
Regular operating expenditures:					
Legislative, judicial and civil establishments	572.5	597.7	781.1	797.8	2,749.1
National defense	540.3	709.9	911.6	935.1	3,096.9
Veterans' pensions and benefits (excluding bonus prepayment)	556.9	607.1	677.9	573.3	2,415.2
Interest on the public debt	756.6	820.9	799.4	856.4	3,183.3
Total	2,426.3	2,735.6	3,120.0	3,172.6	11,495.5
Public works:					
Public buildings	78.7	98.1	67.9	76.3	281.0
Public highways	267.9	317.3	243.9	390.6	1,179.7
Rivers and harbors	150.8	203.0	223.7	235.0	812.5
FHA (grants and admin. expenses)	18.8	48.9	233.9	273.0	574.6
Other	35.7	77.0	99.3	150.0	362.0
Total	551.9	704.3	868.7	1,024.9	3,002.8
Unemployment relief:					
Direct relief	715.8	1,914.1	551.7	133.8	3,395.4
Work relief	805.1	11.3	1,264.4	1,896.7	3,977.5
Civilian Conservation Corps	331.9	435.5	446.1	385.8	1,603.3
Total	1,852.8	2,360.9	2,342.2	2,416.3	8,972.8
Agricultural adjustment program	290.3	743.0	542.6	522.8	2,098.7
Social Security	-	-	28.4	447.8	476.2
Miscellaneous	6.7	21.1	6.8	-	34.6
Total nonrecoverable expenditures (excluding bonus and debt retirement)	5,130.0	6,564.9	6,908.9	7,044.4	25,248.2
Loans (net)	788.6	80.5	-173.2	-237.0	458.9
Subscriptions to capital stock	826.5	196.8	69.3	37.1	1,099.7
Total expenditures (including bonus and debt retirement)	6,745.1	6,802.2	6,805.0	7,044.5	27,794.8
Bonus prepayment	-	-	1,673.5	956.7	2,230.2
Debt retirement	399.9	573.6	403.2	104.0	1,480.7
Total expenditures	7,145.0	7,375.8	8,881.7	8,105.2	31,465.7

Proprietary Interest of the United States in Governmental Corporations and Credit Agencies,
as of June 30, 1929 to 1937 ^{1/}
(In millions of dollars)

269

	1929	1930	1931	1932	1933	1934	1935	1936	1937	
Financed wholly from Government funds:										
Reconstruction Finance Corp.	-	-	-	70	1,428	2,473	2,075	1,804	1,491	
Security Credit Corp.	-	-	-	-	-	24	196	266	173	
Export-Import Bank	-	-	-	-	-	16	12	18	17	
Public Works Admin.	-	-	-	-	-	16	312	186	146	
National Agric. Credit Corp.	-	-	-	-	190	223	277	285	27	
Production Credit Corp.	-	-	-	-	5	12	11	11	11	
Young Ireland Co.	-	-	-	-	2	2	2	2	2	
Shipping Board Merch. Fleet Corp.	236	204	217	233	204	183	182	191	87	
War Emergency agencies	-	-	10	10	10	10	9	9	8	
Farm Loan Board - Corp. Loans	-	160	330	600	700	700	600	500	400	
Farm Credit Administration	-	-	-	-	-	-	100	170	150	
National Housing Corp.	600	350	500	300	300	300	300	300	300	
National Obligations	-	-	-	-	-	-	-	-	170	
ennessee Valley authority	-	-	-	-	-	-	-	-	100	
Reclamation Service (R.A.)	-	-	-	-	-	-	-	-	100	
Federal Housing Administration	-	-	-	-	-	-	-	-	100	
U. S. S. Savings Corp.	-	-	-	-	-	-	-	-	100	
Navy Electrification Administration	-	-	-	-	-	-	-	-	100	
Other	-	-	-	-	-	-	-	-	100	
Total Group 1	333	456	729	1,779	2,944	3,319	3,317	3,078	2,721	
Financed partly from Government and partly from private funds:										
Federal Land Bank	34	34	34	100	125	160	160	160	160	
Federal Intermediate Credit Bank	-	-	-	-	-	197	160	160	160	
Federal Farm Mortgage Corp.	-	-	-	-	-	111	160	160	160	
Bank for Cooperatives	-	-	-	-	43	20	20	20	20	
Farm Loan Bank	-	-	-	-	-	104	100	100	100	
Farm Credit Loan Corp.	-	-	-	-	-	1	100	100	100	
Federal Savings & Loan Insurance Corp.	-	-	-	-	-	1	100	100	100	
Federal Savings & Loan Associations	-	-	-	-	-	190	150	150	150	
Federal Deposit Insurance Corp.	1	1	1	1	1	1	1	1	1	
War Finance Corp.	-	-	-	-	-	-	-	-	-	
Total Group 2	33	34	35	162	270	520	1,106	1,109	1,222	
Grand Total	366	490	760	1,941	2,774	3,839	4,423	4,223	3,943	

^{1/} Source: annual report of the Secretary of the Treasury, 1936; Daily Treasury Statement, July 31, 1937.
^{2/} Estimated. ^{3/} Transferred F.O.A. ^{4/} Less than one million.

THE WHITE HOUSE
WASHINGTON

September 23, 1937

Memorandum For: Honorable Robert Jackson
Department of Justice

Dear Mr. Jackson:

This is the matter I spoke to
you about on the telephone.

With best wishes to you,

Very sincerely,

James Roosevelt
James Roosevelt
Secretary to the President

Department of Justice
Washington

September 23, 1937

MEMORANDUM FOR THE PRESIDENT:

I recommend holding this Order until we can confer on it. My reasons are:

1. Identical bids forced on the government dramatize the whole monopoly problem. It is an issue with great political possibilities, as well as merit, because high price resentments force your enemies to go along with your program. Also monopoly flourishes because of court decisions protecting it. This issue has great possibilities if it is properly dramatized.

