Dr. Feis phoned 12:40

"Have consulted Mr. Hull
and he is in accord"
May 4, 1938.
1:05 p.m.

H.M.Jr: I put in a call half an hour ago for you.

H. Merle Cochran: Yes.

H.M.Jr: Because, over half an hour Butterworth called me, see?

C: Yes.

H.M.Jr: But he keeps postponing it every five minutes.

C: I see.

H.M.Jr: Now, what we've done is we've submitted a message to the British which I'm willing to send to the French. Hello.

C: Hello.

H.M.Jr: And I thought that we'd have it in, in order to save time, and to get it to you as fast as possible; I wanted to - but, I'm going to tie up this wire, even though I - I'm not going to talk to you on it, you see?

C: I see.

H.M.Jr: And I'll turn you over to Lochhead, and he can let you know what's been happening, see?

C: I see - thank you. All right.

H.M.Jr: But, we ought to have a message from the British any minute now.

C: I see.

H.M.Jr: Now, I didn't know how important it was to try to get it to Daladier before he went on the air; I understand he's going on the air at eight o'clock.

C: Yes. I understand this communique - I mean the State's acknowledgment, that everything was satisfactory.
Well, I'll tell Archie to give you the whole thing.

I see.

And, you can do that, see - because you can be writing it down while we're waiting to hear from Butterworth.

All right.

Now, while I have you, is - is the Ambassador back?

No. He called me three minutes ago, while you were trying to get me. You see, they found the line was tied up. That was Bullitt telephoning from London - the first I'd heard of it. He called here and said either Wilson or me. And when he got me on the phone he said, "What's new?"

Ummm.

And, I said, "Oh, we're pretty busy," and he said, "Why, I understand you have to have a message by eight o'clock." And I said, "Well, where are you?" I said, "You know about it." and he said, "Why, I'm at, -- in Kennedy's bedroom." And I said, "Well, they have later information there than I have."

Yeah.

See? And he said, "Well, I've just seen Monnick and he said that everything's going to be O.K."

Uh-huh.

And I said, "Well, I've heard nothing from Washington since three o'clock."

Well....

"Butterworth has talked since then and," I said, "I don't know anything."

But he was in ah - the - ah - Bullitt was in Kennedy's bedroom?

He said that he was in the room there.
H.M.Jr: Oh, I see.
C: It was the first thing he'd heard from them since he left Berlin.
H.M.Jr: Ah ....
C: But he - I don't know whether he was trying to get Wilson or not - anyway I was the one that ....
H.M.Jr: Well, the point that - when he was here I talked to him about a possibility of my coming to Europe.
C: Yes sir.
H.M.Jr: And he said if I did to let him know. Now what we've done is very, very tentatively. We've taken, ah, accommodations on an Italian boat for the fifth - for the sixteenth of July, and the twenty-third of July.
C: Yeah.
H.M.Jr: To go to Nice, you see.
C: I see.
H.M.Jr: And Bullitt said that he would take rooms for us at the Hotel Ducap.
C: Hotel?
H.M.Jr: Ducap - D-u-c-a-p - At Antibes.
C: I see. And you say you've made reservations?
H.M.Jr: No, Bullitt says he wants to do it for me.
C: Bullitt wants to do it for you? Yes.
H.M.Jr: But he didn't know when we were coming and I'm telling you now.
C: Yes.
H.M.Jr: He wants to do it for me because he said he could save me a lot of money.
Yes.

And he wanted to know what we wanted - we'd want three double rooms and a parlor.

Three double rooms and a parlor?

Yes. So - will you tell him that - when he gets to Paris?

He told me that he was sailing over there on Friday or Saturday.

Well, that's plenty time enough.

Yes. So I'll tell him as soon as he co es.

When he comes you tell him because he said he'd like to take care of it.

I've heard nothing from him until he just got me - just while we were trying to cut through, you see?

I see. Well now, we're tying this up and I'll let Archie bring you up to date, which will save time.

All right. Fine.

Now, just a moment, now. But when Bullitt gets to Paris you tell him about my tentative plans, will you?

They're still tentative - to sail on an Italian ship July sixteenth or twenty-third.

On an Italian ship.

Yes.

Direct to Nice.

Direct to Nice.

Yes.

On the sixteenth or twenty-third.

That's right.
I see. All right, I'll tell the Ambassador as soon as he comes.

Thank you. Now, just a moment.

Operator.

Put Lochhead on - I want - and let me talk to him a minute and let - then Mr. Cochran will talk to him direct, you see.

Right.

(Short pause)

He's in Mr. Taylor's office.

Well, get him.

All right.

Hello, Cochran.

Yes, Mr. Secretary.

I haven't the slightest idea how long this is going to last but I'll let you talk to Archie Lochhead and he'll bring you up to date.

I see. All right.

I think it's .......

Mr. Lochhead.

Archie.

Yes, sir.

I've tied up the phone and Cochran's on the phone -

Yes.

- while I'm waiting for Butterworth.

I see.
H.M.Jr: And bring Cochran up to date as to the message and everything, you see?
L: I'll bring him up to date in my room then.
H.M.Jr: In your room.
L: Yes. And then as soon as I bring him up to date - do you want me to report to you?
H.M.Jr: No, just keep...
L: I'll keep in the room with him.
H.M.Jr: That's it, keep -
L: All right.
H.M.Jr: - until I get through with Butterworth.
L: All right, then, I'll do that.
H.M.Jr: Thank you.
Operator: Operator.
H.M.Jr: Yes. Did you get - turn Cochran over to Lochhead?
O: Yes, I have.
H.M.Jr: Thank you.
O: All right.
PARIS--THE CABINET IN AN EXTRAORDINARY SESSION TODAY CONSIDERED PEGGING THE FRANC AT A LOWER RATE AND AT THE SAME TIME RAISING A NEW NATIONAL DEFENSE LOAN.

THE STOCK MARKET ROSE ON RUMORS OF DEVALUATION, WHICH STABILIZE THE FRANC AT SLIGHTLY UNDER THREE CENTS.

THE GOVERNMENT ACTED AFTER CONFERENCES WITH WASHINGTON AND LONDON, WHICH MUST, UNDER THE THREE-POWER MONETARY AGREEMENT, APPROVE ANY ACTION IT MAY TAKE.

WASHINGTON ADVISED AGAINST DEVALUATION AND THERE WAS DISSENSION IN CABINET RANKS HERE.

THE MINISTRY OF FINANCE DENIED RUMORS THAT PAUL MARCHANDEAU, FINANCE MINISTER, HAD RESIGNED OVER THE CABINET’S DECISION, BUT IT WAS ADMITTED OFFICIALLY THAT THE FINANCE MINISTER AND FOREIGN AFFAIRS MINISTER GEORGES BONNET HAD SPLIT SHARPLY WITH PAUL REYNAUD, MINISTER OF JUSTICE, AND RAYMOND PATENOTRE, MINISTER OF NATIONAL ECONOMY AND PRODUCTION, OVER THE QUESTION OF FURTHER FRANC DEVALUATION.

5/4--GE154P
ADD CABINET, PARIS

THE CABINET MET AS A FORMAL COUNCIL OF MINISTERS AT THE ELYSEE
PALACE UNDER PRESIDENT ALBERT LEBRUN AND ANNOUNCED IT HAD REACHED "AN
IMPORTANT DECISION CONCERNING DEFENSE OF THE FRANC."

INFORMED OBSERVERS UNDERSTOOD THAT HENRY MORGENTHAU, UNITED STATES
SECRETARY OF TREASURY, HAD URGED FRANCE TO CONTINUE ITS PRESENT FRANC
VALUE AS LONG AS POSSIBLE.

HOWEVER, THE GOVERNMENT, EAGER TO RAISE 15,000,000,000 FRANCS
$450,000,000 FOR NATIONAL DEFENSE, WANTS THE FRANC STABILIZED IN
ADVANCE.

DETAILS OF THE FRENCH DECISION WERE WITHHELD UNTIL PREMIER EDOUARD
DALADIER BROADCASTS AN ADDRESS TONIGHT. INFORMED SOURCES SAID THEY
WOULD INCLUDE DEVALUATION OF THE FRANC TO 36 TO THE DOLLAR (2.777
CENTS A FRANC) AND 150 TO THE POUND STERLING.

5/4--GE157P
ADD CABINET, PARIS

SUCH DEVALUATION WOULD PRODUCE A "PROFIT" TO THE GOVERNMENT ESTIMATED AT 25,000,000,000 FRANCS (APPROXIMATELY $750,000,000).

THE DOLLAR AND POUND SOARED AGAINST THE FRANC ON THE PARIS BOURSE AND THE LONDON MARKET. THE DECLINE CARRIED THE DOLLAR TO 34.23 FRANCS (2.921 CENTS A FRANC) AND THE POUND TO 170 FRANCS IN PARIS. IN LONDON THE FRANC TOUCHED 170 1/4 FRANCS TO THE POUND.

WHEN THE SITUATION BECAME SERIOUS THE FRENCH EQUALIZATION FUND SWUNG INTO ACTION AND TURNED THE TREND SO THAT THE CLOSE RATES WERE ABOVE THE DAY'S LOWS. THE DOLLAR CLOSED AT 33.93 FRANCS AND THE POUND AT 169.75 FRANCS IN PARIS.

RUMORS CIRCULATED THAT THE U.S. GOVERNMENT WAS CONTEMPLATING DEVALUATION OF THE DOLLAR. THAT REPORT, ENTIRELY UNCONFIRMED, REDOUNDED TO THE AID OF THE FRANC IN OTHER MARKETS.

THE PARIS BOURSE HAD A GOOD DAY WITH ALL SECTIONS RISING UNDER THE LEAD OF GOVERNMENT RENTES WHICH HAD A 2-POINT RISE.

IN THE ABSENCE OF THE TRUE FACTS, MANY RUMORS CIRCULATED TO AGITATE TRADERS WHO SOUGHT TO HEDGE AGAINST ANY ACTION THE GOVERNMENT MIGHT TAKE.

5/4--R203P
May 4
Press
Conf
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Paris, France
DATE: May 4, 1936, 6 p.m.
NO.: 706
FROM COCHRAN.

At six o'clock this afternoon I had a talk with the Bank of France. 169 1/2 was the final franc rate. The market was still demanding sterling, although there was beginning some profit taking on exchange dealing.

While my friend of course could not, in the circumstances, have volunteered the information, it is suspected by my two market contacts that certain purchases of sterling which were made this afternoon by Chase and Comptoir were for control account. There was an improvement in three-months franc from 5 yesterday to around 3 in late afternoon today.

There has been some pressure on the Swiss franc, with very heavy pressure on the belga and the National Bank of Belgium has been called upon to give important support to the currency. For French railways account Guaranty has purchased several million belgas.

In spite of some profit-taking at close, French rentes and shares made good gains. There are many rumors on tripartite conversations on the market, also with regard to possible changing of American gold price by 10 percent, and probable announcement by Daladier in his radio broadcast this evening at 8 o'clock on the financial situation in
in France of a limit to devaluation of the franc. There was circulated a rumor that Marchandieu was to resign, to be succeeded by Reynaud or Dardey, but this was denied later.

WILSON.
FOR THE PRESIDENT OF THE UNITED STATES

STRICTLY CONFIDENTIAL

THIS MORNING I RECEIVED A NOTE IN FRENCH FROM MARCHANDEAU,
A TRANSLATION OF WHICH FOLLOWS:

"AT THE SPECIFIC REQUEST OF MR. MORGENTHAU THE
FRENCH GOVERNMENT HAS DECIDED TO AWAIT THE
REPLY OF THE AMERICAN GOVERNMENT.

"THIS RESPONSE BECOMES FROM HOUR TO HOUR MORE
URGENT AND WE URGENTLY REQUEST MR. MORGENTHAU
TO MAKE KNOWN HIS REPLY IN AN INTERVIEW WHICH
HE IS KINDLY GIVING OUR FINANCIAL ATTACHE TODAY,
MAY 4TH, AT 9 O'CLOCK WASHINGTON TIME. IN THE
MEANTIME WE CONTINUE, AS WE HAVE BEEN REQUESTED,
TO DEFEND OUR CURRENCY AGAINST THE EXTREMELY
STRONG PRESSURE WHICH CAN ONLY GROW. IT IS
NECESSARY FOR US TO HAVE AS SOON AS POSSIBLE AN
ADHERENCE TO OUR REQUEST.

"WE GIVE THE ASSURANCE THAT THE FRENCH GOVERNMENT
ESTABLISHES FOR ITSELF THE CONTEMPLATED DROP AS
THE LAST."

THE FOLLOWING REPLY WAS DRAFTED AND TRANSMITTED TO THE
BRITISH FOR THEIR REACTION ALONG WITH A COPY OF THE NOTE
QUOTED ABOVE:

"CONSEQUENT UPON THE CONSULTATION WHICH THE FRENCH
GOVERNMENT HAS CARRIED ON WITH THE AMERICAN AND
BRITISH GOVERNMENTS, AS PROVIDED BY THE TRIPARTITE
ACCORD, THIS GOVERNMENT REGARDS THE ACCORD AS
CONTINUING IN FULL OPERATION.

"THE ASSURANCES IN THE NOTE OF MAY 4, 1938, GIVEN
BY THE FRENCH GOVERNMENT WITH RESPECT TO CARRYING
OUT THE LATTER AND SPIRIT OF THE ACCORD ARE NOTED
WITH THE GREATEST OF INTEREST."
THE BRITISH TELEPHONED US VIA BUTTERWORTH THAT THEY HAD NOT RECEIVED ANY NOTE FROM THE FRENCH AND STATED THAT THEY HAD NO OBJECTION TO OUR CONTEMPLATED ANSWER. WE INSTRUCTED COCHRAN TO DELIVER THE NOTE.

DALADIER THIS AFTERNOON ANNOUNCED IN A RADIO MESSAGE THE FURTHER DEVALUATION OF THE FRANC AND IT AT ONCE DROPPED TO ALMOST THE NEW LEVEL.

HENRY MORGENTHAU JR.
May 4, 1938.

FOR THE PRESIDENT OF THE UNITED STATES

STRICTLY CONFIDENTIAL.

THIS MORNING THE FRENCH FINANCIAL ATTACHE PRESENTED A NOTE IN FRENCH FROM MARCHANDEAU, A TRANSLATION OF WHICH FOLLOWS:

"AT THE MEETING OF THE COUNCIL OF MINISTERS HELD ON THE 4TH OF MAY AT 8:30 (FRENCH TIME) IT WAS DECIDED TO ADDRESS TO THE GOVERNMENT OF THE UNITED STATES THE FOLLOWING MESSAGE THE TEXT OF WHICH HAS BEEN COMMUNICATED TO MR. COCHRAN BY M. RUEFF AND TELEPHONED BY THE LATTER TO THE FRENCH AMBASSADOR AT WASHINGTON WHO HAS BEEN ASKED TO ENSURE ITS TRANSMISSION TO THE SECRETARY OF THE TREASURY.

"AT THE SPECIFIC REQUEST OF MR. MORGENTHAU THE FRENCH GOVERNMENT HAS DECIDED TO AVOID THE REPLY OF THE AMERICAN GOVERNMENT.

"THIS RESPONSE BECOMES FROM HOUR TO HOUR MORE URGENT AND WE URGENTLY REQUEST MR. MORGENTHAU TO MAKE KNOWN HIS REPLY IN AN INTERVIEW WHICH HE IS KINDLY GIVING OUR FINANCIAL ATTACHE TODAY, MAY 4TH, AT 9 O'CLOCK WASHINGTON TIME. IN THE MEANTIME WE CONTINUE, AS WE HAVE BEEN REQUESTED, TO DEFEND OUR CURRENCY AGAINST THE EXTREMELY STRONG PRESSURE WHICH CAN ONLY GROW. IT IS NECESSARY FOR US TO HAVE AS SOON AS POSSIBLE AN ADHERENCE TO OUR REQUEST.

"WE GIVE THE ASSURANCE THAT THE FRENCH GOVERNMENT ESTABLISHES FOR ITSELF THE CONTEMPLATED DROP AS THE LIMIT."
THE FOLLOWING REPLY WAS DRAFTED AND TRANSMITTED TO
THE BRITISH FOR THEIR REACTION ALONG WITH A COPY OF THE
NOTE QUOTED ABOVE:

"CONSEQUENT UPON THE CONSULTATION WHICH THE FRENCH
GOVERNMENT HAS CARRIED ON WITH THE AMERICAN AND
BRITISH GOVERNMENTS, AS PROVIDED BY THE TRIPARTITE
ACCORD, THIS GOVERNMENT REGARDS THE ACCORD AS
CONTINUING IN FULL OPERATION.

"THE AssuranceS IN THE NOTE OF MAY 4, 1938, GIVEN
BY THE FRENCH GOVERNMENT WITH RESPECT TO CARRYING
OUT THE LETTER AND SPIRIT OF THE ACCORD ARE NOTED
WITH THE GREATEST OF INTEREST."

THE BRITISH TELEPHONED US VIA BUTTERWORTH THAT THEY
HAD NOT RECEIVED ANY NOTE FROM THE FRENCH AND STATED THAT
THEY HAD NO OBJECTION TO OUR CONTEMPLATED ANSWER.

BUTTERWORTH ALSO READ THE DRAFT OF THEIR CONTEMPLATED
MESSAGE TO THE FRENCH. IT WAS MORE GRUDGING IN TONE THAN
OURS AND REFERRED TO THE PLEDGE GIVEN IN THE FRENCH NOTE TO
US AS A FACTOR IN THEIR DECISION TO CONSIDER THE CONTEMPLATED
DROP IN THE FRANC AS BEING "NOT INCONSISTENT WITH" THE
TRIPARTITE AGREEMENT. I DID NOT COMMENT ON THEIR REPLY.

OUR OWN REPLY WAS CAREFULLY WORDED SO AS TO LEAVE
US WITH A PERFECTLY FREE HAND TO MEET THE NEXT CONTINGENCY
WHICHEVER WAY WE SAW FIT, AND AT THE SAME TIME TO PROVIDE
SOME MORAL SUPPORT TO THE FRENCH IN THEIR PRESENT CRISIS,
WHILE CONVEYING TO THEM THE IMPORTANCE OF PRIOR CONSULTATION.
AT THREE P.M. COCHEN TELEPHONED FROM PARIS TO SAY THAT THE FRENCH ARE EXTREMELY PLEASED WITH OUR REPLY AND GRATEFUL FOR ITS TONE AND ARE TRYING TO GET THE BRITISH TO ALTER THEIR MESSAGE, WHICH THEY FEEL THEY COULD NOT POSSIBLY PUBLISH TOGETHER WITH OURS AS THEY MIGHT LIKE TO DO.

DALADIER THIS AFTERNOON ANNOUNCED IN A RADIO MESSAGE THE FURTHER DEVALUATION OF THE FRANC, AND IT AT ONCE DROPPED TO ALMOST THE NEW LEVEL.

BY OUR DELAY IN ANSWERING THE FRENCH I BELIEVE WE ACCOMPLISHED TWO THINGS:

1. WE OBTAINED ASSURANCE THAT THIS DECLINE IN THE FRANC WOULD BE THE FINAL ONE. THOUGH THIS ASSURANCE BY NO MEANS CONSTITUTES A GUARANTY, THE FRENCH HAVE BEEN THOROUGHLY SCARED AND REALIZE THEY CAN NOT CONTINUE TO LET THE FRANC FALL WITHOUT RUNNING THE GRAVE DANGER OF HAVING US DROP THEM FROM THE TRIPARTITE ACCORD.

2. WE HAVE IMPRESSED THE FRENCH WITH THE NECESSITY FOR CONSULTING US LONG IN ADVANCE OF ANY CONTEMPLATED ACTION BY THEM. THEIR PROPOSED EXPRESS OF REGRETS BY THEIR REPRESENTATIVES AND PROMISES NOT TO LET IT HAPPEN AGAIN GIVE US SOME HOPE THAT WE WILL BE GIVEN MORE TIME IN FUTURE FRENCH CRISSES.

HENRY MORGENTHAU JR.
May 4, 1938
9:45 pm

At 8:45 p.m. Coonran telephoned to Lochhead as the Secretary was attending a formal dinner at the French Embassy that evening.

Coonran gave the following message to Lochhead which he had received from the French Treasury for transmission to Secretary Morgenthau:

"We had thought that the reply which had been requested in our communication of yesterday would be given tonight during the appointment of our Ambassador in Washington. In consequence, the Council of Ministers was summoned for Wednesday morning at 8:30 o'clock to take the final decision before the opening of the Paris market. Taking account of the fact of Mr. Morgenthau's comments confirms the rumors which circulated in Paris this past evening in respect to a new item published by American tickers in New York on the exchange question, it is feared that the pressure on the market will be stronger than preceding days. It appears essential that a reply be given before the meeting of the Council of Ministers."

Coonran stated that a similar message had been telephoned to Leroy-Beaulieu at Washington with instructions that it be delivered without fail to the Secretary this evening. Mr. Lochhead got in touch with the Secretary at the French Embassy and informed him of the message from Coonran. Secretary Morgenthau, up to that time, had not received any information from the French Ambassador or Financial Attaché as to this note.
My dear Mr. Secretary:

I wish to thank you for your letter of May fourth, enclosing a copy of the message received from the President with regard to the French financial situation.

With best wishes,

Sincerely yours,

[Signature]

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.
SPECIAL GRAY
Paris
Dated May 5, 1938
Rec'd 7:50 a.m.

Secretary of State,
Washington,

709, May 5, 9 a.m. (SECTION ONE)
FROM COCHRAN.

At twenty minutes before eight last evening I delivered personally to Rueff in the office of the Minister of Finance the following communication which I had just received by telephone from Secretary Morgenthau:

"Consequent upon the consultation which the French Government has carried on with the American and British Governments as provided by the Tripartite Accord this Government regards the Accord as continuing in full operation.

The assurances in the note of May 4, 1938 given by the French Government with respect to carrying out the letter and spirit of the Accord are noted with the greatest of interest".

"TILSON

BR
PARIS.--FINANCE MINISTER PAUL MARCHANDEAU ANNOUNCED TODAY THAT THE
FRANC WOULD BE HELD AT A MAXIMUM RATE OF 179 TO THE POUND STERLING,
in an effort--by agreement with the U.S. and Great Britain--to strengthen
the currency and attract refugee French capital back to the country.

This works out at about 2.79 cents a franc or a little less than
36 francs to the dollar at today's opening London quotation of
$5.00 1/8 to the pound.

Marchandéau said that the 179 rate would not constitute a de jure
or final stabilization.

The new rate is sort of de facto rate, and it was reported that
the government intended to hold the franc at the newly selected level
for the present and perhaps to fix a definite rate later.

Announcement of the new rate came at mid-day after the franc had
dropped in the Paris and London markets.

The franc opened lower today. The dollar was quoted at 35.80 francs
(2.790 cents a franc) and the British pound at 178.90 francs. At these
opening quotations there had been a drop of nearly two francs to the
dollar and nine francs to the pound overnight.

News of the stabilization surprised the country but the nationalist
or right wing press generally approved it.

5/5--R839A
SECRETARY OF STATE,

"WASHINGTON.

RUSH

371, May 5, 1 p.m.

STRICTLY CONFIDENTIAL FOR TREASURY FROM BUTTERWORTH.

The Chancellor of the Exchequer in answer to a question in the House of Commons will make the following statement between 2:45 and 3:45 this afternoon.

"At the beginning of this week the French Government informed us that they did not consider it possible that the Franc could be maintained at its then level and that they were contemplating a lower rate in the neighborhood of 175. The French Government made a similar communication to the Government of the United States and, as is contemplated in the Tripartite Agreement, consultations between the three Governments then took place. The French Government have given assurances that it is their intention to achieve as the eventual result of their policy a rate corresponding to the economic position and giving to France no competitive advantage, and that
-2- #371, May 5, 1 p.m., from London.

the present downward movement would be the last. In these circumstances, after consultation with the American Government we have reached the conclusion that the action which is being taken by the French Government should be regarded as not inconsistent with the Tripartite Agreement, and that agreement, in the view of all three Governments, continues with full force and effect".

Phillips said that he was somewhat doubtful about putting in the actual figure 175 but that press reports from Paris were bringing in the figure 180 and the franc had opened here at 179.

It is inevitable that the market will (*) any figure meant as a maximum into the minimum level.

KENNEDY

HFD

(*) Apparent omission.
Secretary of State,
Washington.

RUSH.
-372, May 5, 3 p.m.

FOR TREASURY FROM BUTTERWORTH.

The words "in the neighborhood of 175" have been omitted from the statement contained in my 371, May 5, 1 p.m., because they would tend to exclude the contingency of the rate improving.

KENNEDY

SMS:HPD
Mr. Bolton called Mr. Knoke at 10 a.m. Mr. Knoke asked him how they felt about the new franc cross-rate of 179 francs to the pound. Bolton did not hesitate to show his disapproval and stated that it was their understanding that the rate would be fixed around 175 francs to the pound. Mr. Knoke agreed and added that Mr. Cariguel called him yesterday afternoon around 4 p.m., gave him a new buying rate for francs of 174 5/4 and was very emphatic that under no circumstances did they want the cross-rate to go higher. Bolton thought the French authorities were deliberately keeping the franc around 179 level and that there was a large demand for francs, particularly from short interests. Switzerland and particularly Belgium no doubt would be affected by the sharp drop in the franc. There were large short positions in both currencies. He estimated that today the French acquired £20,000,000 of exchange which of course included gold. Very confidentially Bolton stated that they contemplated shipping £5,000,000 from France to Canada for their own account.

With reference to Japan, Mr. Knoke stated that there were on the water at the present time about $16,000,000 in gold consigned to this country and that for the past five weeks the Japanese had been spending their funds here at the rate of over $8,000,000 a week compared with less than $1,000,000 per week before. Sweden had about $2,500,000 in gold on the water from Stockholm with a total of $5,000,000 coming from London and Stockholm to New York for earmark for Swedish account.

J. W. McKee

Regraded Uclassified
Secretary of State,
Washington.

709, May 5, 9 a.m. (SECTION TWO).

I told Rueff that Secretary Longstreet desired to know what the wishes were of the French Government in regard to publicity for the communication. Quentin promptly telephoned the foregoing text in French translation to Merchandieu who was with Prime Minister Daladier at the latter's office in preparation for the radio address which Daladier gave at 8 o'clock. I remained with Rueff and two of his colleagues in the Minister's office until 8:45.

The British communication was still being received by telephone from the French Financial Attaché in London when Daladier's speech commenced. At 8:30 Rueff received from Ambassador St. Quentin by telephone from Washington the above text of the American communication. The Ambassador felt that publication thereof was advisable in view of the many rumors which had been circulating. Rueff telephoned Merchandieu while holding the line open with Washington and discussed this question. Since the British Cabinet note contained a specific reference (?)
-2- #709, May 5, 9 a.m. (SECTION TWO) from Paris.

definite rate it was considered undesirable to publish
the text. No publicity could be given the American text
without the British. Ruseff spoke then with his
representative in London who said that the British had
drawn up their reply in the form of a verbal note and not
with the view to publication. It was decided that the
question should be put off until today as to whether
the British should be asked to delete the above mentioned
reference from their note with the view to permitting
publication thereof. Ruseff promised to inform me if any
decision favoring publication should be reached. In the
absence of such note it is understood that the British
and American communications will not be published.

WILSON

CSB
Secretary of State,
Washington.

709, May 5, 9 a.m. (SECTION THREE)

This information was given to Leroy Beaulieu who also telephoned Ruff while I was present.

Ruff gave instructions after speaking with Marchandeau for the French Foreign Office to communicate the French monetary decision through its representatives in Belgium, the Netherlands, and Switzerland to the appropriate authorities in those countries. It was my understanding that these instructions were to be carried out last night.

Over the telephone to Ruff, Minister Marchandeau asked that I transmit to Secretary Morgenthau his deep appreciation of the sympathetic consideration and real help which had been extended in the premises. Marchandeau said he would today write a personal letter directly to Secretary Morgenthau. Ruff gave a similar statement to St. Quentin to be communicated to Secretary Morgenthau.

I telephoned the above information to Secretary Morgenthau at 9:00 p.m., last night.
Regraded Unclassified
I say, he immediately returned to explain that he had maneuvered around one seven five.

Maneuvered?

Yes.

Maneuvered - to play around one seventy-five.

Yes.

He drew a circle with one seven five as a center.

Yes.

He said that you could have a radius of any size you wanted it - you’re just going around one seventy-five. I said that our definite interpretation - everyone in Washington took it that way - that one seven five was the bottom limit.

Good.

And I said we were very much disappointed and sorry that it had gone beyond that. And I said, "Mr. Morgenthau told me to tell you that if you want to do business with us the franc is to be brought back to one seven five or a little below - today."

Yes.

And he said, "Oh, that’s impossible."

"Well, you’re maneuvering now - I think you’ve started just about where the market closed last night and I think you can start maneuvering around that direction right now and find you could get it down to that rate."

I said, "You’ve already taken in a large amount of foreign exchange according to the market and that is not impossible."

He said that the decision to do this - to follow the present program - had been taken by the Government and that he could not change that without meeting with his Government people. He said that he would get in touch with them at once - that I am to come back and get his answer at six o’clock.
HMJr: Uh huh.
C: It's five minutes past five now.
HMJr: Five minutes past what?
C: It's five minutes past five now.
HMJr: Yes.
C: And so I came back and explained the whole thing to Wilson.
HMJr: Yes.
C: He agreed that his understanding had been just the same as mine. He had read over another message and I told him of the other conversation but this time I was explaining that it was just that Bonnet telephoned that he wanted him to come and see him at once.
HMJr: Yes.
C: Because I can do this on this - on Saturday - I don't know.
HMJr: Uh huh.
C: So that's the situation. And I have to go at six o'clock.
HMJr: Now, I talked to Butterworth.
C: Yes.
HMJr: And Butterworth talked to Sir Frederick.
C: Yes.
HMJr: Sir Frederick is in entire accord with me but he said their impression was that it would be around a hundred and seventy-five.
C: Yes.
HMJr: But, notwithstanding that, he would back me up in conversations with the French that they must bring it down to a hundred and seventy-five.
C: But he will back us up on that?
HMJr: Yes.

C: Fine.

HMJr: And that - but his - but their cable spoke about "around".

C: Yes.

HMJr: Now, I have this cable here, ah - number 683 of May 2nd, which reads as follows: - this is from you - "The rate at which the French Government has decided to stop is around a hundred and seventy-five francs."

C: That's right. I have their message here that the French

HMJr: But you said, "And it's their will - the will to lower progressively this figure is in correlation with the economic improvement."

C: I quoted that to him a while ago.

HMJr: Yes.

C: And Rueff said, "Well, we must get some British academician to translate - to interpret

HMJr: What's that?

C: He said, "We must get some British - some English academician to interpret that phrase."

HMJr: Well, Rueff's getting a little bit too sarcastic and too funny.

C: I said that absolutely, I said, "We don't want any Britisher to translate that or anything else!" "We know what was understood and this is all I can say what they're trying to do."

HMJr: Yes. Well, Rueff's getting entirely too funny.

C: Well, I hope I didn't exceed any of your instructions.

HMJr: No. Now, just a minute. The Bank of England called up a little while ago.

C: Yes.
They're just as much upset as we are and that they-
their understanding was - a hundred and seventy-five or less.

Yes.

And this was - this was Bolan - what's his name? -
Bolton talking to Knoke.

He was talking to Knoke?

And he added, "This is my understanding of the
'gentlemen's agreement' - a hundred and seventy-
five or less." And as I understand Bolton brought
this up on his own, see?

He did?

Well, he didn't know anything about this, he calls
up Knoke and he says, "What about this 'gentlemen's
agreement' - a hundred and seventy-five or less?"

Yes.

Now there's the Bank of England understands it as
a hundred and seventy-five or less.

Yes.

And added, "Well, the French will have a great day
for one day."

Yes.

Now just a minute.

Yes.

Archie says they're not maneuvering at all. The
last five cross rates are one seventy-eight eighty-seven - it's pegged at that price.

Yes. Well, it's been eighty or ninety, you see?

Well, it's pegged at that price and they could
have just as well done exactly the same thing at
one seventy-five and -- Cariguels instructions
last night were one seventy-five and between last
night and this morning those fellows changed their
mind. Now, wait a minute.

(Short pause)
Herbert Feis' reaction, Knoke tells me is, it's not worth twenty-five million pounds even to the French to antagonize the British and ourselves.

No. That's right.

See?

Yes. Just one second, here's Mr. Wilson, who has just come in.

All right.

He's just coming in my room.

All right.

Ah - Mr. Wilson will speak to you.

If you please.

He's right here.

Hello, Wilson.

Hello, Mr. Secretary.

Please.

Ah - Bonnet, the foreign minister -

Yes.

- phoned me and asked me to go to see him.

Yes.

He told me that Daladier had been to see him; they are both terribly upset over what they regard as a message that unless by six o'clock tonight they have brought the franc to one seventy-five that we would annul the Tri-partite Accord.

No, I didn't say that.

Well, that's the - that's the interpretation that they placed on it.
Well, now, wait a minute.

Just let me go on for a moment. Then, he told me that he wanted to explain to some length the difficult situation they were involved in. He said that that would—that he believed that in a reasonable length of time they could bring the franc back to the figure you have in mind—ah—they'd lose the benefit of—as he said it—of their maneuvers but they would do so but they'd have to have a certain number of days to do it. I have sent that message—I was authorized to convey to you. Ah—he called up Daladier and talked with him and then said that he would telephone back to me at the Embassy in about fifteen minutes to let me know.

Yes.

Well, I told him that I wanted to speak to him quite frankly and that myself—that I—that they could expect information back from us under the Tri-partite Agreement which actually would cause a great deal of resentment and misunderstanding on all parts.

Yes.

But Cochran has kept me fully informed of his conversations; I've seen all the messages and have really got the same impression as everyone else in the foreign end of it has, that there was a definite figure in mind beyond which they did not intend to go. That we have not been justified morning the rates opened up at this new figure but

Yes.

Bonnet didn't—Bonnet hasn't been in these discussions at this end and so he had nothing to say on that. He simply said that the situation from their point of view was tragic if they were faced with what they regarded as anticipation on your part to break the Agreement unless they moved back by six o'clock tonight.

Well, now if you just...
Now, he will let me know in about ten or fifteen minutes what I will try to communicate ....

Well, Cochran is sitting there. I did not ....

What?

I did not give Cochran any ultimatum.

I - but I think they have misunderstood or it's that it passed through so many hands last week.

Well, ask Cochran whether I gave him any ultimatum, please.

All right.

(Short pause)

Hello.

Hello.

Cochran says the message that you conveyed, Mr. Morgenthau, was essentially this: "if they want to do business with us they must bring the rate back to one seventy-five or a little below today."

That's right.

Now that was the message that was delivered ...

That ...

And he in turn interpreted that as meaning that unless that is done that the agreement is off.

No. Well, the message is correct but I did not mean that if they didn't do it that I would terminate.

Right.

Now, Mr. Wilson.

Yes.

I don't know whether Cochran has had a chance to tell you this, but last night, Cariguel of the Bank of France -
Yes.

HMJr: - called up Mr. Knoke of the Federal Reserve -

W: Yes.

HMJr: - and told him that his instructions were to hold the franc at a hundred and seventy-five or less and under no circumstances to let it go above a hundred and seventy-five. Hello.

W: Yes. I told - Cochran has told me that and I didn't know the names of the people involved..

HMJr: Now...

W: it itself and the instructions Cochran has told me of

HMJr: Now, furthermore, Mr. Bolton, who has the same position as Cariguel in the Bank of England, called up this morning and talked to Knoke and said he's very much shocked because his understanding was a hundred and seventy-five or less.

W: Yes.

HMJr: Now, we can't all of us be out of step with the world. It looks as though some time during the night these gentlemen decided that the rate would be a hundred and seventy-nine.

W: Right.

HMJr: Or - Now, as I told Cochran, I can't see very much difference between private people speculating and the Government speculating.

W: Right.

HMJr: And I don't think they've kept good faith, but on the other hand I realize the terrific political impact of this thing and what I'd like you and Cochran to do is to make just as vigorous protest as possible without giving them a definite ultimatum.

W: Now, I - my suggestion is this, that we wait until we see what message I get from Bonnet, which I'll
communicate direct to you...

Yes. If you please.

And - and then we'll see. I think that we'll get a - that we'll get some fairly definite statement by

Now, another thing to bring you up to date. I have a direct message from Sir Frederick Phillips - ah - that they understood that it would be kept around a hundred and seventy-five.

Yes.

But, they would back me up one hundred per cent in their protest to the French that they must bring the rate down today.

I see.

And that the British are going to back us up a hundred per cent and do everything they can to bring pressure on the French to bring it down. So the British and ourselves are working together. And the thing that bothers me the most, Mr. Wilson, it isn't the rate, it's the fact that I'm losing confidence in the whole thing; as Bolton of the Bank of England put it, well, after all, this is a "gentlemen's agreement".

Right.

Which means that one keeps one's word. And I don't think that the French have kept their word.

That is exactly, as I said a moment ago, what I told Bonnet.

Yes.

And I told him I wanted to talk very frankly, that I said that it really greatly disturbed us the way you felt about it from what I had heard from Cochran, that you felt that they had failed to live up to their obligation to deal as/should in an agreement of this sort...
...to keep you thoroughly informed of their intentions.

Now, Herbert Feis just sent me a message through Lochhead...

Yes.

He was simply amazed; he understood a hundred and seventy-five and he said he didn't think that gaining twenty-five million pounds was enough worth while for the French to both upset me and the British. Now, that's the way Herbert Feis feels.

What was that, worthy to do what?

Well, it's the fact that they gained twenty-five million pounds today wasn't worth while when they considered that by doing so - ah - the United States Treasury felt that they had not kept good faith.

Right.

Now that's the way Herbert Feis feels.

Well now, in the further talks that I will have with Bonnet, I imagine that they're going to - I may be wrong - but I think they're going to say something like this: let them have a reasonable length of time - a few days - and they will try to get it - they will get it down to this point and keep it there or a little below.

Now, Mr. Wilson, we're getting the rates every minute here.

Yes.

And they've absolutely pegged the franc at one seventy-eight eighty-seven.

Yes.

And they've pegged it at that price and there's no sign of any kind that they're trying to push it down. Just a minute. Hello.

Yes.
Lochhead, who is in charge of the Stabilization Fund, raises a very excellent point. From twelve o'clock on, Washington time, which is six o'clock your time, the French always give us a rate on which to operate.

W: Yes.

HMJr: And then we operate for five hours here.

W: Yes.

HMJr: From twelve o'clock on.

W: Yes.

HMJr: Now what kind of a rate are they going to give us? You see?

W: They haven't? - Yes, I see.

HMJr: No. We have no rate.

W: I see.

HMJr: And the point is that from twelve o'clock on - there's six hours difference - what kind of a rate are we going to get?

W: Yes.

HMJr: Now, as I say, I want to again emphasize the fact that I think the United States Government has gone way beyond anything that we should have and we've done it entirely out of sympathy with the French people.

W: Right.

HMJr: We want to keep them going - we don't want to do anything to add to their burdens at this time.

W: Right.

HMJr: But there is such a thing as a limit.

W: Right. Absolutely.

HMJr: And I think what they've done today is one of the most shocking things that's happened in international agreements since I've been here. Now, I'm willing to back the French to the limit as long as they keep
their word. And I can't help but feel that there's an inside crowd that's making an awful killing in this thing. And that isn't just a feeling; I've got pretty substantial evidence.

Yes.