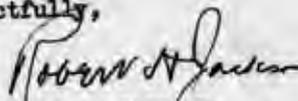
2. The Order is negative and dramatizes nothing. It stops buying on identical bids but that is not an anti-monopoly program. Where do we go from there?

3. The first action taken by you should be designed to take full advantage of this situation. We should, if possible, instruct the departments how to buy so as not to stop their work, and not be subjected to charges of favoritism or corruption. We must have a plan to proceed against these persons who are breaking down the government's system of competitive buying. It is not possible to prosecute these cases with the present staff but I believe we could work out a very effective program on this subject.

Business has convicted itself of monopoly by the identical bidding scheme. The people can be made to understand this issue. I think you can seize this subject in a way that neither your economic nor political enemies can withstand.

In my opinion this Order should be part of a plan of campaign rather than an end in itself. Pending your return Tom Corcoran and I will do some work on it.

Respectfully,



ROBERT H. JACKSON
Assistant Attorney General



Office of the Attorney General
Washington, D. C.

September 21, 1937.

The President,
The White House.

My dear Mr. President:

With the general purpose and objective of breaking up identical bidding, I am in full sympathy; but I would not want to approve of the order enclosed herewith, which has been proposed by the Treasury and conditionally cleared by the Budget, until I can have opportunity to review with you some of the practical consequences which may result in embarrassment to the Department of Justice and through it to your administration if we do not make provision to guard against them.

The operation of the order will no doubt be attended by considerable publicity and throw into this Department a very large number of bids, each of which will have been held to be prima facie collusive and hence the result of illegal activities on the part of the bidders. This situation would indicate the duty of instituting a large number of suits. Yet it would be reckless for this Department to proceed to prosecutions merely upon a prima facie case and without thoroughly investigating the causes of the identical bids. It must not be overlooked that the systems which produce identical bids are prepared by lawyers of skill and experience who believe that they have brought themselves within the protection of Supreme Court precedents.

Our Antitrust Division is quite ready, indeed anxious, not only to challenge the legality of these systems, but also to challenge the precedents themselves. The Antitrust Division has, however, its entire staff assigned to pending cases, several of which are of major importance such as the Aluminum Company matter, the Oil cases pending in Wisconsin, and the Finance Company cases.

An attack on identical bidding on a sufficiently wide front to avoid the accusation of bias in selection is beyond anything contemplated by our appropriations or possible to our present staff. Each antitrust suit is costing in the neighborhood of \$100,000 and each of these identical bidding cases will present all of the difficulties of any typical antitrust case.

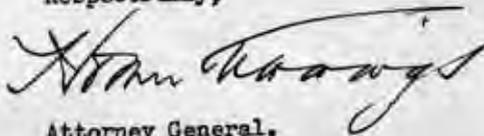
-2-

In order that we may have a coordinated effort to break up identical bidding planned before a deluge of publicity breaks as a result of this executive order, can this matter not await an opportunity to discuss with you a possibility of devising what will amount to a "campaign" and of allocating funds from some source to enable us to deal with this problem in adequate fashion?

Consideration should also be given to the course to be taken while litigation is in progress, for it must be borne in mind that it will be protracted and probably not settled within the life of the present administration. If all identical bids are to be rejected, it will enforce a policy of purchasing without bids, especially in Departments like the Army and Navy where the progress of the work is imperative. Long continued government buying without advertising for bids may subject the various Departments to charges of favoritism or possibly corruption. The buying policy of the government, which may be completely unsettled by this executive order, should be constructively determined at the same time that the order is issued so as to protect your administration against the dangers of non-competitive buying.

I consider this order as a major move of your administration and want to place my Department in a position to cooperate vigorously in attaining the objective. I think we should confer on this subject at an early date and will hold myself in readiness to do so.

Respectfully,



Attorney General.

BUREAU OF THE BUDGET
WASHINGTON

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SEP 21 1937

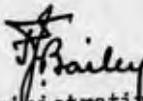
My dear Mr. Attorney General:

Herewith is a proposed Executive Order, presented informally by the Treasury Department, requiring submission to the Department of Justice of all cases in which bids are submitted where there appears to be evidence of collusion.

It is informally understood that the Attorney General will prepare a letter to the President concerning the proposed order.

Subject to the citation of the authority under which the order is issued it has my approval as to form.

Very truly yours,



Acting Administrative Assistant
For and in the absence of the
Acting Director.

The Honorable,

The Attorney General.

Enclosure:
Draft of proposed
Executive Order.

EXECUTIVE ORDERREQUIRING TIE BIDS TO BE REFERRED TO THE DEPARTMENT
OF JUSTICE

It appearing that in many instances there are being received identical bids on proposed purchases by the several executive departments and independent establishments of the Government, indicating collusion thereby depriving the Government of competition contemplated and required by section 3709 of the Revised Statutes, it is hereby ordered that, until further notice, in all cases in which there is evidence that bids otherwise acceptable are the result of collusion before any bid is accepted, such cases be referred to the Department of Justice for determination whether collusion is present. All cases of identical bids would in the absence of satisfactory evidence that no collusion was present fall within this Order.

It is further ordered that all invitations hereafter issued by the several executive departments and independent establishments of the Government for furnishing materials, supplies or equipment shall require, unless deemed inadvisable in a particular case by the contracting officer, the bidders to state the price at which the same will be furnished both f.o.b. point of shipment and f.o.b. point of destination.

THE WHITE HOUSE,

September , 1937

THE WHITE HOUSE
WASHINGTON

276

Hyde Park, N. Y.,
October 19, 1937.

*Manning
Laws to see
As first thing*
MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Will you arrange to come
with Bob Jackson to talk with me
about this? Possibly the Attorney
General will want to come also.