And if I thought it was just to permit the French Government to fill up their coffers that would be one thing but I am as sure as anybody could be that there's an inside crowd - very close to the Government who is making a terrific killing.

Right.

And I hope that somebody of the French Government is listening in on this wire and that they get that.

And I'll see that it's - if they aren't I'll see that Bonnet gets it.

Yes. And that's the thing that bothers me because I say, I can't see the difference very much between certain members of a Government speculating or a private speculator. And I don't want to be partners with that kind of a crowd.

Yes.

Now, do you feel that I am taking this thing too seriously?

Certainly not at all. I think the idea that they - are so afraid of is having the Agreement broken, perhaps tonight. That, of course, would be very serious.

Yes.

But, with reservations on that point, I entirely agree with you.

Well now, Mr. Wilson, if you and Cochran will keep...

Say it again.

If you and Cochran keep each other informed and work together I am sure that I am being ably represented.
over there. And ...

W: I told Bonnet that I wanted something definite which - something which he, as Foreign Minister, authorized me to say.

HMJr: Yes.

W: ... to my people in Washington.

HMJr: Yes.

W: And I expect to get that very shortly.

HMJr: Now, just a minute. Herbert Feis came in and I want you both to stay there a minute and let me take two or three minutes to explain to him what’s happened.

W: All right.

HMJr: Now, just - if you don’t mind -

W: I’ll hold on.

HMJr: Let me just take a couple of minutes and explain.

W: All right.

HMJr: Please.

(Short pause) (Conversation in Secretary’s office inaudible)

W: Hello.

HMJr: Just stay on please, will you? Hello.

W: Yes, I’m holding on.

HMJr: Yes.

(Short pause while Secretary’s explains situation to Dr. Feis)

HMJr: Just stand by, please.

W: That’s right. All right.

HMJr: Just stay there.
I will.

Just a moment.

All right.

(Long pause - while conversation in Secretary's office continues)

Hello.

Yes.

Ed. -

Hello, Herbert.

Oh, it's terribly nice to talk with you.

Right.

Ed. - ah - just two things: first, while the discussions have been going on the last several days Mr. Hull has of course been extremely desirous that the matter be so composed that the relationship is not disturbed.

Exactly.

That has been our basic position.

Right.

And remains so. Two, that being so, nevertheless, in view of that message that the Secretary of the Treasury received from the French Council of Ministers yesterday morning I don't see how he can do anything else but take the position that he's taking, which is, without any ultimatum or threat as to what stand he will ultimately take, still to make them completely cognizant of the fact that he took that assurance seriously I don't see how he can do otherwise.

I quite agree.

Well, we all seem in agreement and, while this is new to me and I haven't talked with the Secretary about it, it seems to me so clear that I'm virtually certain he'll look at it in just the same way.
Herbert.

Feis: Yes.

W: Bonnet has not been

Feis: I did not get that, Ed.

W: I say, Bonnet, himself, has not taken part in
these talks at the Treasury.

Feis: Yes.

W: He is a great deal embarrassed and very much upset
by this situation.

Feis: Yes.

W: He wants to do everything he can to get it
straightened out.

Feis: Yes.

W: He told me that he hoped to be able very shortly to
give us the definite assurance that within a very
few days they would have that rate at the point de-
sired, and keep it there or below. He said he would
have to get authorization from the President of the
Council before he could do that.

Feis: Yes.

W: Now, I think it will work out in that way. Would
something like that be reasonably satisfactory?
Or would you still feel that it had to be done with
no further delay, more or less immediately?

Feis: Just a minute, Ed, would you repeat that for the
Secretary of the Treasury?

W: Yes.

Feis: Please.

W: Now, -?

Feis: Repeat that, beginning with your statement that
Bonnet had not been in - in continuous touch with
these Treasury discussions. Begin there and say
over again what you've just told me.
Well, is the Secretary coming on the phone?

Go ahead.

Yes. I said that Bonnet had not taken part in these discussions of the Treasury.

Yes.

He was a great deal embarrassed and very much upset by this situation, and wants to everything he can to get it straightened out so that the relationship will not be disturbed in any way. Now, what I asked of Herbert a moment ago was that if they send across now some definite assurance that within a few days - I don't know the exact number - they would bring this rate down there and keep it, would that be reasonably satisfactory ...?

No.

I should indicate rather that it - that the measure has got to be done without delay.

Well, what I would say is this, Mr. Wilson. The franc at present is pegged at a definite price.

Yes.

We have all afternoon here to operate. I want to see them give instructions that that thing should begin to be lowered today. I'm not going to say how much, but I want to see instructions go out when we get instructions from the Bank of France around noon - I want - as a sign of good faith on the part of the French Government - I want instructions that we should begin to put pressure on to lower it today.

Right.

Now, that I insist on.

Right. Right.

That I insist. I don't say it has to go to a hundred and seventy-five but I want instructions that we should use pressure to progressively lower it.
W: Right.

HMJr: And that I am adamant on.

W: Good. Good. I understand.

HMJr: It's—pardon me?

W: I understand. I will convey that to him when he lets me know he's ready to talk again.

HMJr: Right. Thank you.

W: Well, is there anything further for the moment?

HMJr: That's all.

W: All right.

HMJr: Thank you.
May 5, 1938.

My dear Mr. Secretary:

You requested me yesterday to try my hand at drafting a message of transmission which would bring to the attention of our Embassies in Paris and in London the message received by you from the President, placing it in a setting so it would be most useful as guidance. I submit the attached text as drawn up in cable form. Necessarily, I had to improvise quite broadly as to the type of setting in which you would wish to have it presented.

I await your instructions as to whether you wish this cable to be sent or replaced by some other draft.

I return Ambassador Kennedy's letter to you.

Sincerely yours,

Herbert Feis

Enclosures:

Draft telegram.
Letter from Ambassador Kennedy.

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.
TELEGRAM SENT

Department of State

Washington,

May 4, 1938.

TREASURY

AMERICAN EMBASSY

PARIS (FRANCE)

FROM THE SECRETARY OF THE TREASURY.

It is presumed that the immediate situation has now been adjusted. I do not wish to judge whether or not the current French economic program will be sufficient to bring about the necessary improvement in French affairs and enable them to deal with their difficulties and prevent the franc from declining below 175, in which event the whole question of the operation of the Tripartite Agreement would present itself again.

The American Treasury has the responsibility under the Tripartite Agreement for protecting American interests, as well as its interest in the maintenance of satisfactory international monetary stability. This involves consultation as envisaged in the Tripartite Agreement. And in consultation it is almost inevitable that representatives of the three Governments should exchange ideas and judgments.

It is essential to avoid responsibility for intervening in the determination of French policy in such a major
matter as that of exchange control. And I appreciate the messages received on the subject. The French must and no doubt will make their own independent decision as to how further to manage their affairs if the present program is not sufficient. On the other hand, our responsibilities under the Tripartite Agreement require that we form independent judgment. In this connection I transmit, for the strictly confidential information of Ambassador Bullitt, Mr. Wilson and Mr. Cochran [in London cable substitute "Ambassador Kennedy and Mr. Butterworth"] for their guidance the following message from the President of the United States to the Secretary of the Treasury received May 3rd in response to presentation of the situation on May 2.

QUOTE. As far as I can make out the action proposed by France is weak and gets no where in the long run. I agree with your line of thought. Offhand it seems to me that supervision of capital movements and gold control similar to ours would offer a much more permanent solution. And if that fails then a more drastic form of exchange control. END QUOTE.

I have discussed this message with the Secretary of State.

SAME TO: AMBASSADY LONDON, with substitution noted in line 9 above.

Sincerely,

[Signature]

[Date]
Dear Joe:

The message conveyed to Mr. Blum -- which incidentally was checked here both with the President and with the State Department -- had a very simple purpose. It was sent to Mr. Blum merely to acquaint him with the fact that if in the then prevailing monetary crisis confronting France, his Government found it desirable temporarily to impose that form of exchange control which would enable them effectively to control capital movements without restricting commercial transactions, we here were prepared to discuss the question with the French and with the British Treasury.

The question of exchange control is a very involved and complicated one. All I would like to say about it here is that limited exchange control has been adopted by some fifteen or so European countries not only without sustained progressive extension, but often with progressive relaxation. There are only two exceptions to this -- namely, Germany and Italy, in which you will appreciate certain special circumstances exist.

It's always enlightening to hear you comment freely on matters of mutual interest and I hope you continue to send me your frank views.

Sincerely,
Dear Joe:

I fear that your information with respect to the matter you refer to in your note to me of April 25 is somewhat askew.

The message conveyed to Mr. Blum -- which incidentally was checked here, both with the State Department and with the President before transmittal -- had a very simple purpose. It was sent merely to acquaint Mr. Blum with the fact that if in the then prevailing monetary crisis confronting France his Government found it desirable temporarily to impose that form of exchange control which would enable them effectively to supervise capital movements without restricting commercial transactions, we here were prepared to discuss the question with the French and with the British Treasury. We likewise sent for his possible information various documents and forms which we used when we exercised supervision over exchange transactions here in order to check speculative flights of capital, and forms which we still use in connection with our supervision over international capital transactions.

We had reason to believe that the French Government was of the opinion that the adoption by them of any kind of exchange control would be regarded by us as a violation of the Tripartite Accord. You will appreciate that we have a very considerable interest in the maintenance of currency stability, and in the reduction of trade barriers and wish to make certain that no unnecessary obstacles be placed in the path of their attainment -- least of all by any member of the Tripartite Accord.

I hope this explanation dispels your apprehension with respect to proper exchange of views among the members of the Tripartite Accord.

Incidentally, your remark that "all of the countries in Europe that have begun with limited exchange controls have always ended by putting on all the controls they could think of", must be based on information not available to us here. Our information is that the developments which you say happened to all the countries in Europe actually occurred in
only two European countries — namely, Germany and Italy. Both of these cases, it will be readily recognized, present special situations which, though having some points of similarity to the French situation, present differences which are far more important in their bearing upon the matter in hand. Austria, Bulgaria, Danzig, Denmark, Czechoslovakia, Estonia, Greece, Hungary, Latvia, Lithuania, Poland, Portugal, Rumania and Yugoslavia have now some form of exchange controls. Most of them have had it for many years but in no case have they achieved and maintained the degree of rigidity in their restriction on exchange operations that have been developed in the two countries named above. Moreover, in most of these fifteen countries such exchange controls as have been imposed have been relaxed progressively in actual administration though not always in form. In addition to these countries enumerated, Switzerland prohibits forward purchases of foreign exchange when not based on justifiable transactions, Belgium and Luxembourg imposed temporary exchange controls in March 1935 and removed them shortly thereafter, and Norway has had since September 1931 a system of voluntary supervision of exchange transactions.

—Even England exercises control over foreign flotations in England — an obvious interference with the free movement of capital between countries — and France imposed during the post-war decade restrictions on the outflows of capital — restrictions, incidentally which, for reasons not in the least definitive under present conditions, were largely ineffective through most of the period.

In answer to your question as to "who harbors such simple faith in limited controls ...?" I know of no one here conversant with the subject who can reasonably be accused of being so naive. The thought here is merely that as between only two alternative courses of action, namely, (1) permitting the franc to drop indefinitely, and (2) the temporary imposition of exchange controls for the purpose of stabilizing the currency, protecting the gold supply, and avoiding the necessity of additions to restrictions on commercial transactions, the latter course would be regarded by us as the lesser of two serious evils. Naturally, we would all prefer to see the French successfully attempt to maintain their currency without resort to restrictions on capital movements and without sacrificing too much of their gold holdings or imposing further barriers to international commerce.
Clearly this is not the place to set forth the pros and cons of the adoption of exchange controls designed to prevent speculative exchange attacks and to promote currency stability and foreign commerce, nor is any such evaluation intended here. It is a subject that could only be adequately discussed at much greater length. In any case the methods a nation adopts in a monetary crisis is in the last analysis a decision which each government must make for itself. Which course is wisest for that country to pursue at such a time depends entirely upon the circumstances peculiar to the country, to the situation, and to the realistic alternatives which exist in the given situation.

It is always enlightening to receive your free and frank comments on matters of mutual interest and I hope you continue to send them along.

Sincerely,
The following goes under the head of: Letters-we-like-to-write-but-not-send.

Dear Joe:

I read your note to me of April 25 with some surprise, not unmixed with concern.

I'm not quite clear just which team you're playing for. I have always been under the impression that you, of all people, would remember that knee pants are only for parade and not for use while your team is on the field. Not only will you have to grant that the British are usually able to take care of themselves but they seem to have a faculty of every once in a while acquiring the other team's prize southpaw.

I don't know just where you got your information but apparently there has been some confusion. In the first place, we weren't playing any game of ball with the French. We were just batting 'em out for practice with one of their players. If there was any dirty work going on it must have been in the bleachers where the British were throwing beer bottles at one of the French teams in an intramural French ball game. When we play ball it is in the ball park and we always give the British the best seats.

Keep your shirt on and your home team's uniform in good order. Our coaching staff is not functioning too badly and I am sending along a few of the signals which may help you to understand the other fellow's curves a little better and will help you to keep your eyes on the ball.

Yours for more baseball and less cricket.

Sincerely,
Secretary of State,
Washington.

709, May 5, 9 a.m. (SECTION FOUR).

In his radio address Daladier first referred to the difficulties which faced his government upon his arrival in power. The most important problem, he said, was to restore social peace. This had been done. The second difficulty related to the continual arming of Europe. In this connection he had been able in London to strengthen the sincere and loyal entente between France and Great Britain.

Upon his return from London he said that he had found fresh difficulties, this time of an economic and financial character. It was necessary to tell the nation the truth, and the truth was that French economic life is in a very bad condition. Legitimate profit was tending to disappear. Partial unemployment was increasing. The trade balance was impoverishing the country. Production figures were a humiliation for all Frenchmen. Such anaemic conditions rendered the budget recurrently and inevitably deficitary. The needs of the Treasury exhausted public savings, degraded public credit, dried up private credit and threatened monetary credit.
#709, May 5, 9 a.m. (SECTION FOUR) from Paris.

The Government could not allow such a grave situation to continue. The Government would be guided neither by political creeds nor by the lust for new experiments.

Turning to the question of confidence, he said that this must be based on a solid foundation to be lasting. Therefore the Government had to begin by fixing a monetary level which corresponded to French financial burdens, and which was not subject to recurrent alteration.

WILSON

CSB
London
Dated May 5, 1938
Rec'd 2:30 p.m.

Secretary of State,
Washington,

374, May 5, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

After making the statement referred to in my 371, May 5, 1 p.m., and 372, May 5, 2 p.m., the Chancellor of the Exchequer was asked "whether it is contemplated by His Majesty's Government that no further approval will be given to any unilateral devaluation of the franc or perhaps the dollar exchange in the future". To this Simon replied: "We will deal with the situation as we find it. The honorable member has referred to the dollar. As I have seen in the paper a wild rumor suggesting that there might be a lowering in the value of the dollar may I take this opportunity of saying that that has been officially and rigorously denied in Washington. Equally of course we are not contemplating any adjustment of the sterling exchange".

KENNEDY

HPD

Regraded Unclassified
Secretary of State,  
Washington,

709, May 5, 9 a.m. (SECTION FIVE).

For this reason, he announced, he had decided to make further cuts in the French currency and to stabilize it de facto at a level where it could be effectively defended.

He then described the arrangement made with the American and British Governments as follows:

"In complete agreement with the American and British Governments, whom I wish to thank for their loyal and cordial cooperation, the French Government has therefore resolved to adjust the franc at a rate which will ensure its victorious defense.

This decision has been taken in accordance with the terms of the Tripartite Agreement, to which the French Government remains firmly attached. The rate which I have fixed for tomorrow will not be exceeded.

The
The investing public need therefore have no fear about a new depreciation of our currency. It may rather count on an enhanced value of the franc. We shall thus be able to pursue the task of recovery which calls for an effort freely given from all Frenchmen."

The remainder of his address referred to the forthcoming national defense loan and the first series of decrees already published which he claimed "would prevent the French currency from being constantly attacked and would permit the Government to maintain the gold stocks necessary for French national defense." He concluded by stating that there would be no further changes in the French currency, no new expenditures, no new financial charges.

(END MESSAGE)

WILSON

WWC
CSB
Mr. Cariguel called Mr. Knoke at 3 p.m. and asked about the franc market. Mr. Knoke said that the market is exceedingly quiet, quoted 279 1/8 - 279 1/2, and that we had not operated. Mr. Cariguel asked us to lower our rates; buying price to 178,33, selling price to 178,32. Mr. Knoke asked what sort of a day he had and Cariguel replied, "very busy one." He said they had acquired about $21,000,000 in exchange and much more in pounds sterling.
Thursday
May 5, 1938
11:30 am

Hello.

Mr. Butterworth.

Hello.

Mr. Secretary?

Yes.

This is Butterworth.

Ah - you - Herbert Feis is here in my room. We've just been talking for a half an hour to Ed Wilson and to Cochran.

Yes, sir.

That's what tied us up.

Now, Phillips has just telephoned me...

Yes.

... to say with the Chancellor of the Exchequer's authorization he has made oral representations to the French emphasizing the following points: In the first place he said that they were pleased that France had gained as much as thirty million pounds today...

Yes.

... but the fact that they gained it so rapidly makes it clear that one seven nine is too low a rate.

Yes.

Secondly, the fact that of this thirty million pounds some three million pounds came from Belgium...

Yes.

... is indicative of the hole which they are helping to put Belgium in.
Yes.

B: And that that constitutes another reason for their pushing the rate up.

HMJr: Yeah.

B: And thirdly, the figure one seven five was omitted from the statement which Simon made this afternoon at the House of Commons...

HMJr: Yes.

B: And which I telegraphed you this morning.

HMJr: Yes.

B: At the behest of the French.

HMJr: Yes.

B: Because they think that to state that figure will tend to exclude the contingency of the rate improving.

HMJr: Uh huh.

B: And so therefore, Phillips said that - he pointed out that nevertheless, the Chancellor of the Exchequer was having pressure brought to bear on him in the House of Commons for a more precise statement.

HMJr: For a what?

B: For a more precise statement.

HMJr: Yes.

B: And that to help him avoid making one it was hoped that the French would get the rate pulled up right away.

HMJr: Yes.

B: Phillips went on to say to me that however, as the Serbian markets were on the point of closing he doubted very much whether anything would be done today as far as the European markets were concerned.
Yes, but we have to get a rate from the French and we have to operate from twelve o'clock on here for the rest of the afternoon.

Yes, I know. Well, he was talking as far as this continent was concerned.

I understand.

And so he said he hoped that - he said this to the French in a very serious way that he hoped that that was their particular method of representation through Cochran.

Yeah. Is that all?

That's all, sir.

Now let me give you the latest information which you can give back to the British Treasury.

Right.

Mr. Bonnet suddenly finds out that the franc is a hundred and seventy-nine; he just didn't know what was going on.

Yes.

It was quite a surprise to him.

Yeah.

And he is trying now to inform himself about it.

Yes, sir.

And - the poor dear just didn't know what was going on. And - ah - he was very much surprised and shocked to learn that he understood that I told them that if by six o'clock tonight they had not brought the franc back to a hundred and seventy-five I would denounce the Tri-partite Treaty. But I hadn't said that. But I had made it - I mean I said it as strongly as possible lacking a definite ultimatum. See?

Right.
Bonnet is to call Wilson again in a few minutes and we had a long conversation. And this is the message that I gave him. The rate that we're getting here every single minute is at definitely a pegged rate for the franc.

B: Yes.

HMJr: It's one seventy-eight eighty-seven. And all the transactions are taking place at that.

B: Yes, sir.

HMJr: I said this, that he could tell Bonnet that I insisted....In fact that I was adamant...

B: Yes, sir.

HMJr: ...that they must progressively lower the rate today and do so in their instructions to us, because beginning at noon here we must carry the market for the rest of the day.

B: Yes. I understand.

HMJr: And that that was my message to Mr. Bonnet. Now, within a reasonable time, not only will we hear again from Ed Wilson but we will undoubtedly get instructions from the Bank of France.

B: Yes.

HMJr: But up to within five minutes ago the franc was pegged at one eighty-seven eighty-seven...

B: Yes.

HMJr: ...and - one seventy-eight eighty-seven and there's no indication of any kind that they're trying to lower it.

B: Yes.

HMJr: Well, I've changed my position to the extent - because they said wouldn't we be satisfied if they brought it back to seventy-five within a few days and I said no, (one) that I wanted an indication of good faith.
B: Yes.

HMJr: And I don't know whether I told you this but I told Wilson to tell this to Bonnet, that I could see no difference between private speculators and members of the French Government speculating; to me they were just the same.

B: Right.

HMJr: And that every indication was that last night it was going to be one seventy-five and some time during the wee hours of the morning they decided they would make it one seventy-nine.

B: Right.

HMJr: And that's the way the situation is right now.

B: Well...

HMJr: And may I say...

B: I'll tell that to Phillips.

HMJr: May I say that Herbert Feis is here and the State Department is a hundred percent behind me.

B: Right.

HMJr: And - ah - now, just a moment please. I've changed my position to this, that in their instructions to us I want instructions that we should progressively lower the rate today; I didn't say to what but I just wanted an indication of good faith that they should stop pegging the franc at one seventy-eight eighty-seven and instructions to us were to bring pressure to bear to lower it.

B: Good.

HMJr: Do you get that?

B: That's the same position that I should take.

HMJr: Well, we're together. Now, just a minute and see if Herbert has anything. Herbert is satisfied as to what I said. Hello.
B: Yes, sir.

HMJr: I understand that Bullitt is at the Embassy in London?

B: That's right, sir.

HMJr: I see. Is he in on this?

B: No, he isn't. He's playing golf this afternoon.

HMJr: I see. Well, I hope he makes a hole in one.

B: (Laughs)

HMJr: (Laughs) All right. Well, you call me if you get anything and you pass this along to the British, will you please.

B: O. K., sir.

HMJr: Thank you.

B: Thank you, sir. Goodbye, Mr. Secretary.
Thursday
May 5, 1938
12:55 p.m.

Bob Doughton: Yes. How are you?

HMJr: Fine.

D: called me this morning about that amendment to that resolution; they'll ask you about the bonds.

HMJr: Yes, Bob.

D: Well, would it suit you to have a committee meeting on that in the morning at ten-thirty?

HMJr: Ah - yeah. Will it be all right if Taylor and Bell come up.

D: How's that?

HMJr: If I let Mr. Taylor and Mr. Bell?

D: Ah - yes - whoever you want to send. That's with you who you send up to appear.

HMJr: Well, I can send Mr....

D: I think it would be very appropriate for you to come because some of the members you know that want to be critical want to raise questions and want to give trouble would be inquiring why you were not there and I think it would be advisable for you to come if you can.

HMJr: All right. Ah ...,

D: And bring anybody with you of course that you like.

HMJr: I'll be there. I never ran away from a fight yet.

D: Well, call at ten-thirty then in the committee room in the new House Office Building, the large committee room.

HMJr: Is that - is that an - is that a - will that be a public hearing?

D: No, it's an executive hearing in the morning.
B II: Tr
D: Get too much done and we'll have to have public hearing later but we hope we'll get by without that.
BMJr: Ten-thirty....
D: Ten-thirty tomorrow morning.
BMJr: And where will that be - in your regular room?
D: In the regular committee room - that large committee room - main committee room there in the new House Office Building on the first floor.
BMJr: Thank you.
D: All right. Thank you.
BMJr: I'm very much obliged.
Operator: Here is Mr. Wilson.

Edwin Wilson: Hello.

HMJr: Hello.

W: Mr. Secretary.

HMJr: Talking.

W: This is Wilson.

HMJr: Go ahead.

W: I just came from seeing Bonnet...

HMJr: Yes.

W: While I was waiting for a moment to go into to see him—the British Ambassador was there...

HMJr: Yes.

W: The Financial Minister, Marchandeau, and Cochran walked in.

HMJr: Yes.

W: So the three of us, after the British Ambassador left, the Financial Minister, Cochran and I have just talked with Bonnet.

HMJr: Yes.

W: And the upshot of it is this, that in our presence Marchandeau telephoned to give instructions immediately in New York to bring the rate down by the closing time today by fifty centimes. The same thing will be done tomorrow.

HMJr: Uh huh.

W: After that, next week, he stated that they would bring it down gradually by a fall without the possible promising that on a certain day so much would be done but/it would come down gradually with but that
bringing it below one seven five.

I see.

He explained in a great deal of detail why, in order to prevent the speculators making profits out of it, it would be impossible to do it more quickly. But he said that out of the intention to show good will toward you that he was giving those instructions immediately. And, as I say, he did it in our presence.

Well, that was Bonnet did it, or Marchandeau?

Marchandeau gave the order.

Now what does that mean on a cross rate?

It means, for instance, that one seventy - what is it, one seventy - one seventy-eight?

It's one seventy-eight eighty-seven. Hello.

It would go down fifty centimes tonight.

I see.

Around fifty centimes in New York tonight and fifty centimes down tomorrow, - And fifty centimes down in Paris tomorrow.

Yes. And now, just a moment.

(Speaking to someone in his office: Who's calling?) Hello.

Yes.

Cariguel is trying to get Knoke now -that's what they're telling me.

Well, that is what the instructions will be.

I see.

Now, I wanted to say that - that both Bonnet and Marchandeau regret very much that there's been any misunderstanding here or that there is any feeling that they were not acting the way they should have acted under the agreement.

Yes.
He thinks that probably there will be some message from the French Ambassador tomorrow along those lines. They feel very badly over the way this situation has developed.

W: Well, they don't feel half as badly as I do.

W: No. I told them in the just the words you had had that in all the experience you had had in dealing with international affairs this was the most shocking experience you had known.

W: And that's the side that was presented and I think they realize what a mistake was made.

W: Yes.

W: Now there's one thing that might interest you also.

W: Please.

W: That while we were there the Prime Minister, Daladier, phoned to Bonnet and gave him a message just received from the British.

W: Which was to the effect that they, in fact, congratulated the French upon this operation but while they felt the rate of one seventy-nine was a little high that they understood that it would be brought down gradually and that they'd accepted the situation and it made no difficulty and that if the matter was raised in the House of Commons Chamberlain would reply in that sense, that he understands that the figure was being brought down gradually.

W: Well, that doesn't sound like a very strong protest, does it?

W: Well, on the contrary, they were perfectly delighted with it and said that - that they had just received a most cordial and helpful message from the British. I said that there must again be some misunderstanding because I understood that our Treasury had been phoned by the British Treasury - just what you told me about Phillips without mentioning his name...
That's right.
And they felt strongly that the franc should be brought down to one seventy-five today and they were of course very anxious to have it down.
Uh huh.
But this was a message in a totally different sense.
Uh huh. Well, if you don't mind my saying it, I don't believe the British did it.
Well, it was - they were very specific about it. And even my first impression and Cochran's was that - that it was a message that might have been issued yesterday as yours was.
Yes.
From yesterday's information.
Yeah.
But then - that was not your figure. He said that the message stated that one seventy-nine was regarded as pretty high but that they had received assurances that steps would be taken to reduce it progressively.
Well. Now, for instance, the British told me one of the things that disturbed them - that three million pounds of this came from Belgium.
Yes.
- that the French were getting.
That was - mention of that was made in there, that also that they were concerned as to the effect it might have upon Belgium and the other countries - the other partners of the Tri-partite agreement.
Yeah. Well, that's what they told me and that furthermore, the fact that the French got such a vast sum of money showed that it was undervalued.
Yes. Well, that they didn't say. I don't know whether that was in the message or not, but he didn't mention that. But the reference to the other smaller partners of the agreement was mentioned.

HMJr: Well, I'm going to ask the ...

W: ... entirely satisfactory and wondered in a sense why we were so disturbed when the other partner seemed satisfied.

HMJr: Well, I am going to get a copy of what the British said; they'll give it to me.

W: Yeah.

HMJr: I'm going to ask for it.

W: Well, at any rate, that is the upshot of it - an order has been given now as an indication of their good faith in this matter to move it back today by that amount, the same tomorrow, and to do it progressively as conditions permit this week.

HMJr: Well, I'll have to take; I don't like it, but I'll accept it. I mean that's all I can do.

W: Yes, yes, yes.

HMJr: Pardon me?

W: Would you like to speak to Cochran for the/details - he's right here with me?

HMJr: Please.

W: Right. Just a moment.

H. Merle Cochran: Hello, Mr. Secretary.

HMJr: Yes, Cochran.

C: I showed up at the Ministry of Finance at six o'clock as agreed.

HMJr: Yes.

C: Marchandeu had with him there Rueff - ah - Fournier and Cariguel. They had been going over the matter and the Minister, Marchandeu, said that Mr. Wilson had just been received by Bonnet and "you come along and go over there with me."
Yeah.

And so we went there - there were the four of us - Bonnet was with me and Marchandeau and Rueff. And so that's what they promised us definitely, to move it fifty centimes a day - last night....

Yes.

After that they would give no figures except they said that they would reduce it gradually just so the speculators couldn't profit too much and finally would get it below one seventy-five as soon as possible.

Will get it below one seventy-five?

Yes.

As soon as possible?

Yes.

Uh huh. Well, I still don't like it, I still don't think they treated the United States Government properly; I think the whole performance is outrageous but there's nothing I can do about it because the whole political situation over there is so bad....

Yes.

So I'll take it for today and tomorrow but I'll never forget it and I've lost confidence.

They gave us absolutely no explanation - no reason....

Well, Cochran, how can they give any explanation?

.... the fact that he was maneuvering but this thing of not telling us what they were doing today they didn't attempt that.

Well, Cochran, how can they give you any explanation?

But if they

Well, if they've made another little bluff then we'll see.
Yes.

And - but I'm going to call up Butterworth now and get from him just what the message was that was sent because I don't believe that message.

I think that was certainly very funny because Daladier evidently received it in English...

Yes.

And while they quoted that rate one seven nine to us...

Yes.

...it's entirely conceivable that that might have been their original note...

Yes.

At the same time it might have meant they were

Well, I'm going to find out.

Yes. Well, they didn't show us anything there, you see.

All right.

But anyway, they put it on us - they said, "Well you people - there are only 1/10th as many dollars being sold as sterling - you people shouldn't worry if the British don't worry."

Yes. Well I know. Well, I'll take care of that.

Yes.

All right, Cochran.

I'll fix up a telegram - fix the story up -

All right.

- to show that Wilson and I went to the French Ministry.

Fine.
C: So you want that tonight I presume?
C: If you please.
C: Surely. All right, I'll get that out. I can do that.
HMJr: Thank you.
C: All right, sir.
HMJr: Goodnight.
C: Did you want to speak to Wilson anymore?
HMJr: That's all.
C: That's all.
HMJr: Thank you.
C: Goodnight.
Hello.

Mr. Taylor isn't back from lunch yet.

Put on Butterworth.

All right. Go ahead.

Hello.

Hello, Mr. Secretary.

Are you at home?

Yes, I am, sir.

Well, Butterworth, Wilson got on the telephone about an hour ago...

Yes, sir.

And he was in with Bonnet, Marchandeau and Cochran...

Yes.

And they agreed that they would today drop the rate by one half a centime and tomorrow another half a centime, see? Hello.

Half a centime?

Yes.

Half a franc?

Half a franc.

A half a franc and tomorrow a half a franc?

That's right.

Yes.

Now they brought the rate down to one eighty-seven thirty-two.

Yeah.
Hello - they've already done it.

Oh, they have? Good.

Yes. Now - but this is the part that disturbs me greatly. While they were there Daladier calls up Bonnet and tells him that he has just received a message from Mr. Chamberlain.

In which Mr. Chamberlain congratulates the French on what they have done and they are delighted at the rate of one seventy-nine and they are pleased to learn that they are going to progressively lower it. And then this is - Daladier goes on to say to Bonnet, "We can't see why Mr. Morgenthau is so excited; he's not losing any money and if the British aren't excited why is Mr. Morgenthau so excited?"

(Laughs)

So I said to Wilson, "Lacking an actual confirmation from the British I don't believe it."

Yes.

Now, - but this is serious and they're using it so much against me...

The point of the British - the last British reply starts out by saying that they are delighted that the French have taken in so much today...

Yes.

...but the fact that they had brought in so much shows that the rate was too low.

Yes. Well now, they did not show....

But now I can't hear you.

They did not show Wilson anything. Do you see?

Yeah.

But - and I told Wilson, "I'm sorry, I just don't believe it."
B: Hello.
HMJr: Hello.
B: I didn't hear that.
HMJr: I told Wilson, "I do not believe it." Hello.
B: Just one moment please, sir, our receiver's gone out of control.
Operator: In just a moment, please,
HMJr: Hello.
Operator: Mr. Butterworth again.
HMJr: Thank you.
O: Go ahead.
HMJr: Hello.
B: Hello, sir. I didn't get any of that
HMJr: Butterworth, -
B: Yes.
HMJr: I told Ed Wilson...
B: Yes.
HMJr: "I'm sorry I do not believe that."
B: Yes.
HMJr: "I'm going to ask Butterworth to tell the British exactly what's happened,"
B: Yes.
HMJr: "And I'm going to ask the British to do me the courtesy of letting me have a copy of the message..."
B: Yes.
HMJr: "...that Daladier was talking about."
Yes.

HMJr: Now this is some message that they must have gotten within the last couple of hours.

B: That was the May third - and I told you earlier - was an oral message.

HMJr: Hello.

B: Hello. This message that they sent was - I told you on the telephone this afternoon - was an oral message.

HMJr: Yes.

B: It was not a written message.

HMJr: Yes.

B: And the points that they made as Phillips accounted them to me were: In the first place they congratulated the French on the fact that things had gone so well and they'd acquired so much as thirty million pounds today.

HMJr: Yes.

B: And they said that that obviously showed it was coming in so quickly that the rate was too low.

HMJr: Well. Now, what they've done is, they've taken that message....

B: .... Of the thirty million pounds three million has come from Belgium alone...

HMJr: Yes. They told that.

B: ... Belgium would be put in a and that that was an added reason why the rate should be raised.

HMJr: Well, you see, that's the message and they've used half of it and they've used it against me.

B: Yeah.

HMJr: And they're saying that the British like it, they congratulate us, they say we've done fine and the only person who is excited is Mr. Morgenthau and what's he so excited about.
B: Yes.
HMJr: Now, what I need from the British is a - something which I can use if necessary.
B: Yes.
HMJr: So that I have whatever the verbal message is. And this is so important...
B: Yeah.
HMJr: ...that I think that they will see that we cannot let Mr. Daladier play Mr. Chamberlain off against me.
B: Right.
HMJr: And please tell Sir Frederick Phillips that it would be most helpful if I - if he would give you informally just what the message was.
B: Right. I will indeed. I will call him up at his house now.
HMJr: Because - tell him that I - without knowing anything that I said, I just didn't believe it.
B: Right. I will indeed, sir, and then I'll call you back.
HMJr: And - ah - you get what they're doing - a half a franc today, a half a franc tomorrow and they will try to continue next week but again no promises.
B: Yeah.
HMJr: But now, I want to again emphasize that they see whatever Mr. Chamberlain's message is the British think this is all lovely and Mr. Morgenthau is excited about nothing.
B: Right. Yes.
HMJr: Now, of course, we know that's happened before and I'm sure that when Sir Frederick gets my message he'll be glad to....
B: Oh, I'm sure he will.
But tell him that I told Ed Wilson over there, "I just don't believe it."

I will indeed.

But - ah - it's just that - and I also told Wilson that, knowing how critical the political situation is I will accept it but I feel very unhappy and I can't help but feel that we have not been properly treated.

Yeah.

Now you'll be interested in this. They have given no explanation to Cochran why they did this - the whole business, see?

Yeah.

Mr. Cariguels in calling up Mr. Knoke...

Yes.

...has given no explanation.

Yes.

Of course the answer is there is no explanation other than they did this in order to let the inside group make a big cleanup.

Yes.

And that's the only explanation there is. And I'll never be convinced that it wasn't that. So - ah - and the French, as far as I'm concerned, certainly haven't done themselves any good.

Yes.

But...

Hello.

Yes, sir.
HMJr: Well you get that word to Sir Frederick, will you?
B: I will, sir.
HMJr: Thank you.
B: Thank you, sir. Goodbye.
Hello.

Operator: Secretary Woodring is out of the office making a speech; he'll be back in about fifteen or twenty minutes.

HMJr: Well, as soon as he comes back I'd like to talk to him please.

O: All right.

Hello.

Mr. Secretary, just hold on. Secretary Woodring is coming right on.

Hello.

Just a moment please. I thought that was the secretary.

(Short pause)

Hello.

Hello.

Yes, Henry. This is Harry.

Oh, hello Harry. Harry, we're ready to move our silver from New York up to West Point.

Yes.

And I'd like to know whether we can hire the Army to do it.

Well, I think so. We did that before, didn't we, out at the other place?

Yes.
Yes. We'll work it out. Now, who do you want me to - I'll get a - name a man to contact whoever you say.

Well, if you'll name the fellow and then tell him to get in touch with McReynolds, my Administrative Assistant...

McReynolds?

Yeah.

Your Administrative Assistant?

Yeah.

All right.

Ah - and...

I'll get him - I'll get him right at it.

We could pay for it. I mean, we've got money.

Yes, that's what I ....

Yeah.

...understood to be the way

We're ready to move it and we'd like to do it ratherly promptly.

All right.

Thank you.

We'll do it.

Thank you.

Goodbye.
Hello.

Mr. Butterworth. Go ahead.

Tell Mr. Taylor to come in.

Right.

Hello.

Hello, Mr. Secretary?

Talking.

This is Butterworth.

Yeah - I don't hear awfully well.

I've been over to Phillips'.

Yes.

And he is astonished and indignant....

Yes.

...that that should have taken place.

Yes.

He said that the message they gave to the French was that which I - they gave to me and which I told you.

Yes.

And that, whereas they expressed pleasure at the amount of foreign exchange the French had received they said that they thought it had come in so quickly that it showed that the rate was probably too high.

I see.

And that they should push it nearer one seventy-five.
They should what?

They should push it nearer one seventy-five.

Yes.

And furthermore Monnick has telephoned Phillips tonight...

Yes.

...and given him over the telephone the reply which you have had from Marchandeu.

Yes.

Which tells him of this arrangement....

Yes.

...to change the franc by fifty centimes....

Yes.

...for today and for tomorrow...

Yes.

...and furthermore acknowledges and comments on the points which Phillips raised.

Yes.

So that, Phillips says,"There's no question of their really understanding what we told them."

I see. Now, what I'd like you to do, the first thing tomorrow morning.

Yes.

Is to call up Cochran.

Yes.

And tell him about this.

I certainly will.
HMJr: And tell him to give it to Ed Wilson.
B: I will indeed.
HMJr: And I hope you explained to Sir Frederick that as soon as I heard it I said I didn't believe it.
B: Well, I told him that. They're appreciative of that.
HMJr: Yes. And - ah - we just have to watch our step.
B: Yes. I quite agree. Furthermore, Phillips called up Monnick tonight....
HMJr: Yeah.
B: ...and gave him a piece of his mind.
HMJr: Good.
B: And in turn then he called me up.
HMJr: Yes.
B: And was very concerned with all that's happened.
HMJr: Yes.
B: And - so that I think that they will get the idea from several sides.
HMJr: Good. Because - well, I don't - I can't just say too much about upset I am about the whole thing. After all, we're dealing in hundreds of millions of dollars.
B: Right.
HMJr: And the only thing that we have is good faith.
B: Right.
HMJr: And I just don't like the way the French act. And after all we've done for those people they ought to be - act entirely differently. But if you will tell Cochran tomorrow so that he and Ed Wilson will be entirely familiar.
B: I'll do that the first thing tomorrow morning.
And - now just a minute. Let me ask Lochhead what's happened here tonight. Let me tell you so you'll know.