F. D. R.

COPY TO:
THE ATTORNEY GENERAL

0-20-113 10-1-493
MAY 1957 11.1.1

518

TREASURY DEPARTMENT

277

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Herman Oliphant

When you see Bob Jackson on the attached, you may want to have in mind the following:

- (1) The position which Jackson took in the attached letter to the President was taken before our success in the tire deal.
- (2) From what he has told me about the plan he mentioned to the President, I think it involves:

(a) A small committee of real experts chosen from those now in the Government who are really interested in the monopoly problem, which committee will prepare recommendations for improving the anti-monopoly laws. It is to work quietly, and is to require no funds, as it is to use present Government personnel and statistical resources.

(b) To handle the tie-bid situation for all of the Departments, Jackson wants \$200,000 or \$300,000 to set up about ten units in different parts of the country (each headed by a high-grade lawyer) for a simultaneous attack on about ten industries. Jackson does not plan the ordinary J. Edgar Hoover type of investigation, but plans Grand Jury investigations.

HO

Attachments.

THE SECRETARY OF THE TREASURY
WASHINGTON

11-8-37



MEMORANDUM TO THE PRESIDENT:

In view of the discussion of the matter at Cabinet Meeting on October 22, I think it desirable that I give you a brief statement of what the Treasury Department has done so far about the bids, and that I submit, for your consideration, a statement of what I propose to do in the future.

Discussion has confused two things which should be kept separate. How, under the law, Government purchases are to be handled is not to be confused with the enforcement of anti-trust laws by the Department of Justice. The latter does not concern the Treasury. This memorandum deals with the former only.

The tie bids for tires, opened July 1, 1937, were submitted to the Attorney General. He ruled that, upon the facts in this case before the Department, it was justified in concluding that these bids were the result of collusion and a combination in restraint of trade, and that the rejection of these bids was, therefore, justified. He suggested that the matter be referred to the Department of Justice with a view to prosecution, which was done. Also, the bids were rejected and the bidders were advised that their bids had been rejected because of the indication of collusion.

On September 11, the Director of Procurement readvertised for bids and sent notice to all the prior bidders and to numerous other companies. Again no competition was obtained, and the bids made the

same showing of collusion. Accordingly, they were again rejected.

From the foregoing, I concluded that further efforts to secure legally acceptable bids by advertisement would be futile. The time being short, I determined there was a public exigency which, under the statute regulating Government purchases, authorized a negotiated contract for tires without further advertising for bids. The Attorney General ruled, and the Comptroller General agreed, that the Department was authorized to buy tires in this way.

Accordingly, a contract for the needed tires was negotiated with Sears Roebuck & Company at a saving ranging from 10 to 25 per cent under the prices contained in the two sets of identical bids that had been rejected.

As to the future, the following is the legal and practical situation confronting the Treasury. Apart from any duty on the Treasury to avoid aiding, with its patronage, a combination violating Federal anti-trust laws, the clear policy of the statute regulating Government purchases and binding on me is that the Government shall not be deprived of the benefit of competition by collusion among bidders or otherwise. If the Treasury is to make purchases, it must follow the law not only because of the obligation of the oath of public officers, but also because of the necessity of protecting from personal liability disbursing and certifying officers called on to pay for such purchases.

On the other hand, I do not want to get beyond my own jurisdiction nor seem to be attempting to fix a uniform policy as to the bids on Government purchases for other departments. My problem, as to

- 3 -

the Treasury, is to avoid this but at the same time follow the law and protect my disbursing officers, or those who certify payments.

Accordingly, when the next case of tie bids comes before me for action, I propose to proceed as follows:

1. I shall ask the Attorney General specifically to rule whether on the facts of the case then before me I would be justified in concluding that no collusion or other violation of law was present.
2. If his answer is in the affirmative, I shall, to protect disbursing officers, ask the Comptroller General for a specific ruling whether, if a contract were concluded with one of the identical bidders chosen by lot, he would approve disbursements thereunder.
3. If the Comptroller General's answer is also in the affirmative and if at that time we are, as now, without a uniform policy on tie bids applicable to all departments of the Government, I shall forthwith conclude a contract with one of the identical bidders, choosing him by lot.
4. If I do not get an affirmative answer from both the Attorney General and the Comptroller General, I shall, as to purchases for other departments, ask your approval for me to refer the matter back to such departments to make their own purchases. As to

- 4 -

purchases for the Treasury Department, I shall reject the tie bids, readvertise, and, if I again get tie bids, then I shall endeavor, by private negotiation, to secure the best possible price for the Government as, with the approval of the Attorney General, was done in the tire case.

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HO:s Retyped 11/8/37

cc: Wm. H. McReynolds 11/9
J. P. W. ... 11/9
O. S. ... 11/9
L. J. Bernard 11/9

cc: F. A. Manning 11/9
W. K. Laws 11/9

11/15/37
Change made by CVO telephoned to all who were sent copies - changes were on pages 2 and 3.

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HD: Retyped 11/8/37

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Wenschel 11/9
Oppen 11/9
Bernard 11/9

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Accordingly, a contract for the needed tires was negotiated with Sears Roebuck & Company at a saving ranging from 10 to 25 per cent under the prices contained in the two sets of identical bids that had been rejected.

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Accordingly, a contract for the needed tires was negotiated with Henry Hooker & Company at a saving ranging from 10 to 25 per cent under the prices contained in the two sets of identical bids that had been rejected.

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HD:s Retyped 11/8/57

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Accordingly, a contract for the needed tires was negotiated with Sears Roebuck & Company at a saving ranging from 10 to 25 per cent under the prices contained in the two sets of identical bids that had been rejected.