Thank you so much.

(Pause while Secretary and Mr. Lochhead discuss market.)

See if I can explain this; I'm not quite sure. Hello.

Yes, sir.

In order to bring the rate down a half a franc....

Yes.

...on behalf of the French Government it only cost us eleven million francs.

Yes.

And that is all. Hello.

Yes, sir.

Do you have that?

Yes, I've got that.

Now, - (Speaking to Mr. Lochhead: What's this? - you tell him instead of me; I don't quite understand it.) Wait a minute, Archie will tell you something else - explain it to you.

Hello, Butterworth.

Yes, sir.

As Mr. Morgenthau explained, when we received the order to bring the rate up half a franc we went in and bid the francs up....

Yes.

And secured eleven million francs...
Yeah.

Lochhead: Then after we had finished that—that cleaned the market up...

B: Yes.

Lochhead: ...and we were getting ready to sell francs on the selling side...

B: Yes.

Lochhead: ...but the Guaranty Trust Company of New York had an order to sell thirty-five million francs at just a fraction under the price which we could sell at...

B: Yes.

Lochhead: ...so therefore we have not sold any but I understand the Guaranty disposed of about fourteen million out of their thirty-five million through the general market.

B: Yes.

Lochhead: Now I don't know where the Guaranty got their order from, I mean what the source was...

B: Yes.

Lochhead: But they're selling slightly underneath our rate.

B: Yes. Well, they sometimes operate for the French Government as you know.

Lochhead: What is that?

B: They sometimes operate for the French Government over here.

Lochhead: Well, they sometimes do, but of course, on the other hand, I wouldn't like to feel that they were operating in this market for the account of the French Government.

B: ...but rarely.

Lochhead: No, it may not be that at all of course.
HMr: Yes, sir.
B: Will you, when you see Sir Frederick tomorrow, tell him I appreciate very much his frank message and that my confidence in the French Treasury is just as high as it ever was.
HMr: (Laughs) Yes.
B: And it'll take a little bit more than the - ah - the French to come between us.
HMr: (Laughs) Yes.
B: And I wish you'd tell him just that for me.
HMr: Yes. Thank you so much.
B: And I can't tell you how much I'm upset over - to think that a whole French Government would act the way they act. I mean to me it's just unbelievable in International history. And-ah - as I say, that's the way I feel anyway.
B: Well, I don't blame you.
HMr: And that's that. Are you getting along all right? I mean - are you allowed all the independence you need?
B: Yes. Thank you very much, sir.
HMr: You are?
B: It's all going along pretty well.
HMr: I mean, you're allowed enough - as much independence as you need?
B: Yes, sir.
HMr: You - I see.
B: They're working that out locally as they say.
(Laughs heartily) Well, a letter will always reach me.

B: All right. Thank you so much, sir.

HMJr: All right.

B: I must say I was awfully pleased to hear about August.

HMJr: About what?

B: About August.

HMJr: Oh. Oh. That's still all in the cards.

B: I know it is. But I'm very glad to hear it.

HMJr: And...

B: Because that's a most delightful place.

HMJr: Is it?

B: Yes, it really is delightful. It really is by far the nicest place along that whole coast.

HMJr: Have you been there in the summer?

B: Yes, I've been there two summers.

HMJr: Is it terribly warm?

B: It was during the day and quite pleasant in the evening.

HMJr: I see. Well, I've asked several people and everybody seems to think it's about the nicest place.

B: Well, I think that too. But I'd advise you to make reservations ahead of time.

HMJr: Well, when Bullitt was here he said if I'd let him know he wanted to handle it personally for me... 

B: Yes.

HMJr: So I've sent him a message to do that.
B: Uh huh.

HMJr: And he very definitely wanted to do it and so I didn't see any reason why not to let him do it.

B: Yes.

HMJr: But he wanted to handle the whole thing.

B: I see.

HMJr: So I'm letting him do it.

B: Yes. Well, if I can do anything I hope you'll let me know - I know you will.

HMJr: I understand the owner of the place is Mr. Stellar?

B: That's right.

HMJr: Yes. Well, I could have done it but Bullitt was very insistent so - ah - I was glad to acquiesce.

B: Oh, he's a very nice man - Stellar. He's of Italian origin and he's a thorough Frenchman - I think his father was an Italian.

HMJr: Well...

B: Fine. Well, thank you so much.

B: Goodnight, sir.

HMJr: Goodnight.
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France
DATE: May 5, 1938, 8 p.m.
NO.: 711
RUSH
FROM COCHRAN.

STRICTLY CONFIDENTIAL.

This morning at ten o'clock I was told by Guaranty trader that the market had opened with the Bank of France seller of sterling at 179 and buyer at 178.90. I was told by National City trader at eleven o'clock that a terrific business in sterling at 178.90 to 179 was being done by the Bank of France. The National City trader said the discount on the forward franc had been lowered to one-fourth franc for one month's sterling, and for three months it was three-fourths franc. There were heavy subscriptions to national defense bonds. This had led to a tightening of day to day money to around five and six percent.

At half-past eleven I went to the Bank of France where I visited my friend. He had already taken in 14,000,000 pounds at that time. I asked my friend whether he had been given any instruction by the Treasury about the 175 franc rate which had been under discussion for a few days. He told me that the only instruction given to him was to open up slightly under 179; he did not know when he was to move from that rate.
I went to the Treasury after I left the Bank of France. Preparations were being made by Marchandeau, the Minister of Finance, to make an announcement to the press which was scheduled for noon. I asked for Rueff, who came out of Marchandeau's office; my conversation with Rueff opened with the question as to what the hell rate we had been talking about the past few days, 175 or 179. Rueff asked me if I was making a protest. I said that of course I had had no instructions whatever because it was too early to be in touch with Washington. I said that I had come over personally and wholly on my own responsibility to express my surprise at the rate being officially opened at 179 by the French control.

The immediate response of Rueff was that the understanding had been that the franc would be held "around" 175; I said that if they had intended to go beyond 175 and particularly if the intention had been to open at 179 he should have mentioned this before. I certainly should have been told about it last night, I said. Rueff told me that it was this morning before he knew about it.

I insisted that if the French and Americans are to work as partners under the Tripartite Agreement some one should know what is going to be done and should be good enough to inform the other about such steps. His retort was that this required reciprocity, and said that when we moved to
to desterilize gold we had not given them any information about it. That action I said did not affect the relation between the dollar and the French franc, and the matter had not been a matter of negotiation between the two Treasuries such as the subject of franc devaluation.

Rueff went in to see the Minister and subsequently asked me to come in to see Marchandeau. The Minister said he understood that I was unhappy over the opening rate of 179; I confirmed this as my personal feeling, but said no formal protest was being made. I did tell him that they should have let us know about such an intention. Marchandeau told me that they had decided to open at 179 only this morning after consultation with his experts and before the opening of the market. He wanted to "maneuver" around 175, he said, and they were not taking an excessively wide margin by opening at 179. Some of his experts had even recommended 181, he told me, but the rate 179 had been chosen by him. Marchandeau insisted that he wanted to move progressively from this rate through 175 and even go below 175. I said that the only thing I could do was to submit his explanation to the Secretary of the Treasury.

It was one o'clock when I left Marchandeau and put in a telephone call for Secretary Morgenthau; I gave him the above information when I spoke with him at 3:15. I also
said that at ten minutes of three I had had a talk with my friend when the latter was still at the Bourse. My friend had told me that he had taken in around 25,000,000 pounds up to that hour and that approximately $10,000,000 had been purchased for him by Chase. These figures astounded the Secretary of the Treasury. I had been told by my friend that this gave one an idea as to how strong a position against the franc had been taken. At the same time I had had a talk with my market contact on the Bourse. He said that all forward franc rates were at a premium. He told me that the belga was under terrific pressure and that there had been a rise of around three francs each for French rentes.

After the Secretary of the Treasury had consulted with his assistants he told me to go to the Finance Ministry immediately and deliver a message wherein he intended to support the personal representations which had been made at noon by me.

I telephoned to Rueff immediately, and it was arranged that Marchandeau would see me at 4:00 o’clock, which he did with Rueff present. I said that I had had a telephone conversation with Secretary Morgenthau at 3:00 o’clock and had told him of the developments on the Paris market to that hour, and also told the Secretary of my visit at noon with Minister Marchandeau. I told the Minister that the
the Secretary of the Treasury and everyone in that Department had understood (1) from the original statement which I had transmitted from Marchandeau to the Secretary of the Treasury seeking our approval to franc depreciation, (2) from the assurances in the last sentence of the communication which was transmitted after the Council of Ministers, (3) from the instructions given by the French authorities to the American Wednesday evening to keep the franc below the 175 rate, as well as from all contact with the French Embassy in Washington that 176 would be the maximum franc depreciation and that as economic conditions improved, they would work back from that limit.

Marchandeau came back to his arguments of this morning, reiterating that it was necessary to have a field around 175 for maneuvering; in order to illustrate his theory he drew a circle around the figure. I told him that any sort of radius might be put in an illustration of that kind. I said to the Minister that I had instructions to tell him that Mr. Morgenthau said if the French wanted to do business with us, today they would have to bring the rate to 175 or a little below. The Minister said that he would lose his maneuvering advantage if he did this. I said that according to observers on the market, the French had acquired a large amount
amount of foreign exchange today and that it would be possible to move quickly to 175 through operations here and later this evening in New York. At this point Rueff interrupted to say that the whole misunderstanding had been over the phrase "around 175". He said that we should get an English grammarian to give an interpretation of the phrase. I said that this was not needed, that I had indicated the definite impression of the United States Treasury.

The Minister of Finance said that the policy which had been followed today had been decided upon by the Government, and that without consulting his colleagues he could not change it. The Minister said he would contact his colleagues at once and asked me to come back at 6:00 o'clock for an interview.

I immediately told Charge d'Affaires Wilson the whole story when I got back to the Embassy. During the time I was telling Wilson about it, he got a call from Foreign Minister Bonnet to come to see him at his office. At five o'clock this afternoon I put in a telephone call for the Secretary of the Treasury and gave him the foregoing report. Just as I was finishing the report, Wilson came into my office and then gave the Secretary an account of his visit with the Foreign Minister.

END MESSAGE.

WILSON.
May 5, 1938

Today HM, Jr spoke to Congressman Woodrum on the phone re Treasury accounting for relief funds. The record of the conversation is attached to diary entry of May 11, 1938 (dictated May 12) on which date HM, Jr gave Miss Le Hand the transcript.
Ribbon copies of attached memo of 5/5/38 were transmitted to the Secretary of State and the Secretary of War—letters of transmittal dated 5/6/38—signed by Acting Secretary.
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 5, 1938.

TO: Secretary Morgenthau

FROM: Mr. White

Subject: Current United States Trade with Japan and China
(Preliminary data)

A. United States trade with Japan during the first three weeks of April 1938.

1. United States exports to Japan increased 30 percent in the first three weeks of April 1938 as compared with the same period in March 1938, and were 66 percent greater than in February 1938.

2. Exports of raw cotton increased $1,798,000, or 59 percent over the first three weeks of March 1938. Exports of petroleum products, copper, aircraft, and hides and skins also increased markedly over the same period of March 1938.

3. United States imports from Japan decreased 6 percent in the first three weeks of April 1938 as compared with the same period of March, and were 1 percent less than in the first three weeks of February 1938.

4. The decrease of $290,000 in imports of raw silk accounted for over half the decrease; other items showing decreases were silk manufactures, china and porcelain ware, hats and hat materials, and pyrethrum flowers.

B. United States trade with China during the first three weeks of April 1938 (total trade).

1. United States exports to China and Manchuria decreased 15 percent in the first three weeks of April 1938 as compared with the same period of March 1938.

2. United States imports from China and Manchuria increased 11 percent in the first three weeks of April 1938 as compared with the same period of March 1938.
Secretary Morgenthau - 2

C. United States trade with China (classified by areas)

I. Trade with Chinese-controlled areas: (Canton, Hankow, Swatow, Amoy, Foochow, Yunnanfu)

1. United States exports to Chinese-controlled areas in the first three weeks of April 1938 amounted to $145,085 or 3.5 percent of total exports to China and Manchuria.

2. United States imports from these six ports amounted to $373,369 or 13.9 percent of the total imports from China and Manchuria.

II. Trade with Japanese-controlled areas: (Chefoo, Tsingtao, Tientsin, Peiping, Dairen, Mukden, Harbin)

1. United States exports to these seven ports in the first three weeks of April 1938 amounted to $1,530,916 or 36.8 percent of the total exports to China and Manchuria. Exports to the North China ports (Chefoo, Tsingtao, Peiping, and Tientsin) amounted to only 3.3 percent of the total and exports to the Manchurian ports to 33.5 percent of the total.

2. United States imports from these seven ports amounted to $810,626 or 30.1 percent of the total imports. Imports from the North China ports accounted for 15.3 percent and imports from the Manchurian ports for 14.8 percent of the total.

III. Trade with Shanghai, Nanking, and Hong Kong:

1. United States exports to these three ports together amounted to $2,431,617 in the first three weeks of April, or 56.5 percent of the total exports to China and Manchuria. Exports to Hong Kong, probably largely for Chinese-controlled areas, accounted for $906,340 or 21.8 percent of the total; exports to Shanghai accounted for $914,623 or 22 percent; and exports to Nanking, in this case probably for the Chinese Government, amounted to $610,051 or 14.7 percent of the total.
Secretary Morgenthau - 3

2. United States imports from these three ports amounted to $1,064,367 in the first three weeks of April 1938, or 39.5 percent of the total imports from China and Manchuria. Imports from Hong Kong accounted for $600,494 or 22.3 percent, and imports from Shanghai accounted for $463,873 or 17.2 percent. There were no imports reported from Nanking.

IV. Trade with China: (miscellaneous)

1. United States exports to unclassified Chinese ports amounted to $48,018 or 1.2 percent of total exports.

2. United States imports from unclassified ports amounted to $442,793 or 16.5 percent of the total imports.
Statistics

A. Current Trade with Japan (Preliminary Data).

I. United States Exports to Japan - Total Value

First three weeks of

<table>
<thead>
<tr>
<th></th>
<th>April 1938</th>
<th>March 1938</th>
<th>February 1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States Exports to Japan</td>
<td>$17,893,000</td>
<td>$13,718,000</td>
<td>$10,779,000</td>
</tr>
<tr>
<td>Total Value</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

II. United States Exports to Japan by Commodities

<table>
<thead>
<tr>
<th>Commodities</th>
<th>First three weeks of</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>April 1938</td>
</tr>
<tr>
<td>Cotton, unmanufactured</td>
<td>$4,871,000</td>
</tr>
<tr>
<td>Petroleum and products</td>
<td>$3,685,000</td>
</tr>
<tr>
<td>Iron, steel and manufactures</td>
<td>$2,866,000</td>
</tr>
<tr>
<td>Copper and manufactures</td>
<td>$2,221,000</td>
</tr>
<tr>
<td>Aircraft and parts</td>
<td>$715,000</td>
</tr>
<tr>
<td>Automobiles, parts and accessories</td>
<td>$694,000</td>
</tr>
<tr>
<td>Hides and skins, raw, except furs</td>
<td>$533,000</td>
</tr>
</tbody>
</table>

Commodities showing decreases:

| Industrial machinery           | $808,000   | $1,985,000 | $1,071,000    |
| Fertilizer and fertilizer materials | $281,000 | $290,000   | $248,000      |
| Paper base stocks              | $256,000   | $746,000   | $406,000      |
| Ferro-alloys                    | $79,000    | $185,000   | nil           |
| Total                           | $17,010,000-95% | $13,152,000-96% | $9,710,000-90% |
| All other                       | $833,000-5% | $566,000-4% | $1,069,000-10% |
| Grand total                     | $17,893,000 | $13,718,000 | $10,779,000   |

III. United States Imports from Japan - Total Value

First three weeks of

<table>
<thead>
<tr>
<th></th>
<th>April 1938</th>
<th>March 1938</th>
<th>February 1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States Imports from Japan</td>
<td>$6,189,000</td>
<td>$6,573,000</td>
<td>$6,230,000</td>
</tr>
<tr>
<td>Total Value</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### IV. United States Imports from Japan by Commodities

<table>
<thead>
<tr>
<th>Commodities showing increases:</th>
<th>April 1938</th>
<th>First three weeks of March 1938</th>
<th>February 1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fish and fish products</td>
<td>$238,000</td>
<td>$125,000</td>
<td>$96,000</td>
</tr>
<tr>
<td>Agar-agar</td>
<td>63,000</td>
<td>43,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Fertilizer and fertilizer materials</td>
<td>52,000</td>
<td>18,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Wood and manufactures</td>
<td>51,000</td>
<td>43,000</td>
<td>56,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commodities showing decreases:</th>
<th>April 1938</th>
<th>First three weeks of March 1938</th>
<th>February 1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Silk, unmanufactured</td>
<td>4,046,000</td>
<td>4,336,000</td>
<td>3,970,000</td>
</tr>
<tr>
<td>Cotton manufactures</td>
<td>195,000</td>
<td>197,000</td>
<td>417,000</td>
</tr>
<tr>
<td>Silk manufactures</td>
<td>145,000</td>
<td>167,000</td>
<td>78,000</td>
</tr>
<tr>
<td>Vegetable food products</td>
<td>141,000</td>
<td>157,000</td>
<td>173,000</td>
</tr>
<tr>
<td>China and porcelain ware</td>
<td>76,000</td>
<td>104,000</td>
<td>128,000</td>
</tr>
<tr>
<td>Hats and hat materials</td>
<td>64,000</td>
<td>175,000</td>
<td>132,000</td>
</tr>
<tr>
<td>Pyrethrum flowers</td>
<td>57,000</td>
<td>147,000</td>
<td>68,000</td>
</tr>
<tr>
<td>Paper and manufactures</td>
<td>54,000</td>
<td>58,000</td>
<td>45,000</td>
</tr>
</tbody>
</table>

| Total                         | $5,182,000-84% | $5,570,000-85% | $5,167,000-83% |
| All other                     | 1,007,000-16%  | 1,003,000-15%  | 1,063,000-17%  |
| Grand total                   | $6,189,000     | $6,573,000      | $6,230,000     |

### B. Current Trade with China (Preliminary Data).

#### I. United States Exports to China - Total Value

<table>
<thead>
<tr>
<th>First three weeks of</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1938</td>
<td>$4,156,000</td>
</tr>
<tr>
<td>March 1938</td>
<td>4,883,000</td>
</tr>
<tr>
<td>February 1938</td>
<td>3,575,000</td>
</tr>
<tr>
<td>January 1938</td>
<td>4,376,000</td>
</tr>
<tr>
<td>December 1937</td>
<td>6,026,000</td>
</tr>
<tr>
<td>Whole month of April 1937</td>
<td>$6,990,000</td>
</tr>
<tr>
<td>Table II. United States Exports to China by Ports (Total three weeks)</td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td><strong>Exports to Chinese ports:</strong></td>
<td></td>
</tr>
<tr>
<td>Canton, Hankow, Swatow</td>
<td></td>
</tr>
<tr>
<td>Foochow, Amoy, Yunnanfu</td>
<td></td>
</tr>
<tr>
<td>$ 145,085</td>
<td></td>
</tr>
<tr>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td><strong>Exports to Japanese-controlled ports:</strong></td>
<td></td>
</tr>
<tr>
<td>Chefoo, Tsingtao, Tientsin, Peiping</td>
<td></td>
</tr>
<tr>
<td>Dairen, Mukden, Harbin</td>
<td></td>
</tr>
<tr>
<td>1,392,652</td>
<td></td>
</tr>
<tr>
<td>33.5</td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
</tr>
<tr>
<td>1,530,916</td>
<td></td>
</tr>
<tr>
<td>36.8</td>
<td></td>
</tr>
<tr>
<td><strong>Exports to doubtful ports (ultimate destination unknown):</strong></td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td></td>
</tr>
<tr>
<td>Shanghai</td>
<td></td>
</tr>
<tr>
<td>Nanking</td>
<td></td>
</tr>
<tr>
<td>China - misc.</td>
<td></td>
</tr>
<tr>
<td>906,340</td>
<td></td>
</tr>
<tr>
<td>914,623</td>
<td></td>
</tr>
<tr>
<td>610,651</td>
<td></td>
</tr>
<tr>
<td>48,018</td>
<td></td>
</tr>
<tr>
<td>2,479,632</td>
<td></td>
</tr>
<tr>
<td>59.7</td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
</tr>
<tr>
<td>$4,155,633</td>
<td></td>
</tr>
<tr>
<td>100.0</td>
<td></td>
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Table III. United States Exports to China by Ports and Principal Commodities