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and being by
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Retype

303

Commission has confused two things which should be kept separate. Now, under the law, government purchases are to be handled ^{is not to be confused with the enforcement of} ^{by the Department of Justice} antitrust laws. The latter does not concern the Treasury. This memorandum deals ~~only~~ with the ~~latter~~ former only.

On the other hand, I do not want to get beyond my own jurisdiction nor seem to be attempting to fix a ^{uniform} policy as to ^{the bids on} government purchases for other departments. My ^{policy} ~~policy~~, with the Treasury, is to avoid this. But at the same time follow the law and protect my disbursing officers.

COPY

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HO:s retyped 10-29-57

Read by: Bernard
 Opper
 Manning
 Wenchel
 Laws

ask for cement
Prices F.O.B.
Mill, Pres. saws.

DRAFT OF ANTITRUST AND BANK HOLDING COMPANY MESSAGE.

In my message of January 3, I said I expected later to address the Congress in a special message on the relationship of government to certain practices of business. I enumerated practices which most people believe should be ended, and pointed out that, when attacks are made on certain wrongful business practices which are scrupulously avoided by the ^Woverwhelming majority of businessmen and bankers intent on the pursuit of good citizenship, there are those who are eager to call this an attack on all business. I said then and I now repeat that this is wilful deception which will not long deceive.

Our people have constantly set their faces against unwarranted concentration of wealth and economic power since the Government was founded. Washington bitterly inveighed against monopolies. Jefferson feared the encroachments of an industrial organization that would stifle free enterprise. Jackson challenged the ruthless power of the few over the many which ~~were~~ ^{had} concentrated in the United States Bank and its supporters. Lincoln held the money power at bay while fighting for the preservation of the Union. Theodore Roosevelt attacked vested rights to power in all quarters.

Behind Wilson lay a century of struggle to preserve industrial democracy as the only environment in which political democracy could survive. ~~and~~ With his election the forces championing the rights of the many as against the few had at last been marshalled for the decisive battle against those excessive concentrations of wealth and

economic power that threaten to rend the fabric that interknits our economic and political institutions into a genuinely democratic pattern. But the cataclysm of the World War turned him and the forces he led off the main course. We are now at the end of that detour, and the time has now come to move forward against those excessive concentrations of wealth and economic power which must be reduced to keep open the highroad along which lies the destiny of democracy in America. We take up the unfinished work of Andrew Jackson and Woodrow Wilson in the new moral climate which we have in America today.

Undue concentration of wealth and economic power has many phases and manifests itself in many ways. The phases to which I would direct your attention today are monopolistic organizations and practices in the fields of industry and banking.

The problem of monopolies and of combinations, contracts and other arrangements for fixing prices and otherwise stifling competition, should be frankly recognized as but one part of the larger problem of current lawlessness and it should be dealt with on that basis.

Such combinations and practices have been condemned for centuries in Anglo-American law and government, and the record of the struggle of public authority against them runs back to the Year Books. Scattered throughout American history are enactments of legislatures and decisions of courts labeling them as unlawful, and this age-old attitude was embodied in ^{DELL} Federal law by the enactment of the Sherman Act almost 50 years ago.

Our historic attitude on this question is not to be lightly altered. Some today, impatient with immediate difficulties and mindful of the riches of wisdom to be distilled from our centuries of experience with this problem, speak of regulating monopolies. They would allow competitors to fix prices if they did not fix them too high, and would permit other restraints on competition if they set some vague standard of reasonableness. To heed such novel counsel and to abandon ancient landmarks for such untried compromises with economic lawlessness would be no part of wisdom. The fight, as old as lawlessness itself, must go on — must be carried to successful conclusion as it can be if we make our weapons more effective by improving them as our experience in their use has taught us they can be improved. Moreover, this more determined fight with better weapons can be undertaken with the support of present wide-spread public disapproval of lawlessness of all kinds in all quarters.

The more effective weapons needed are of two sorts. In some cases, the substantive law condemning a particular monopolistic organization or practice is clear and explicit enough, but the difficulties of investigation, proof and enforcement largely stay the Government's hands. The abundant experience of the Department of Justice with these difficulties will afford an ample basis on which to formulate the more effective procedures and sanctions that are needed.

But our major problem in devising more effective weapons to put down unlawful restraints on competition is that of returning to the policies and objectives embodied in the underlying Federal legislation beginning with the Sherman Act, and of erecting upon these general enactments a series of specific provisions which will serve the two-fold purpose of arming the law-enforcement agencies of the Federal Government with a code of substantive law which they can effectively enforce and of explicitly advising the business community what specific types of conduct are prohibited.

The general policies and objectives of our Federal legislation in relation to monopolistic organizations and practices and to other restraints on competition should not be in doubt. They are set forth in most comprehensive terms in the Sherman Act, which sweeps in all contracts and combinations in restraint of trade, and in the Federal Trade Commission Act, which condemns all unfair methods of competition. But our experience with these enactments at the hands of the courts demonstrates that specification is necessary to make these policies and objectives effectively unambiguous.

Accordingly it is suggested that the Congress do two things. First, that it go through all of the decisions purporting to construe our antimonopoly legislation which have had the effect of paring off bit by bit the area of condemned conduct that they were intended to embrace. Each of these decisions should be carefully scrutinized and if, in the light of experience, the narrowing of Federal control which each of them represents seems to have been unwise, then, by specific

enactment, legislation should change that decision. In the second place, each business organization and practice, which the study and the unreviewed decisions of the Federal Trade Commission have condemned, should be carefully examined and, if its antisocial character is clear, there should be added to the effectiveness of condemnation by the Federal Trade Commission the potency of specific statutory condemnation.

A two-fold undertaking of this sort will give us a reasonably complete and specific code of law covering this field. And it will not be untried and experimental but will rest upon the experience of our Government in struggling with this phase of the problem of lawlessness. Here as elsewhere, the field of lawless and antisocial conduct is a shifting and expanding one. What its boundaries will be in the future cannot now be foreseen with a certainty warranting any attempt at final legislation. Instead the Federal Trade Commission should continue its scrutiny of business practices and go forward with the gradual process of identifying novel and additional practices which should be stopped. At a later time another Congress can incorporate these new prohibitions into detailed and explicit legislation.

Turning now from the general problem of the unwarranted extension of economic power over the processes of trade and industry, there has been a development in our banking system within the last few years that seems to us to hold elements of very serious danger to our economic life. This development is the extension of bank holding companies.

It is hardly necessary, I think, to point out to you the great economic power that might be wielded by a group which may succeed in acquiring domination over banking resources in any considerable area of the country. That power becomes particularly dangerous when it is exercised from a distance and notably so when effective control is maintained without the responsibilities of complete ownership.

We have seen the multiplied evils which have arisen from the holding company system in the case of public utilities, where a small minority ownership has been able to dominate a far-flung system.

We don't want those evils repeated in the banking field, and we should take steps now to see that they are not. I am not thinking so much of the present situation as of what the result may be if we permit the trend to continue. It is not a sufficient assurance against the future to say that no great evil has yet resulted from holding company operations in the banking field. The possibilities and even the probabilities of great harm are inherent in the situation.

Both the Congress and the legislatures of a number of the states have deemed it wise to place limits on branch banking, but adequate limits have not been placed on the holding company system, which accomplishes a similar result without a similar measure of responsibility, and permits, with equivalent capital investment, domination of a much broader field.

I therefore recommend that the Congress enact at this session legislation which

GROUP MEETING

September 24, 1937
9:30 a.m.

Present: Mr. Taylor
Mr. Lochhead
Mr. Oliphant
Mr. Haas
Mr. Riefler
Dr. Viner
Mr. Thompson
Mr. Gaston

H.M.Jr: We had a beautiful time again last night, holding France's hand - and the English - before half-past eleven.

What have you (Oliphant) got?

Oliphant: Nothing.

H.M.Jr: Nothing? Sure?

Oliphant: Yes. Miss Maguire is well again.

H.M.Jr: What?

Oliphant: Miss Maguire is back.

H.M.Jr: I didn't know about it. But nothing else?

Oliphant: Nothing else.

H.M.Jr: Mr. Riefler?

Riefler: Nothing.

H.M.Jr: Huh?

Riefler: Nothing.

H.M.Jr: Has anybody got anything?

Thompson: (Nods nothing)

H.M.Jr: Herbert?

Gaston: Some people want to take your picture, if you're interested in that, for a new picture magazine.

H.M.Jr: How much will they pay?

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- Gaston: Haven't got that far. They want to get an informal picture of you striding into the Treasury.
- H.M.Jr: Did a beautiful job of Douglas - first press conference; he had one picture sitting like this.
- Oliphant: Underlip hooked up like that.
- Lochhead: They set his caption on that: "You can't protect yourself against fools." Then they put that awful-looking picture in there. It was a peach.
- H.M.Jr: I thought that story on taxes was all right - and "hot money" - don't you think so?
- Taylor: Yes. He was apparently quite surprised about it. I thought what you told him was fine.
- H.M.Jr: Well, there was a cable, you see. What I told him was that newspapermen had pressed me pretty hard and I wanted to give them a red herring, so I gave them this.
- Gaston: I got a kickback from London. Fred Essary called me up. From the London Mail one of the tickers, probably U. P., had a story over there that they were negotiating an agreement to control hot money.
- H.M.Jr: Well, he had that last night. That's one.....
- Gaston: Yes.
- H.M.Jr: But I simply felt that, well, the boys had been pretty good and I'd give them something; and the French are worrying so that we're cooking up something here.
- Gaston: I told them in response to that story that you weren't negotiating anything, that taxation was merely one of the subjects of mutual interest that would be under discussion.
- H.M.Jr: I think so; I think he's perfectly satisfied. Somebody said last night it was quite significant that he was willing to come in alone, feeling enough at home to come in here like that.

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Gaston: Did you notice, he stopped Naster on the first speech he made, and after that he forgot all about him.

H.M.Jr: (On phone) Hello? All right. Hello, Ros. I just wanted to tell you that Sir Frederick Phillips will be at your office tomorrow morning at 10 o'clock. -
- Now, Taylor will most likely be here and will bring him in and introduce him to you. - Hello? - And I'll leave it with Taylor to work out who they will or will not bring along. Butterworth will be there. I don't know whether Feis has to be there or not. But I wish you'd dictate a memorandum of what you say with him. ~~and~~ the main point is that I want him to know what we have in mind, for his benefit and the State Department's, so that subsequently they can't say we didn't put them on notice. - - That's right. - -
Oh well, only if he asks. What I told him was that you talked - I don't know whether you saw the story in the paper. - - Well, that's about it. - -
Oh yes, Wayne is sitting here. - - You're not on the air, but I mean you'll have a chance to see him before 10 o'clock.

Taylor: I'll be here from 9 o'clock on.

H.M.Jr: (On phone) He says he's here from 9 o'clock on. - -
Oh, I'd see him in the morning. We worked on this thing every single night now; we're all pretty well shot. - - All right.

That takes care of that. And I don't see any particular reason why Feis should come over unless he wants to. But Butterworth ought to be there so he can keep the minutes, and I think you (Taylor) ought to be there, and that's about all. If Feis wants to come, all right.

George, these figures that what's-his-name prepared - Seltzer - these years '34 to '37 - is that the calendar or the fiscal year, or what?

Haas: That's fiscal.

H.M.Jr: Ends when for '37?

Haas: '37, June 30.

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H.M.Jr: Oh.