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Chinese Ports</th>
<th>Japanese Ports</th>
<th>Hong Kong</th>
<th>Shanghai</th>
<th>Nanking</th>
<th>China-misc.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>North Manchukuo</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aircraft and parts</td>
<td>$130,210</td>
<td>$376</td>
<td>$10,344</td>
<td>$176,429</td>
<td>$130,244</td>
<td>$449,009</td>
<td></td>
</tr>
<tr>
<td>Automobiles parts and accessories</td>
<td>$1,063</td>
<td>$27,511</td>
<td>$10,405</td>
<td>$7,320</td>
<td>$130,244</td>
<td>$449,009</td>
<td></td>
</tr>
<tr>
<td>Cotton, unmanufactured</td>
<td></td>
<td>$115,885</td>
<td>$5,747</td>
<td>$235,368</td>
<td>$508,662</td>
<td></td>
<td></td>
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<tr>
<td>Electrical machinery and apparatus</td>
<td></td>
<td>$23,149</td>
<td>$76</td>
<td>$26,024</td>
<td>$45,984</td>
<td></td>
<td></td>
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<tr>
<td>Firearms and ammunition</td>
<td></td>
<td>$1,647</td>
<td>$19,468</td>
<td>$43,005</td>
<td>$45,984</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial machinery</td>
<td></td>
<td>$7,625</td>
<td>$21,512</td>
<td>$51,689</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iron and steel and manufactures</td>
<td></td>
<td>$10,887</td>
<td>$21,512</td>
<td>$59,572</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paper and manufactures</td>
<td></td>
<td>$6,300</td>
<td>$14,595</td>
<td>$23,863</td>
<td>$96,622</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Petroleum and products</td>
<td></td>
<td>$7,822</td>
<td>$6,920</td>
<td>$19,971</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Tobacco and manufactures</td>
<td></td>
<td>$12,988</td>
<td>$17,129</td>
<td>$298,938</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All other</td>
<td></td>
<td>$18,988</td>
<td>$216,006</td>
<td>$284,952</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Total</td>
<td>$380,951</td>
<td>$95,033</td>
<td>$231,361</td>
<td>$13,689</td>
<td>$1,019,625</td>
<td>$3,136,008</td>
<td></td>
</tr>
</tbody>
</table>

1/ Canton, Hankow, Swatow, Foochow, Amoy, Yunnanfu.
2/ Chefoo, Taingtao, Tientsin, Peiping.
3/ Dairen, Mukden, Harbin.
Secretary Morgenthau - E

Table IV. United States Imports from China - Total Value

<table>
<thead>
<tr>
<th>First three weeks of</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1937</td>
<td>$ 2,691,000</td>
</tr>
<tr>
<td>March 1937</td>
<td>2,418,000</td>
</tr>
<tr>
<td>February 1937</td>
<td>2,266,000</td>
</tr>
<tr>
<td>January 1938</td>
<td>2,921,000</td>
</tr>
<tr>
<td>December 1937</td>
<td>3,790,000</td>
</tr>
<tr>
<td>Whole month of April 1937</td>
<td>$12,173,000</td>
</tr>
</tbody>
</table>

Table V. United States Imports from China by Ports

<table>
<thead>
<tr>
<th>Imports from Chinese ports:</th>
<th>Value</th>
<th>Percent of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canton, Hankow, Swatow</td>
<td>$373,369</td>
<td>13.9</td>
</tr>
<tr>
<td>Foochow, Amoy, Yunnanfu</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imports from Japanese-controlled ports:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chefoo, Tsingtao, Tientsin, Peiping</td>
<td>411,353</td>
<td>15.3</td>
</tr>
<tr>
<td>Dairen, Mukden, Harbin</td>
<td>399,273</td>
<td>14.8</td>
</tr>
<tr>
<td>Subtotal</td>
<td>810,626</td>
<td>30.1</td>
</tr>
<tr>
<td>Imports from doubtful ports (origin of goods unknown):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>600,494</td>
<td>22.3</td>
</tr>
<tr>
<td>Shanghai</td>
<td>463,873</td>
<td>17.2</td>
</tr>
<tr>
<td>Nanking</td>
<td>442,793</td>
<td>16.5</td>
</tr>
<tr>
<td>China, misc.</td>
<td>1,507,160</td>
<td>56.0</td>
</tr>
<tr>
<td>Subtotal</td>
<td>1,507,160</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$2,691,155</td>
<td>100 %</td>
</tr>
</tbody>
</table>

Regraded Unclassified
<table>
<thead>
<tr>
<th>Commodity</th>
<th>Chines: Ports</th>
<th>Japanese Ports</th>
<th>North: Manchukuo</th>
<th>Hong Kong</th>
<th>Shanghai</th>
<th>Nanking</th>
<th>China-misc.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1st 2 weeks</td>
<td>1st 2 weeks</td>
<td></td>
<td>1st 2 weeks</td>
<td>1st 2 weeks</td>
<td>1st 2 weeks</td>
<td>1st 2 weeks</td>
<td></td>
</tr>
<tr>
<td>Bristles</td>
<td>70,803</td>
<td>26,707</td>
<td>32,526</td>
<td>7,748</td>
<td>666</td>
<td>138,450</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>9,949</td>
<td>46,026</td>
<td>29,993</td>
<td></td>
<td>2,694</td>
<td>117,043</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cotton manufactures</td>
<td>1,579</td>
<td>1,554</td>
<td>344</td>
<td>54</td>
<td>40,772</td>
<td>43,959</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8,347</td>
<td>4,413</td>
<td>2,362</td>
<td>2,568</td>
<td>34,284</td>
<td>51,974</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fireworks</td>
<td>3,269</td>
<td></td>
<td>19,788</td>
<td></td>
<td>23,057</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>37,898</td>
<td></td>
<td>38,926</td>
<td></td>
<td>76,824</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flax, hemp and ramie</td>
<td>55,698</td>
<td>6,136</td>
<td></td>
<td>2,195</td>
<td>15,501</td>
<td>79,517</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>94,711</td>
<td>9,373</td>
<td></td>
<td>5,957</td>
<td>14,307</td>
<td>124,348</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furs and manufactures</td>
<td></td>
<td>41,166</td>
<td>127,569</td>
<td>5,643</td>
<td>51,552</td>
<td>232,271</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>31,203</td>
<td>74,532</td>
<td>4,796</td>
<td>42,437</td>
<td>157,558</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hair and manufactures</td>
<td>1,446</td>
<td>12,014</td>
<td>22,091</td>
<td>15,983</td>
<td>4,489</td>
<td>13,462</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>30,753</td>
<td></td>
<td>3,504</td>
<td></td>
<td>76,820</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hat materials and manufactures</td>
<td>335</td>
<td>3,268</td>
<td></td>
<td>3,883</td>
<td>42,033</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,677</td>
<td></td>
<td>3,683</td>
<td>59,312</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tin, ore blocks, bars etc.</td>
<td></td>
<td></td>
<td></td>
<td>16,269</td>
<td>16,269</td>
<td>53,734</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>31,804</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tung (wood) oil</td>
<td>51,321</td>
<td>4,825</td>
<td></td>
<td>201,045</td>
<td>13,563</td>
<td>265,929</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>368,142</td>
<td></td>
<td>425,329</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vegetable products, edible</td>
<td></td>
<td></td>
<td></td>
<td>6,893</td>
<td>31,098</td>
<td>144,777</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,313</td>
<td>35,767</td>
<td>55,109</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All other</td>
<td>11,272</td>
<td>60,116</td>
<td>55,611</td>
<td>80,706</td>
<td>12,566</td>
<td>230,270</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>71,061</td>
<td>119,145</td>
<td>14,906</td>
<td>24,468</td>
<td>263,100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>203,265</td>
<td>156,332</td>
<td>253,461</td>
<td>370,193</td>
<td>23,456</td>
<td>1,229,994</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>170,104</td>
<td>254,421</td>
<td>145,812</td>
<td>230,301</td>
<td>1,461,161</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1/ Canton, Hankow, Swatow, Foochow, Amoy, Yunnanfu.
2/ Chefoo, Taingtao, Tientsin, Peiping.
3/ Dairen, Mukden, Harbin.
United States Exports to China by Commodities (Old Classification)

(a) To North China and Manchuria

<table>
<thead>
<tr>
<th>Commodity</th>
<th>First three weeks of April 1938</th>
<th>March 1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton, unmanufactured</td>
<td>$486,000</td>
<td>$210,000</td>
</tr>
<tr>
<td>Automobiles, parts and accessories</td>
<td>349,000</td>
<td>549,000</td>
</tr>
<tr>
<td>Petroleum and products</td>
<td>270,000</td>
<td>271,000</td>
</tr>
<tr>
<td>Iron, steel and manufactures</td>
<td>149,000</td>
<td>82,000</td>
</tr>
<tr>
<td>Tobacco and manufactures</td>
<td>66,000</td>
<td>134,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,320,000 - 85%</strong></td>
<td><strong>$1,245,000 - 79%</strong></td>
</tr>
<tr>
<td>All other</td>
<td><strong>227,000 - 15%</strong></td>
<td><strong>323,000 - 21%</strong></td>
</tr>
<tr>
<td>Grand total</td>
<td><strong>$1,547,000</strong></td>
<td><strong>$1,569,000</strong></td>
</tr>
</tbody>
</table>

(b) To Shanghai, South China and Hong Kong

<table>
<thead>
<tr>
<th>Commodity</th>
<th>First three weeks of April 1938</th>
<th>March 1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firearms and ammunition</td>
<td>$611,000</td>
<td>$587,000</td>
</tr>
<tr>
<td>Cotton, unmanufactured</td>
<td>258,000</td>
<td>71,000</td>
</tr>
<tr>
<td>Tobacco and manufactures</td>
<td>249,000</td>
<td>423,000</td>
</tr>
<tr>
<td>Automobiles, parts and accessories</td>
<td>231,000</td>
<td>462,000</td>
</tr>
<tr>
<td>Aircraft and parts</td>
<td>177,000</td>
<td>121,000</td>
</tr>
<tr>
<td>Iron, steel and manufactures</td>
<td>172,000</td>
<td>179,000</td>
</tr>
<tr>
<td>Vegetable products, edible</td>
<td>166,000</td>
<td>129,000</td>
</tr>
<tr>
<td>Chemicals and related products</td>
<td>153,000</td>
<td>139,000</td>
</tr>
<tr>
<td>Paper and manufactures</td>
<td>101,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Industrial machinery</td>
<td>70,000</td>
<td>32,000</td>
</tr>
<tr>
<td>Wood and manufactures</td>
<td>63,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Electrical machinery and apparatus</td>
<td>60,000</td>
<td>237,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,311,000 - 83%</strong></td>
<td><strong>$2,645,000 - 80%</strong></td>
</tr>
<tr>
<td>All other</td>
<td><strong>298,000 - 11%</strong></td>
<td><strong>671,000 - 20%</strong></td>
</tr>
<tr>
<td>Grand total</td>
<td><strong>$2,609,000</strong></td>
<td><strong>$3,316,000</strong></td>
</tr>
</tbody>
</table>
### United States Imports from Japan by Commodities (Old Classification)

**(a) From North China and Manchuria**

<table>
<thead>
<tr>
<th>Commodity and Manufactures</th>
<th>First three weeks of April 1938</th>
<th>March 1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furs and manufactures</td>
<td>$274,000</td>
<td>$120,000</td>
</tr>
<tr>
<td>Bristles</td>
<td>135,000</td>
<td>64,000</td>
</tr>
<tr>
<td>Hair and manufactures</td>
<td>62,000</td>
<td>24,000</td>
</tr>
<tr>
<td>Other textile fibres and manufactures</td>
<td>122,000</td>
<td>135,000</td>
</tr>
<tr>
<td>Vegetable products, edible</td>
<td>57,000</td>
<td>36,000</td>
</tr>
<tr>
<td>Perilla oil</td>
<td>54,000</td>
<td>85,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$704,000 - 89%</strong></td>
<td><strong>$464,000 - 79%</strong></td>
</tr>
<tr>
<td><strong>All other</strong></td>
<td><strong>$90,000 - 11%</strong></td>
<td><strong>$124,000 - 21%</strong></td>
</tr>
<tr>
<td><strong>Grand total</strong></td>
<td><strong>$794,000</strong></td>
<td><strong>$588,000</strong></td>
</tr>
</tbody>
</table>

**(b) From Shanghai, South China, and Hong Kong**

<table>
<thead>
<tr>
<th>Commodity and Manufactures</th>
<th>First three weeks of April 1938</th>
<th>March 1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tung (wood) oil</td>
<td>$691,000</td>
<td>$903,000</td>
</tr>
<tr>
<td>Flax, hemp, ramie and manufactures</td>
<td>194,000</td>
<td>153,000</td>
</tr>
<tr>
<td>Vegetable products, edible</td>
<td>142,000</td>
<td>120,000</td>
</tr>
<tr>
<td>Bristles</td>
<td>120,000</td>
<td>62,000</td>
</tr>
<tr>
<td>Furs and manufactures</td>
<td>115,000</td>
<td>16,000</td>
</tr>
<tr>
<td>Fireworks</td>
<td>100,000</td>
<td>37,000</td>
</tr>
<tr>
<td>Hats and hat materials</td>
<td>99,000</td>
<td>93,000</td>
</tr>
<tr>
<td>Cotton manufactures</td>
<td>89,000</td>
<td>63,000</td>
</tr>
<tr>
<td>Tin, ore, bars, blocks, etc.</td>
<td>70,000</td>
<td>56,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,620,000 - 85%</strong></td>
<td><strong>$1,503,000 - 82%</strong></td>
</tr>
<tr>
<td><strong>All other</strong></td>
<td><strong>$277,000 - 15%</strong></td>
<td><strong>$327,000 - 18%</strong></td>
</tr>
<tr>
<td><strong>Grand total</strong></td>
<td><strong>$1,897,000</strong></td>
<td><strong>$1,830,000</strong></td>
</tr>
</tbody>
</table>
May 5, 1938
2:15 pm

Present:

Mr. Bell
Mr. Bartelt
Mr. McReynolds
Mr. Gaston

HM, Jr.: (Reading proposed draft of telegram to the President on relief appropriation and Treasury accounting therefor.)

It is an excellent statement. Just one thing. I am wondering, I have in mind, but I think it is of little interest, saying something about it is surprising to me that a decision like this should be made without consulting the Secretary of the Treasury.

Mr. Bell: It's a red flag.

Mr. McReynolds: We talked about something like that two or three times, but decided to leave it out.

Mr. Gaston: The real thing I hope he will understand from that, if he does this he is almost certain to have terrific scandal before this thing is over; at least, he will have terrific suspicion.

Mr. Bell: He might have an investigation of the whole relief thing, which would be bad at any time.

HM, Jr.: On page 2 (line 16) before 'confirmation' I am putting the word 'prompt'.

Mr. Bell: That's all right.

HM, Jr.: (Reading) 'Since information received by Congressman Woodrum appears to be in conflict with definite instructions given by you to Bell before your departure Friday night I would appreciate *** would you put in 'greatly'? Would greatly appreciate?

Mr. Bell: Oh, I don't think that's necessary.

Mr. McReynolds: No.
HM, Jr: That's an excellent statement.

(To telephone operator) See if you can get Lieut. McKay and have him come immediately to McReynolds' office. If I don't hear from you I will take it he is coming at once. And tell him, so he can notify the code room, that I have a message for the President so they should be ready at Coast Guard.
TO THE PRESIDENT:

Congressman Woodrum has informed me that he has received word that you prefer new work relief appropriations to be made directly to Works Progress Administration and other agencies instead of to President for expenditure in his discretion as heretofore STOP I view with concern that such action by the Congress might be interpreted by the public as a lack of confidence in the President or might be misrepresented by an already antagonistic public press that the Congress has more confidence in the WPA and other administrative agencies than in the President STOP The procedure now proposed was rejected by the Senate in 1936 STOP The appropriation of the work relief money directly to WPA and other administrative agencies means colon first that neither individual projects nor allocation of money for prosecution of projects will be approved by the President as heretofore semicolon second that approval of projects and allocation of funds for their prosecution will not be reviewed as heretofore in the Bureau of the Budget which by law is an agency of the President semicolon third that the independent accounting control of work relief funds which heretofore has been centralized in the Treasury Department under your executive order of May sixth nineteen thirty-five will be discontinued semicolon fourth that there will not be available to the President or the Congress consolidated financial reports by an independent agency showing current status of funds according to Congressional limitations comma Presidential allocations comma organization units comma States in which the
work was done comm types of work comm and objects of expenditure

STEP It is a matter of public record that the only complete reports available concerning the expenditure of moneys made available by the Congress for relief are those made available by the Treasury's emergency accounting organization created under your executive order of May sixth nineteen thirty-five. Through Bureau of Budget and Treasury's accounting organization you have been able to maintain independent financial control over a national program of a size heretofore unknown and the fact that almost eight billions of dollars have been expended and accounted for in detail to the Congress and the people without serious accusations of fraud or misappropriation reflects credit on the President and his purposes in providing a system of checks and balances upon the public funds.

STEP Since information received by Congressman Woodrum appears to be in conflict with definite instructions given by you to Bell before your departure Friday night I would appreciate a prompt confirmation from you whether it is your desire that the practice followed during the past three years of appropriating work relief money directly to the President for expenditure in his discretion be changed and that in lieu thereof the moneys be appropriated directly to the Works Progress Administration and other agencies without being subject to either executive or Treasury accounting control.

May 5, 1938.