Haas: See? One of the reasons he started as he did with those four-year groups is that that was really the division between the different administrations. He assumed that the first six months of '33 the present administration had very little control over.

H.M.Jr: This starts with July 1, '33, and runs to June 30, '37.

Haas: That's right.

H.M.Jr: Well, it divided - it falls very nicely.

Haas: It's the fiscal year and it works out quite nicely. I sent in yesterday a long table; we put them all on one sheet - for some purposes a little more convenient than a separate sheet. There's a blank spot in there which is quite interesting.

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

(Haas points out figures to H.M.Jr)

Haas: Move some of this and the budget's balanced.

H.M.Jr: I don't agree with you. I don't think the unemployment relief is the place that you can do it.

Haas: I don't know whether you can do it or not, but it's there, and down here, where the.....

H.M.Jr: I tell you what you do for me. I'd like to take it with me to the farm. Put in here what the Budget has allowed for this year.

Haas: On the new summation that hasn't come out?

H.M.Jr: Whatever it is. Whatever the most recent figures are.

Haas: O.K., I'll do it.

H.M.Jr: Have it for me by?

Haas: Just a little while.

H.M.Jr: If you had time - well, I'd like you to bring it in yourself. But be sure and get it to me. But I'd like

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it right there - you see, this year.

Haas: O.K. He's just revised them, you see. I haven't got that out to date, but I'll get it. When are you leaving?

H.M.Jr: Two o'clock.

Now, I don't - let me show you - I don't agree with you there that that's the place at all to save it.

Haas: Well, you can save some.

H.M.Jr: Well, you'll save some.

Haas: There's two billion four.

H.M.Jr: Yes, but the place to save it, I think - now look, they spent over a billion dollars last year for public works. The President says he only wants to spend 500; that's 500 there. This is down - this is down to one billion eight.

Haas: Yes, it is now.

H.M.Jr: I think if you get all relief, exclusive of C.C.C. - if you get it all down to a billion next year, I think that's about the best you can do.

Haas: Well, that's - I think that's a lot.

H.M.Jr: You allow 200 million for C.C.C., cut it down to a billion two, or a hundred million a month including C.C.C. I think that's the best you can hope for. I mean I'd like to sign off, wouldn't you (Taylor) - including C.C.C. and relief, a billion two - wouldn't you?

Taylor: Next year.

H.M.Jr: Yes.

Gaston: That would be a very good figure; be about 300 million for C.C.C. in there.

H.M.Jr: 200 million. They got about 300 million this time.

Gaston: A very good figure.

H.M.Jr: What?

Gaston: Very good figure.

H.M.Jr: I mean a billion two, a hundred million a month - I think if we spent a hundred million a month for relief - supposed to be all relief families, the C.C.C. boys. As a matter of fact, that's close to what the President has in mind. He's talking a billion for relief. And I don't think they can get the boys. In fact, they've had to ease up their rules on C.C.C. They can't get them. The enrollment now is only 270,000 and they're having a hell of a time getting the boys. There's 13,000 a month that are going back to employment and getting a job - 13,000 a month.

Taylor: That's the age group that industry will take off more easily than any other group.

H.M.Jr: True. But they're having the trouble to get the boys who will come from relief families. They're not there. And you take all these little things - you can't judge the country - but there's a great scarcity in the Hudson valley of apple pickers right now.

Gaston: They don't use Georgia methods of standing around with guns to stop the other fellow from stealing their apple pickers, do they?

H.M.Jr: Ogden Mills wanted 50 or 60 pickers; all he had was 20, the last I heard. No, they don't steal them.

Gaston: Had you noticed that we'll end this quarter with just about an even balance between receipts and cash expenditures? In other words, the deficit will be just about exactly equal to the amount invested in these unemployment reserves; the cash receipts and the cash outgo will just about equal the balance this quarter.

H.M.Jr: Now, if those people who are working with me with Sir Frederick will be back at 10:30, I'll take them on then. And I think I'll turn them over to Wayne - can adjourn to Wayne's office and chew the fat. That's all I got.

M E M O R A N D U M

Re: French Monetary Crisis

September 24, 1937
11:02 a.m.

Sir Frederick Phillips called at 11 o'clock (a.m.) after having a telephone call with London. He said that they felt, inasmuch as Mr. Anthony Eden was in town, that he should see the French Ambassador rather than having the French Ambassador see the Prime Minister.

They liked my message with the exception of the third sentence, which reads: "I am also glad to be informed of your conviction that, from the budgetary and economic standpoint, it will not be necessary to establish a level for the franc of over 140 to 150 to the pound sterling." They would like to see that sentence left out because they are afraid that in case there should be a leak that this message went forward, it would be very damaging to the French, because they feel that there is an excellent chance that the franc will go above 150 to the pound sterling.

As far as our own group is concerned, we feel that this whole idea of a message was one which originated with the British, and that when Sir Frederick Phillips came in Monday and wanted us to join him in a message, at that time there was no necessity for our sending any message, and if they want to leave out that sentence it is perfectly agreeable to us, because we only put that in with the idea that it would be pleasing to the British.

H.M.Jr.

ADDENDUM by Mr. Taylor: He indicated that his government felt that the conversation which Bonnet had with Bullitt, in which he indicated 140 to 150, was sufficient record.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE September 24, 1937

TO Secretary Morgenthau
FROM Mr. Haas *[Signature]*
Subject: Summary of housing conference of September 20
called by Secretary Ickes

This conference was attended by representatives of State and local public housing agencies, Federal agencies, labor, contractors, and others interested in public low-rent housing.

Secretary Ickes opened the meeting with a statement describing his interest in public housing, and discussing the experience of the PWA Housing Division. He listed three main difficulties encountered by the Housing Division in its program:

- (1) Obtaining an able expert administrator;
- (2) Acquiring sites; and
- (3) Obtaining satisfactory non-collusive bids for construction.

He explained that the first of these difficulties had been long since overcome and that the PWA Housing Division is now a going concern with no administrative difficulties. The land acquisition problem, which was extremely serious in view of the unfavorable Court decision respecting the PWA's power of condemnation, has been helped by enactment of State housing acts in thirty States. The third difficulty, which in some cases included collusion between contractors and unions, was encountered only in infrequent cases, and has now been largely overcome.

The present status of the PWA Housing program was described by Secretary Ickes as follows: 22 projects now completed, and 23 projects expected to be completed by the end of December.

September 24, 1937.

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Jimmy Roosevelt came in to see me to-day and he said that there has been an investigation of Henry Goguen, of Internal Revenue in Boston, for political activities. He said if there is any blame it is his blame because he had Goguen work for the French Canadians in Boston. He said that if we felt the man should stop it to let him know and he would take him off.

The other request he makes is for Matt Scullin of Somerville, Mass., who has a tax case pending for over five years. All Jimmy is asking is that it be settled one way or another but that he does not care what happens just as long as the case is settled.

Third, he had heard that I ^{Curley} personally had started an investigation of ex-Governor ~~Kerley~~ and that we were getting along very well. I said that I did not know and had not heard. Then he said that he was simply delighted and hoped that we would get him but that when it came to criminal proceedings that he hoped we would not start it while the campaign was on and I said that that decision was purely a routine one and that if and when we had the material together we would simply turn it over to the Attorney General and he would turn it over to the United States Attorney in Boston and that the decision rested purely with them. I also told Jimmy that he should not believe everything that he read in the newspapers but that political consideration would not influence us as far as tax matters were concerned.

September 24, 1937.
10:50 a.m.

H.M.Jr: Hello

Operator: Knoke - go ahead.

H.M.Jr: Hello

Knoke: Good morning, Mr. Secretary.

H.M.Jr: How are you

K: Oh, I'm very well, thank you. I hope you had a pleasant trip.

H.M.Jr: When.

K:before you returned.

H.M.Jr: Very pleasant, but that's almost - that's history.

K: Well, I haven't had the chance before, so -

H.M.Jr: No, that's true - how did some of your customers up in New York feel - how do the banks feel.

K: Oh - the banks feel - in my field -

H.M.Jr: Yes

K: Bears on the franc - and that's about the principal feeling.

H.M.Jr: Uh-huh. Am I right in thinking that a little less worry about the franc that there usually is when she's as sick as she is now - I mean they've got sort of hardened to it, do you think?

K: Are you right in what?

H.M.Jr: Well I mean - people don't seem to be as much interested in the French situation as usual.

K: Well, no, that is probably correct, but they are not as interested as they were two weeks ago when they thought they saw the developments more clearly.

H.M.Jr: Yes.

K: I think today they still feel the franc is going lower, but there may be a short - short lift rally and that being so I think they just think they are back on

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the side lines watching.

- H.M.Jr: Tell me, has the Japanese Finance Minister been in at all recently to see you?
- K: Not - not in ten days.
- H.M.Jr: Uh-huh. What do you think has happened to their gold. Are you going to get any more?
- K: Why have they discontinued shipping?
- H.M.Jr: Yes - we have no notices since September 9th.
- K: That's right - none since three weeks.
- H.M.Jr: Yes.
- K: Well, I don't know Mr. Secretary.
- H.M.Jr: They haven't been in have they?
- K: No, they haven't been in, and they have not - well they've never spoken about gold at all other than to tell us what was on the water and that shipments were being made for no other reason that that they needed the money.
- H.M.Jr: Yes. The last I heard was Yokohama species were overdrawn. Is that right - in New York?
- K: That's been paid off.
- H.M.Jr: That's been paid off.
- K: The figures on which we report we are commenting in our letter today show nineteen million dollars paid back by the Japanese.
- H.M.Jr: Uh-huh. Does it leave them any balance.
- K: Oh yes - they still have balances - wait a second - I think the assets here in the market, or rather the bank's liabilities to Japan, I think, are still fifty seven million dollars, about.
- H.M.Jr: Uh-huh.
- K: But that is offset by - oh they have balances all right.

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H.M.Jr: They have. Do they pay fairly promptly.

K: Of course the advances which they have been taking have been against gold and those advances have been liquidated in each case -

H.M.Jr: I see

K: When the gold arrives.

H.M.Jr: I see

K: Out of the proceeds of the gold.

H.M.Jr: Well, are they still converting that into sterling or are they keeping it here.

K: - Still converting it into sterling with the Bank of England.

H.M.Jr: I see

K: At least - that was the last shipment that came in, prior to the one that came in yesterday. At that time the Bank of England told us that they had done some sterling with the Japs.

H.M.Jr: I see. All right, I just wanted to say hello - we're working away here with Sir Frederick Phillips.

K: Yes - I've seen the paper.

H.M.Jr: And - we've gotten to know each other better - we've at least got that out of it anyway.

K: (laughs) He's not easy to know, I understand.

H.M.Jr: Well - he's - he says something about every half hour. (laughs) I'll say this, when he does say something, it's worth listening to.

K: Very true.

H.M.Jr: Well - I'm on the farm over the weekend. I hope it will be a quiet weekend.

K: Well today has all the earmarks of that.

H.M.Jr: Right. Are you talking to the Bank of England today?

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K: I spoke to them yesterday. I mailed you the report last night.

H.M.Jr: Well - it hasn't come yet.

K: Very interesting in this respect that, briefly the franc is as weak as ever. They are spending considerable money.

H.M.Jr: Uh-huh.

K: But the outstanding change is renewed buying of gold for hoarding purposes.

H.M.Jr: Uh-huh.

K: That we haven't heard in many months.

H.M.Jr: No.