H. MORGENTHAU, JR.
TELL MORGENTHAU HIS TELEGRAM RECEIVED AND DISCUSS WITH HIM AND
ICKES AND HOPKINS THE FOLLOWING STOP THE IMPORTANT CONSIDERATIONS IN
BOTH RELIEF AND PUBLIC WORKS APPROPRIATIONS ARE FIRST INDIVIDUAL
PROJECTS AND ALLOCATION OF MONEY FOR THEM MUST CONTINUE TO RECEIVE MY
APPROVAL SECOND THEY MUST BE REVIEWED BY BUREAU OF BUDGET BEFORE
FINAL APPROVAL IS GIVEN THIRD INDEPENDENT ACCOUNTING CONTROL OF
WORK RELIEF FUNDS MUST CONTINUE CENTRALIZED IN TREASURY AS AT PRESENT
FOURTH WE MUST CONTINUE PRESENT METHOD OF HAVING AVAILABLE FOR
BENEFIT OF CONGRESS AND PRESIDENT CONSOLIDATED FINANCIAL REPORTS STOP
THESE OBJECTIVES MUST SURELY BE MAINTAINED IN THE NEW BILL AND THE
LANGUAGE OF IT SHOULD MAKE THIS PERFECTLY CLEAR STOP WHEN YOU
HAVE TALKED THIS OVER WITH THEM I SUGGEST ALL FOUR OF YOU SEE TAYLOR
AND WOODRUM AND CANNON AND ALSO SENATOR BYRNES AND TRY TO GET THE WHOLE
MATTER STRAIGHTENED OUT IN ACCORDANCE WITH ABOVE PERIOD YOU CAN SHOW
THEM COPIES OF THIS 2310

FONED WHITE HOUSE/ INSTRUCTED TO DELIVER BY MESSENGER/G.
COPY

FRED

FROM

THE PRESIDENT UNITED STATES

TO

SECRETARY JAMES ROOSEVELT

WHITE HOUSE

1935

RESTRICTED

ROUTINE/0

Mr. Chancellor

TELL MR. STEINHART HIS TELEGRAM RECEIVED AND DISCUSS WITH HIM AND

RICHARDS THE FOLLOWING STOP THE IMPORTANT CONSIDERATIONS IN

BUDGET AND PUBLIC WORKS APPROPRIATIONS ARE FIRST INDIVIDUAL

PROJECTS AND ALLOCATION OF MONEY FOR THEM MUST CONTINUE TO RECEIVE MY

APPROVAL. SECOND THEY MUST BE EXAMINED BY BUREAU OF BUDGET BEFORE

FINAL APPROVAL IS GIVEN. THIRD INDEPENDENT ACCOUNTING CONTROL OF

WORK RELIEF FUNDS MUST CONTINUE GENERALIZED IN TREASURY AS AT PRESENT

FOURTH WE MUST CONTINUE FUNDING INSTEAD OF HAVING AVAILABLE FOR

BENEFIT OF CONGRESS AND PRESIDENT CONSOLIDATED FINANCIAL REPORTS. FIFTH

THESE OBJECTIVES MUST SUBSTANTIALLY BE MAINTAINED IN THE NEW BILL AND THE

LANGUAGE OF IT SHOULD MAKE THIS PERFECTLY CLEAR STOP WHEN YOU

HAVE TALKED THIS OVER WITH THEM I SUGGEST ALL FOUR OF YOU SEE TAYLOR

AND SOUTHERN AND GARLAND AND ALSO SUFFOLK REPORTERS AND TRY TO GET THE SUBJ

MATTER STRAIGHTENED OUT IN ACCORDANCE WITH ABOVE PERIOD YOU CAN SIGN

THEM COPIES OF THIS 936

FORD WHITE HOUSE INSTRUCTED TO DELIVER BY MESSERGES/0.
May 5, 1938
5 pm

Present:

French Ambassador and Mr. Bealieu
Mr. Taylor
Mr. Gaston
Mr. Loonhead

Ambassador: How do you do, Mr. Secretary.

HM, Jr: I hope that your delay last night did not discommode you.

Ambassador: No, sir. I am extremely happy and I feel it is a great privilege as I have been instructed to convey the thanks of the French Treasury as well as the French Foreign Affairs and the general thanks of the French Government to the American Government for the great assistance you gave to us on that occasion and especially for your personal courtesy. Really a great help.

HM, Jr: Well, as I have expressed several times, while we were going through this, we have tried to do this now a number of times, and that's been our attitude and we want to continue to do it and the only suggestion I have to make is where your Government takes a step which is as important as this, that they give us just a little bit more time.

Ambassador: I did not fail to push that point in Paris, you see.

HM, Jr: I thought for your own sake, it is embarrassing....

Ambassador: Oh, yes.

HM, Jr: ... to come down and not have a chance to acquaint yourself with the facts.

Ambassador: Absolutely. The spirit of the agreement is to enjoy real consultation.
HM, Jr: I was very pleased to learn from Mr. Cochran that we got our message to Mr. Daladier in time before he went on the air, but the British one did not come until afterwards so -- it's just a little thing. What I did, I tied up the French phone.

Ambassador: You had priority.

HM, Jr: I tied it up. Just held it open for an hour, until I got word from the English and I had the phone open for an hour, you see, the French circuit, from 1 to 1:30 and the minute that Butterworth in London, our man, hung up I picked up the phone and said to Cochran (that was 1:30 here) it's all right; go over and tell them, and he already had the message in his hand, so he was over there in ten minutes, so at 20 minutes of 8, your time, he walked in to Rueff and Rueff phoned to Marchandeau, who was with the Prime Minister.

Ambassador: We were telephoning to Rueff and he said, Please hold the line, because he wanted to phone to Daladier.

HM, Jr: I wanted him to get it because I knew he was going on the air. It worked very nicely.

Ambassador: And I have been instructed to convey the messages of all three; they are very satisfied and grateful to you.

HM, Jr: Will you, in turn, express my appreciation to them of the cooperation and patience which they had in giving me 48 hours and I hope it is all going to work out for the best.

Mr. Ambassador, our American newspaper men, I think, have been very good in the sense that they have been very patient and we have not given them anything and I wondered if we could not give them just a little story, because they really have been very patient. They know that you are here and I wonder if there isn't something we might say together or you might say.

Ambassador: Would you kindly make any statement.
you care to and give them an account. Of course, you make it better than I should do and after I will say a few words of thanks, just as I told you now, which I think would be a public expression of our feelings.

Mr. Gaston: Quite right, I think.

HI,.Jr: Herbert, now would you do it?

Mr. Gaston: I think you should say the French had consulted on a certain monetary program, as to whether it would be in full accord with the Tripartite Declaration and you have given the opinion that it would. Isn't that about the substance of it?

HI,.Jr: Well, let me just see. I want to be very careful. I don't want to do anything which will in any way reflect on either Government. Supposing I say to the press that under the Tripartite Agreement in the event of any proposed change it follows that one Government consults with the other.

Mr. Taylor: The other two.

HI,.Jr: I am coming to that. And in this case as in all instances, the French Government and the British Government have been in consultation for the last three days and this afternoon we came to a mutual understanding.

Ambassador: Uhm.

Mr. Gaston: Another phase which they may ask you, and I wonder whether you care to go into it, there is some disposition to regard Mr. Daladier's statement this afternoon as constituting a deliberate devaluation of the franc, whereas rather it seems to have been a statement of the intention to hold the franc at a certain minimum level. One they might take to mean contrary to the Tripartite Accord whereas the other would not be.

HI,.Jr: I think this, Herbert. What I will have to do -- I have lived this now for three days -- I will just, if the Ambassador is willing to trust me to do it with the press verbally, you (Ambassador) being here, of course.
Ambassador: Yes.

HM, Jr: I will do the best I can and I will give it the best appearance possible.

Ambassador: Oh, yes. I will say afterwards that I am thankful, maybe perhaps say a few kind words to you, and say too that I think it is a success for the Administration's policy of good will that the American Government has done so much to advocate and promote.

Mr. L-B: Besides, that the Tripartite Agreement remains working as it did before and that there is no change; that it remains in full vigor.

HM, Jr: I think that's a good point.

Mr. Taylor: Consultations were on the Tripartite which remains in full force.

Mr. Lochhead: Just generalities.

Mr. Gaston: It's up to Daladier to announce the terms.

Ambassador: We have told them nothing. We answered that we did not know.

At this point, the press came in. Transcript of the press conference is attached.
MEMORANDUM OF THE DAY'S ACTIVITIES

May 5, 1936

To: The Secretary
From: Mr. Magill

1. The Tax Bill

The Conference Committee this morning went over
the more troublesome amendments of the tax bill. One amend-
ment, a very difficult one affecting inventories, remains
to be drawn. The Conference Committee will meet again
Saturday morning to conclude its work. Senator Harrison hopes
to take up the Conference Report in the Senate on Monday.

[Signature]

[Additional note: Original to Secretary at Home - 47-]
For the Secretary:

Ned Brown, president of the First National Bank of Chicago was in my office for over an hour this afternoon, visiting. He and Bob Hanes talked over the problems last night which had been under discussion earlier in the day in your office. Brown is in thorough agreement with Hanes and Tom Smith as to bank examination practice.

Mr. Brown said Marriner Eccles lectured to him for over an hour, giving his theories about bank examination, and that he regards the Eccles ideas as almost completely the bunk, on that and on spending.

The President has been using three loan refusals by banks as material for some of his talks to business men. One of them was a turn down by the First National of Chicago. Since he has been here Mr. Brown has learned that the applicant for the loan has been arrested for selling cattle out from under a mortgage. (He eventually got some money from some Englishmen.)
May 6, 1938

HM, Jr had this with him when he appeared before the Ways and Means Committee on the Hill today.
The Act of February 4, 1935, amending the Second Liberty Bond Act, as amended, limited the amount of bonds to be outstanding at any one time under the provisions of that Act, to an aggregate of $35,000,000,000 and the amount of Treasury notes, certificates of indebtedness and Treasury bills to be outstanding at any one time to an aggregate of $30,000,000,000.

The following statement shows the amount of public debt obligations issued under the Second Liberty Bond Act, as amended, and outstanding as of April 30, 1938 and the additional amounts which the Secretary of the Treasury may issue under the authority of that Act:

<table>
<thead>
<tr>
<th>Bonds</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total amount that may be outstanding</strong></td>
<td>$35,000,000,000</td>
</tr>
<tr>
<td><strong>Outstanding as of April 30, 1938:</strong></td>
<td></td>
</tr>
<tr>
<td>Treasury bonds</td>
<td>$30,927,252,250</td>
</tr>
<tr>
<td>U. S. Savings Bonds (maturity value)</td>
<td>(a) 1,546,000,000</td>
</tr>
<tr>
<td>Veterans Adjusted Service bonds</td>
<td>823,713,024</td>
</tr>
<tr>
<td><strong>Total additional amount of bonds which may be issued under present limitation</strong></td>
<td>1,686,033,946</td>
</tr>
</tbody>
</table>

Regarded Uclassified
Notes, certificates of indebtedness and Treasury bills:

Total amount that may be outstanding at any one time ........................................... $30,000,000,000

Outstanding as of April 30, 1933:
  Treasury notes ................................ $11,309,376,000
  Certificates of indebtedness ................ $767,485,000
  Treasury bills ................................ 1,783,268,000

Total additional amount which may be issued under present limitation .......................... $ 6,169,980,000

Reconciliation

Total public debt obligations which may be issued under authority of the Second Liberty Bond Act, as amended, and be outstanding at any one time .................................................. $45,000,000,000

Total outstanding public debt obligations as of April 30, 1933 which were issued under authority of the Second Liberty Bond Act, as amended .................................................. 37,183,975,106

Total amount which may be issued under present limitation ........................................ $ 7,913,024,894

(a) Current redemption value $1,180,736,166.

The total combined amounts that may be issued under the two limitations are, I believe, sufficient for the present but the division as between bonds and notes, certificates of indebtedness and Treasury bills should be adjusted in order to give the Treasury more latitude as to the kind of securities it can issue. In the months of June, September, and December, 1933, the Treasury has maturities of Treasury notes aggregating more than $1,600,000,000 face amount and it will probably be necessary during this
period to raise additional cash between $600,000,000 and $1,000,000,000, making
the total financing during the next eight months period, exclusive
of Treasury bill operations, of more than $3,600,000,000. It may be
highly desirable, from the standpoint of the public debt program and the
Government security market, for the Treasury to meet the maturing notes
and to raise whatever additional cash is necessary, or a major portion
thereof, through the issuance of additional Treasury bonds, rather than
through the issuance of Treasury notes. After reserving $248,000,000 to
meet the estimated additional issues of U. S. Savings bonds during this
period, only $1,450,000,000 would be available for further bond issues
under the present limitation. This might not be sufficient to meet the
Treasury requirements in connection with the maturing notes aggregating
more than $1,600,000,000.

I should like to emphasize that we are not asking for an in-
crease in the total limitation on the aggregate of the public debt obli-
gations which may be outstanding at any one time under authority of the
Second Liberty Bond Act, as amended, but we are asking only for a con-
solidation of the present limitations on the two classes of securities
mentioned in that Act so as to give the Treasury greater flexibility in
its financing operations.
Secretary of State,
Washington.

RUSH.
378, May 6, 11 a.m.

FOR THE SECRETARY OF THE TREASURY FROM BUTTERWORTH.

As indicated by telephone last evening I communicated with Cochran this morning and passed on to him the actual text of the communication which Walry gave to Monick between 4:30 and 5 o'clock yesterday afternoon. It reads as follows:

"While the results achieved are such as Monsieur Marchandeau is to be congratulated on, at the same time they show that the rate of 179 is palpably too low. The Chancellor fears the result on the Belgian position, which is understood to be very weak. In deference to French representations, the Chancellor did not mention the figure of 175 in the House of Commons but the absence of the figure was noticed and commented on, and he feels sure he will be pressed further on this, particularly if the rate remains so low. For these reasons the
the Chancellor trusts that the French Government will start moving the rate upwards immediately.

I also informed Cochran that Monick received a reply to this message which he read over the telephone to Phillips shortly after 9 o'clock last night, the terms of which suggested that the above quoted British representations had been correctly received and understood.

Because the controversy over the franc rate may recur after today's 50 centime, I venture to set forth below the points which Phillips made when I passed over to him your message and told him of the representations which Cochran had been instructed to make. These points were reported by me to you in our telephone conversation of 4:10 p.m., yesterday:

One. Phillips definitely agreed that it was very bad behavior on the part of the French to have opened the rate as low as 179.

Two. However, he did not feel that 175 was set as a precise and absolute top limit, for the French note of May 2 had said in the neighborhood of 175 and the British reply of May 4 repeated this phrase "in the neighborhood of 175".

Three.
#378, May 6, 11 a.m., from London.

Three. On the other hand Phillips expressed absolute and complete agreement with you that before the day was over the French should push the rate nearer 175 and he said he would see what he could do on his side to help. (The above quoted representations resulted therefrom).

KENNEDY

RR
Secretary of State,

Washington.

712, May 6, 9 a.m.

PROF. COCHRAN.

The following is English translation of press text of announcement made to the press by Minister of Finance Marchandieu at twelve noon, May 5:

"Contrary to what may have been thought and said, it is not stabilization which has been decided upon today, -- it is an operation the purpose of which is to arrive at first at a de facto stability.

What the Government has decided upon, in perfect conformity with the Tripartite Agreement, is that henceforth the rate of 179 francs for a pound will not be exceeded.

(The following is the French text of the preceding:"

"Ce qu'a décidé le gouvernement en conformité par faute avec l'accord tripartite, c'est que désormais le cours de 179 francs pour une livre sterling ne serait pas dépassé.")

"Hence
"Hence the franc cannot fail to improve, and it will do so because the Government is determined that this result shall be attained.

"Substantial repatriation this very morning indicates that the significance of the Government's decision has been fully understood. Sustained by the *effort* of the entire country and protected against the assaults of speculation, the French currency will provide a solid foundation for the task of recovery.

It will be in an atmosphere free from the disorder of monetary instability that the Government, aided by all Frenchmen, will strive to create stable economic conditions."

WILSON

SMS:RR
Statement of Secretary Morgenthau to the Ways and Means Committee of the House of Representatives, May 5, 1938.

The Act of February 4, 1935, amending the Second Liberty Bond Act, as amended, limited the amount of bonds to be outstanding at any one time under the provisions of that Act, to an aggregate of $25,000,000,000 and the amount of Treasury notes, certificates of indebtedness and Treasury bills to be outstanding at any one time to an aggregate of $20,000,000,000.

The following statement shows the amount of public debt obligations issued under the Second Liberty Bond Act, as amended, and outstanding as of April 30, 1938, and the additional amounts which the Secretary of the Treasury may issue under the authority of that Act:

**Bonds:**

Total amount that may be outstanding at any one time: $25,000,000,000

Outstanding as of April 30, 1938:

- Treasury bonds: $20,927,252,260
- U.S. Savings Bonds (maturity value): $1,546,000,000
- Veterans Adjusted Service bonds: $228,713,806

Total additional amount of bonds which may be issued under present limitation: $1,698,033,944

**Notes, certificates of indebtedness and Treasury bills:**

Total amount that may be outstanding at any one time: $20,000,000,000

Outstanding as of April 30, 1938:

- Treasury notes: $11,309,276,050
- Certificates of indebtedness: $767,466,000
- Treasury bills: $1,753,269,000

Total additional amount which may be issued under present limitation: $6,169,990,950
Recapitulation:

Total public debt obligations which may be issued under authority of the Second Liberty Bond Act, as amended, and be outstanding at any one time ........................................... $45,000,000,000

Total outstanding public debt obligations as of April 30, 1938, which were issued under authority of the Second Liberty Bond Act, as amended ........................................... 37,131,975,106

Total amount which may be issued under present limitation ........................................... $ 7,858,024,894

(a) Current redemption value $1,180,736,166.

The total combined amounts that may be issued under the two limitations are, I believe, sufficient for the present but the division as between bonds and notes, certificates of indebtedness and Treasury bills should be adjusted in order to give the Treasury more latitude as to the kind of securities it can issue. In the months of June, September, and December, 1938, the Treasury has maturities of Treasury notes aggregating more than $1,600,000,000 face amount and it will probably be necessary during this period to raise additional cash between $500,000,000 and $1,000,000,000, making the total financing during the next eight months' period, exclusive of Treasury bill operations, of more than $2,600,000,000. It may be highly desirable, from the standpoint of the public debt program and the government security market, for the Treasury to meet the maturing notes and to raise whatever additional cash is necessary, or a major portion thereof, through the issuance of additional Treasury bonds, rather than through the issuance of Treasury notes. After reserving $248,000,000 to meet the estimated additional issue of U. S. Savings bonds during this period, only $1,450,000,000 would be available for further bond issues under the present limitation. This might not be sufficient to meet the Treasury requirements in connection with the maturing notes aggregating more than $1,600,000,000.
I should like to emphasize that we are not asking for an increase in the total limitation on the aggregate of the public debt obligations which may be outstanding at any one time under authority of the Second Liberty Bond Act, as amended, but we are asking only for a consolidation of the present limitations on the two classes of securities mentioned in that Act so as to give the Treasury greater flexibility in its financing operations.
Friday
May 6, 1938
9:16 am

H. Merle
Cochran: .... what's gone on this morning?
HMJr: It would be a pleasure to know what the French have
done to cooperate with me this morning.
C: (Laughingly) All right, sir. I went out to see
my friend at eleven forty-five.
HMJr: Cariguel?
C: Yes.
HMJr: Yeah.
C: He said that the trading opened early this morning
from Switzerland....
HMJr: Yes.
C: ...one seven eighty fifty to three quarters.
HMJr: Yes.
C: ...got busy and brought it down to one seventy-eight
forty....
HMJr: Yes.
C: And he was holding it when I was there.
HMJr: What's that?
C: He brought it to one seventy-eight forty.
HMJr: Yes.
C: And it still held there.
HMJr: Yes.
C: At that hour he had taken in four or five million
dollars.
HMJr: Yes.
C: And the sterling receipts were satisfactory but not
so heavy as yesterday.
HMQr: Yes.
C: And since coming back this afternoon I've talked with my trader....
HMQr: Yeah.
C: ...at 3:50 - it's now 3:20 and he said that they had been buying dollars since noon and had taken in two and one half million for the Bank.
HMQr: Uh huh.
C: And Laval had the first rates this morning.
HMQr: Yes.
C: He doesn't know how much they got altogether.
HMQr: Uh huh.
C: And he agrees that sterling is coming in in good quantities but not anything like yesterday.
HMQr: Have you any idea how much they've taken in?
C: No. - My friend was nice this morning but not as generous with information as usual.
HMQr: Uh huh.
C: When I went out he said, "Oh, you treated those people pretty roughly yesterday."
HMQr: What's that?
C: I say, when I went in...
HMQr: Yes.
C: ...he said, "Oh, you treated those people pretty roughly yesterday."
HMQr: Uh huh.
C: He said to me. And I said, "Oh, we're not going to quarrel about that," I said, "I have no complaint against you."
HMJr: Yes.
C: I mean because he is very nice but he was cranky this morning a little bit in talking with me.
HMJr: Uh huh.
C: And the Belga is under terrific pressure.
HMJr: Uh huh.
C: The National Bank lost about four million pounds yesterday...
HMJr: Yeah.
C: ...and forward rates - the forward discount on the Belgian franc against sterling....
HMJr: Yeah.
C: ...was fourteen day before yesterday...
HMJr: Yeah.
C: ...but it's a hundred and forty today.
HMJr: Gosh!
C: And there is a rumor that there may be a cabinet crisis in Belgium yet tonight.
HMJr: Uh huh.
C: The florin weakened a little bit but the Dutch came in at one o'clock and strengthened it.
HMJr: Uh huh.
C: Switzerland is also a little weak but not - not bad.
HMJr: Uh huh.
C: I talked with the Italian Bank man here...
HMJr: Yeah.
C: I say I talked with the Italian...
HMJr: Yeah.
And they're very much worried over the depreciation of the franc...