K: But - but that report was mailed last night, so -

H.M.Jr: Well, we'll get it after a while.

K: Yes, you'll have it today.

H.M.Jr: Righto.

K: Right, sir.

H.M.Jr: Goodbye.

K: Goodnight, sir.

LMS

CODAT

Paris

Dated September 24, 1937

Rec'd 3:11 p. m.

Secretary of State,
Washington.

1341, September 24, 5 p. m.

FROM COCHRAN.

Paris American Bank acting in behalf of French control early this morning lost fifty thousand pounds quickly at one hundred forty-four point sixty-five. Intervention during bourse was handled by Bank of France assisted by Credit Lyonnais and giving of sterling appeared considerable although probably less than yesterday. Forward discounts wider with market believing something will happen to franc within one month. Rentes inclined to weakness.

Belga below gold export point to United States and subject to heavy pressure partly because of fear the belga will have to follow depreciating franc and partly because of rumor of investigation of alleged activities of National Bank of Belgium officials in currency speculation at time belga was devalued.

Financial press particularly from London gives much attention to Anglo-American talks of tax reciprocity. Financial TIMES strongly opposes this editorially.

At

LMS 2-No. 1341, September 24, 5 p. m., from Paris.

At six p. m., I talked with Bank of France where unconfirmed report had just been received of Premier Van Zeeland's resignation. French control yielded one and one quarter million pounds today. Money scarce because of end of month requirements which is making forward speculation more difficult.

BULLITT

CSB

LMS

CODAT

Paris

Dated September 24, 1937

Rec'd 6:40 p. m.

Secretary of State,
Washington.

RUSH.

1343, September 24, 9 p. m.

FROM COCHRAN.

At 8:30 this evening I delivered personally to Minister of Finance Bonnet the message contained in Department's 502, September 23, 11 p. m., as amended by No. 503, September 24, noon. Bonnet was duly appreciative and asked that I convey his warm thanks to Secretary Morgenthau. He said this message should help him with some of his colleagues who have illusions about exchange control. He said nothing about publicity for the message and I did not raise the question.

Bonnet is leaving Paris tonight and will be back in town Monday.

BULLITT

SMS:EDA

September 24, 1937

I told Sir Frederick, the other day, that after all I do not value anything written on a piece of paper. It all gets down to the human equation and the question of personal confidence. I further said, "Sooner or later, your Government and mine have got to carry the whole burden of stable exchange and when that happens we want to have enough confidence in each other so that we can face the enemy, shoulder to shoulder."

IL

GRAY

London

Dated Sept. 25, 1937

Rec'd 10:15 a. m.

Secretary of State

Washington

609, September 25, 2 p. m.

FOR THE TREASURY

Today's STATIST summarizes the week's money market as follows:

"Compared with the wild excitement of the previous fortnight, conditions in the foreign exchange market have been relatively calm during the present week. The undertone of the market was by no means confident, but a slight rebound was overdue, and this was hastened by rumors of impending drastic steps to protect the franc through the restriction of exchange operations."

A leading editorial in today's FINANCIAL NEWS giving a summary of the week's market conditions states the following:

"Last night's break in Wall Street appears to have put a temporary stop to another promising recovery movement in London. After the successive technical blows of the appointment of Mr. William Douglas to the chairmanship of the Security Exchange Commission and the renewed fears
of

m] -2- London Sept.25,1937 10:15 a.m. #609

of taxation to prevent the flow of money to Wall Street, the break is hardly surprising, and although earnings yields on representative American common stocks are now discounting any conceivable recession in domestic trade, it seems unlikely that markets will improve in the immediate future. This is an unfortunate development for the London market."

The ECONOMIST states that: "The coincidence of the visit to Washington of a leading British Treasury official with the further depreciation of the franc has naturally suggested that the future of tripartite monetary agreement is under discussion" and expresses the opinion that "No specific negotiations are now in progress in Washington on such matters as currency stabilization or the revision of the tripartite agreement," believing that the Washington conversations are the result of a desire to maintain close personal contact between Washington and London.

The TIMES City Editor commented that a reciprocal taxation agreement with Great Britain "would put one more obstacle in the way of international finance and commerce."

JOHNSON

EMP:CSB

PARAPHRASE OF TELEGRAM RECEIVED

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FROM: American Embassy, Paris, France

DATE: September 25, 1937, 2 p.m.

NO.: 1345 FROM COCHRAN ULTRA CONFIDENTIAL.

Reliable information has been given to me that Bonnet has prepared the draft of a letter to Premier Chautemps in which he sets forth what he has done as Minister of Finance and blames the Left for failure of his policies to achieve greater success in his work. Bonnet has addressed a second draft letter to the Bank of France. Should these two communications be completed and released along the lines ~~as~~ originally conceived, they will constitute Bonnet's defense of his record under the present government, and presumably his opening move for a new setup of government. We anticipated such a policy, and this anticipation inspired the warning of caution on our part as set forth in telegram of September 23, 8 p.m., No. 1338, from me. We believe that ~~xxxx~~ it is entirely probable that before the cantonal election date of October 10 Bonnet will take action.

There are at least four billion francs in French currency in the French stabilization fund. At present Bonnet is trying to get hold of this for use by the Treasury to meet current needs. For the present, at least, such a transaction would not show up and could not be detected in any public Bank of France or Treasury statements.

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ments. Such action would obviate the necessity of the Bank of France statements disclosing further important advances to Bonnet's Treasury during the next few days he is in office.

WILSON.

EA:LWW

september 25, 1937

This morning the Secretary telephoned from the Farm and said that Mr. Farley had called him and is very anxious that we appoint as soon as possible a Collector of Internal Revenue in Minnesota to take Landy's place. The man has been recommended and checked and Helvering knows all about him. Farley said if the Secretary could get it off to the President on Monday, he would appreciate it.