Uh huh.

... new tourist cars, cheap gasoline, and so on.

What's the rate on spaghetti?

The rate on what?

Spaghetti?

(Laughingly) I don't know.

(Laughingly) You don't know.

But they want some tourists to come down and eat it anyway.

Well, I mean, if they devalue it, what happens?

I don't know. He said that he didn't think they would have to touch the currency.

Well, that's something.

And - well, I think that's about all. The French securities - the Government securities are up a little bit nothing like yesterday.

Uh huh.

And the only question I have is whether or not I should go to Basel tonight. See, the BIS annual meeting is taking place on Sunday and Monday...

Yeah.

...and most of the people are going to be there tomorrow.

Well, I think what you'd better do is what you've done in other French crises and that's go up Saturday night and just spend Sunday there.

I see.

Just spend Sunday.
C: I see. Because Wilkerson had asked me to lunch with Krey and a number of them tomorrow.

HMJr: You'd better just go there Sunday.

C: ... make any plans at all without checking with you.

HMJr: All right. I - now, just a minute. Is the Paris market closed on Saturday?

C: Yes, it's closed tomorrow.

HMJr: Oh, well then it will be safe.

C: Yes.

HMJr: All right. You go up tonight.

C: Go up tonight and come back Sunday night or Monday night?

HMJr: Be back Monday morning.

C: Be here Monday morning?

HMJr: Yeah - bright and early Monday morning.

C: All right, sir.

HMJr: You can take two days off in Switzerland.

C: All right. That's Saturday and Sunday. I'll be back here Monday morning.

HMJr: Yes. Now, did Butterworth call you?

C: He called me and I took down that message...

HMJr: Yes.

C: ...and I took it in and read it to my colleague at once...

HMJr: Yes.

C: And he said, "Well, that certainly doesn't sound like our friend who used to be in America..."

HMJr: Yes.
C: "...said yesterday."

HMJr: Yes.

C: He said it's an entirely different version.

HMJr: Yeah. Well, you know what I told Ed Wilson, I just didn't believe the French.

C: No, no. I mean I had to keep quiet at this meeting yesterday evening, I mean I said everything on this material limit you know, with the Minister of Finance.

HMJr: Yes.

C: So there again he rather was under the impression that

HMJr: Let me ask you just to get this thing straight.

C: Yes.

HMJr: You and Wilson were with Bonnet and Marchandeau? Is that right?

C: Yes. I had gone to Marchandeau's office...

HMJr: Yes.

C: ...you see, to get his answer...

HMJr: Yeah.

C: ...his answer to the request which I had made at four.

HMJr: Yeah.

C: And when I got to the office Fournier, Cariguel and Rueff were in consultation with him.

HMJr: Yeah.

C: And he took me - he left them and he said, "Bonnet has asked Wilson to come back to the Ministry of Foreign Affairs," he said, "you and I will go over there."

HMJr: Yeah.
And when we went over there Bonnet took the lead with Wilson.

Well now where does he - where does Bonnet get the information from as to how the English felt?

He had gotten a telephone call from Daladier as we understood it.

I see.

At the same time the British Ambassador was just coming out of his office...

I see.

...then.

I see.

So....

That all checks.

Yes. Yes.

All right.

Here the Press is not uniformly in favor of this just yet. The Lefts - the working people are afraid they're going to be the ones to suffer you see.

Well, aren't they always?

The laboring people, yes.

Well, aren't they always the ones who suffer?

I think they are.

You bet.

And so - the other side though, the Rights, are urging immediate steps to organize the social situation better to increase the Others say that there'll be no benefit derived from them.

Well, if there's anything more develops during the day give me a ring.
C: All right, sir.

HMJr: But the chances are that I'll leave Washington about three o'clock Washington time for the Farm.

C: Three o'clock Washington time.

HMJr: Which is nine o'clock your time.

C: Nine o'clock our time.

HMJr: Yeah.

C: We don't leave here until ten or eleven tonight.

HMJr: Ah - the news - the American newspapers have handled this thing extremely well.

C: Yes.

HMJr: Ah - our - the men who cover the Treasury have handled it very well. The editorials are of course unfavorable.

C: Are unfavorable to the French?

HMJr: Yes.

C: Is that so?

HMJr: But the news stories and the stories which are cabled over, for instance like by Elliot of the Tribune...

C: Yes.

HMJr: ...and people like that are all very good.

C: Fine.

HMJr: I mean they're getting a remarkably good press and there's a minimum of gossip in the stories.

C: Fine. Fine.

HMJr: I'm amazed how good the stories are. I think my cautioning them not to try to put either the English or ourselves on the spot must have been helpful.

C: Yes. Yes.
HMJr: Because I—besides telling you I told the Ambassador here that they—that I just wouldn't stand for it.

C: Yes. Yes.

HMJr: But I have never seen the French story so free from gossip.

C: Yes. Well, I'm going to stay away from the Minister about this thing unless—unless there's something urgent.

HMJr: That's all right.

C: Fine. And I'll tell you what the answer is.

HMJr: Yeah.

C: I mean this morning they sent me a little

HMJr: Well.

C: But it'll wear off with him very very quickly.

HMJr: Well, what right have they got to be

C: That's just it. He said they were offended. I said we were the ones who were offended about this thing.

HMJr: And not only am I offended but I don't—I'm not going to get over it in one day either.

C: I should say not. No.

HMJr: So—ah...

C: We all agree on that I am sure.

HMJr: I mean—ah—they're perfectly willing to gain and they don't care how much it hurts the Belgians.

C: No. No. If Belgium goes out the Italians are going to feel it too.

HMJr: Oh, sure. It'll just touch off the whole thing.

C: Yes, it upsets the whole thing. Yes.
Well, that's just what I was afraid of but let's hope for the best.

The Dutch and the Swiss can hold on but then they're going to have to lower a little, hit.

Yes.

Then if they start lowering - they say they're not going to - it looks like it was pretty heavy on their purse.

O. K.

All right. I'll go down tonight and I'll give you the report Monday morning.

That's right.

Goodbye.

Goodbye.

Goodbye, sir.
Secretary of State,  
Washington.

RUSH  
379, May 6, 2 p.m.

FOR TREASURY FROM BUTTERWORTH

I have obtained in confidence the text of the note referred to in my 378, May 6, 11 a.m. together with the text of the Chancellor of the Exchequer's reply which is now being conveyed to the French Government. The French note reads as follows:

"The Minister of Finance is exceedingly grateful to Sir John Simon for his congratulations. He expresses his appreciation of the pains which Sir John Simon has taken to facilitate his task. Taking into the fullest account the indications which the Chancellor of the Exchequer gave to him in his message today, Monsieur Marchandcau has given instructions at once that the rate of the franc should be improved by 50 centimes while New York is open and that a further improvement of the same amount
amount should be effected tomorrow.

Further the Minister of Finance shares the preoccupations of the Chancellor of the Exchequer. The policy aimed at improving the franc to the greatest possible extent will be continually pursued, with all the precautions required, up to the highest point at which it appears that stability can be securely guaranteed, whether or not this is a point better than 175. It is certain, moreover, that this operation will be all the more likely to succeed if there is no knowledge of a figure which could appear as the upward limit of the movement contemplated. On this account Monsieur Marchandieu cordially thanks the Chancellor of the Exchequer for having been good enough not to name the figure of 175 in his reply in the House of Commons."

The following is the Chancellor of the Exchequer's reply:

"I was very glad to receive your message this morning. Your renewed assurance that you will continually follow the policy of raising the franc to the highest point, 175 or better, at which stability can be achieved (is?)
I must confess that after the assurances which I had received from Monsieur Bonnet and the very clear terms of the aide mémoire left with me by the French Ambassador on Monday, it was rather a shock to me to find the franc opening at a rate of 17.9. While in deference to the representations which I received through your Financial Attaché in London I refrained in the reply which I had to give to a parliamentary question yesterday from mentioning the figure of 17.5 which had been indicated in the aide mémoire, my failure to give a specific figure was noted and commented on. It will be a great relief to me therefore when the rate has been brought much closer to the figure which we had been led to expect.

I am heartily glad that you have already recovered a substantial amount of capital. The technical policy pursued on the opening day has been considerably criticised on the ground that the franc was rigidly held pegged notwithstanding that extremely heavy buying francs was in progress. We should have expected that so large a movement of capital would have been accompanied as it occurred by a steady improvement in the franc rate, and
sms 4 - No. 379, May 6, 2 p.m. from London.

I am glad therefore to know that it is this latter course which will be pursued from now onwards."

With the foregoing the attitude adopted by the British Treasury at our behest is as clear and unequivocal as I can get it made. It is difficult to see how the French put a contrariwise interpretation on it.

KENNEDY

SMS
HPD
PARAPHRASE OF TELEGRAM RECEIVED

FROM:  American Embassy, Paris, France

DATE:  May 6, 1938, noon.

NO.:  713

FROM COCHRAN,

I give below confirmation of information given by telephone:

At the close of business on May 4 the French control fund contained 11,285,000,000 paper francs, and 2,481,000,000 francs of gold and foreign exchange.

This morning at a quarter of twelve I visited the Bank of France. This morning when the banks opened, at a rate of 178.50 to 178.75 Switzerland started trading sterling. The rate was brought to 178.40 by the French control, and while I was there the control was holding the rate at that level. By that hour the control had received between four and five million dollars. Satisfactory sterling intake, but not so heavy as it was yesterday a.m. Today the interest rate on two-year national defense bonds was lowered to 3 1/2 percent; previously it was 4 percent.

Belgas under such pressure that forward rates are only nominal. Press reports Belgian Cabinet crisis threatens over financial issues.

Press reports official Swiss denial that Swiss franc parity will be altered.
I am told by the representative of the Bank of Italy that Italian tourist trade will likely be seriously affected by the present French program of depreciating currency and offering tourist cards with cheap rates and gasoline. This representative does not expect a change in the lira, but possibly visitors will be given greater reductions in Italian railway rates and gasoline prices.

WILSON.
May 6, 1938

The original rates came in from Paris at 12 o'clock, our time, and corrected rates were not received until 2:30, our time, during which period there were no orders in the New York market for the account of the Stabilization Fund.
May 6, 1938.
12:30 p.m.

H.M.Jr: Oh, Cochran.
H. M.
Cochran: Yes, Mr. Secretary.
H.M.Jr: We've discussed here at some length whether I should
call you or not.
C: Yes.
H.M.Jr: And I thought I ought to.
C: Yes.
H.M.Jr: The French again have not kept their word. They
did not lower the rate a half a franc today.
C: How much is it down now?
H.M.Jr: Now just a minute, I'll let - I'll let Archie talk
to you direct.
C: All right.

Archie
Lochhead: Hello.
C: Hello, Archie.
L: Merle, the rate they gave us yesterday to operate on,
to sell francs ...
C: Yes.
L: ... was 178.32.
C: Yes.
L: Today it's 178.37.
C: 178.37.
L: Yes, and if anything, you see, it's a little - little
lower, even.
C: Yes, yes.
It works out the same on the New York market, about $.0280 1/8.

Yes.

But of course we would expect the rate to be about 177.87 today.

Surely.

Now, they - they just sent it over, the Bank of France, without any comment. I have told the Federal to send a cable back to the Bank of France and question the rate.

Surely.

But that's - so far, that's all we've done; there's nothing going on in this market yet.

Well, when I went down this morning I asked our friend - I said, "You know about the . . . ." - I said, "Did you get the instruction last night while Wilson and I were talking?" I said, "The instruction was telephoned to you."

He said, "Yes, I got that and got it on to the - to the Federal."

Well, that was yesterday's rate.

Right. But I said, "Well, this morning, what are you doing?" And he said, "Well, it opened in Switzerland at 178.50 to -.75," and he said, "I've brought it down to 178.40." He said, "That's 50 centimes below yesterday," for which I ought to thank him.

Well, that was 50 centimes before - below was yesterday morning's rate.

That's what I said.

But it's not 50 centimes below yesterday evening's rate. I mean in two days it ought to be down - this is the second day, not the first day now.

Well, that - that's just my point. And I said, "Well,
the thing was to go down 50 centimes yesterday evening and 50 centimes again today."

L: Right.

C: And he said - and I said, "Are you going to put it down?" And he said, "Cochran, I can't answer your question."

And I said, "Now look, you and I are old friends," and I said, "I don't want to get into this quarrel with you."

And he said, "Well, please don't - don't ask me." He said, "We can only see when I get my instructions."

L: Well, apparently his instructions were not to lower it.

C: Well ....

L: Despite the promise they gave.

C: The - the rate which I noticed here a while ago - National City called me at 5:30 .......

L: Excuse me just a second.

(Aside conversation)

Yesterday?

Ah - Cochran?

C: Yes.

L: The Secretary wants to know who else was present besides yourself when they promised to lower the rate progressively half a franc a day.

C: They offered to do that through two steps. Wilson and I were there, Bonnet and Marchandau.

L: Wilson, yourself, Bonnet and Marchandau were there.

C: Yes.

L: And it was Marchandau that said he was going to lower it.
Yes, and he said 50 centimes for tomorrow, and 50 centimes again today. And — now, Wilson sent a telegram giving his story of this suggestion, and he sent it in to me this afternoon to see if I agreed with it, and I said, "Well, you haven't made plain in it that they promised one 50 centime change yesterday evening and another today." And he said, "Well, I'll correct that." He said, "I see." He said, "I'll make it clear."

I said, "Don't put in that they promised it this morning." I said, "They didn't say what time today that they'll make the second change and quit the talking." See?

That's right. Well — I mean we weren't saying anything this morning when they hadn't changed, because they only changed at noon-time yesterday, but they — certainly the next 24 hours expired at noon today. I think so.

I mean — I'm telling you that they promised those two 50 centime drops in successive days; that is, the one of yesterday, which they postponed, and one today, without reference as to what hour of the day they would drop it. Then immediately after — I mean most of the conversation yesterday was between them and Wilson — that was right on this point, at the Sorbonne.

I see.

And I said, "Well, what's your promise after this?" I said, "What are you going to do Saturday and Monday?" I said, "What are you going to do in successive days?" And they said, "We cannot promise a 50 cent drop. We promise to progressively lower it." Said it might be 25 centimes one day, it might be a little different, depending upon the escape of capital — treatment, rather, of capital. Then he said, "We don't want the speculators to catch up with us — to go along with us" — that's the way he put it. That's the way Merchandeu put it.

I see. Just a moment.

We had the definite promise of 50 centimes for the first two days.

50 centimes for the first two days was a definite promise.
C: Absolutely.
L: Now just a moment.
H.M.Jr: Now - hello?
C: Hello, Mr. Secretary.
H.M.Jr: You can tell Marchandau for me that I expect him to carry out his promise as of yesterday, and if he expects that I'm going to believe anything that the French Government say in the future, they better carry out this one. Now, there's nothing been said about "around," "about," "if," or "and," see? Hello?
C: Yes.
H.M.Jr: And that I'm - that I - that if - that I - I can reach my limit of patience.
C: Yes.
H.M.Jr: And I expect him to do this and I expect him to do it right away and I am not going to accept any excuses.
C: Do you want me to get him, or do you want to get Wilson in there? Because Wilson was there last night.
H.M.Jr: Well, where is Wilson?
C: I can see if he's in his office. I don't know.
H.M.Jr: Well ....
C: I can step down there in just a minute.
H.M.Jr: I'll hold on.
C: You'll hold on. There's no one else here.
H.M.Jr: All right.
(Pause)
Operator: Hello.
H.M.Jr: Hold this.

Operator: All right.

(Pause)

C: Hello, Mr. Secretary, Wilson has left.

H.M.Jr: Well now, just a minute, because I've sent for the French Ambassador. You and Wilson saw Marchandieu and Bonnet yesterday?

C: That's right.

H.M.Jr: All right.

C: when this thing ....

H.M.Jr: Well, you better get right over and see Marchandieu and tell him that I'm - I've just about reached my limit. See?

C: Yes.

H.M.Jr: And I expect him unequivocally to lower the franc a half a franc today in our market.

C: Well, I - I started to tell you that the rate here had gone down in the last half hour of trading. Now, I know that doesn't ....

H.M.Jr: Yes, but there are orders over here, and ... What should it be here today (aside)?

C: Hello.

H.M.Jr: well, I mean we operated yesterday on 178.37.

C: Yes.

H.M.Jr: Now they should drop it a half a franc....

C: Yes.

H.M.Jr: ... below that.

C: Yes.
H.M.Jr: And they haven't done it.
C: The instructions came through to you at 178.32, did it?
H.M.Jr: One minute.
C: Hello.
Yesterday the instructions were 178.32.
C: Yes.
H.M.Jr: Today the instructions are 178.37.
C: That's going the wrong way.
H.M.Jr: Going the wrong way.
C: Yes.
H.M.Jr: And I'm frankly goddam sick and tired of it. Now, I don't care - you can modify that a little bit, but - sh - we operated on that and we expected to go down a half, and as a matter of fact I'm holding the orders up now; I don't know that I'll operate at 178.32.
C: Well, you see, what we got into yesterday, that is to say - is there any State Department man there?
H.M.Jr: No.
C: Well, I'll tell you the whole thing. When I came back and told Wilson how I'd gone for Marchandau yesterday afternoon, without telling me he put in a call to get Sumner Welles, you see.
H.M.Jr: Yes.
C: I mean he thought I was going pretty rough. I'm sure that's what he felt.
H.M.Jr: Yes.
C: And then when he came in and found that I was talking to you again, then he talked to you and cancelled that call.
Yes.

See? But now today in talking the thing over, I told him about my visit out with Carigeul this morning.

Yes.

And he's - I mean I went purposely to see him, just to see what his attitude would be. And he thought that I was a little strong. And I said, "No." I said, "You people needed the statement that we gave you," and I said, "It was my duty to put it through," and I said I used the exact words that I thought I should, under instructions from you.

And I gave Wilson that reaction and he said, well - he said we couldn't back that up absolutely; he said maybe we shouldn't have gone so strongly.

And I said, "Why, I feel that they required it," and I said, "I have no apologies to make to anyone."

You couldn't make it too strong to please me.

Well, I - I went the limit yesterday. I double and I hope they now.

Yes. Ah -

But he took the point - he said, well, if we weren't in a position to back it up, he said we were asking too much. And I said....

Just a minute.

... "We at least gave them to understand how we felt about it." I said that we accepted their compromise later, and I said, "There you are," and I said ....

Well, I can't - I can't help .... Now listen, Cochran.

Yes, sir.

I've had a hard week too. Now, Herbert Feis sits here and he's - he's just as upset about it as we are.

Hello?

Yes.
I can't - I can't bother or fuss around with Ed Wilson, see?

Yes.

But Herbert Feis is in complete sympathy and I - even if he wasn't, I mean I - it's my responsibility, you're my agent, see?

Well, I'll carry your instruction absolutely ....

All right. Well now, that's all I can ask, and I can't fuss around with these other boys. But I - but Feis has been here and is in complete sympathy with what I'm doing.

Yes, yes.

And so is Mr. Hull.

Yes, sir.

So you carry on, and as a matter of fact I have not yet executed that order, and I don't know whether I'm going to.

That's the order you've received this evening.

Yes. And I've sent for the French Ambassador and he's on his way down here.

I see.

And if those people don't want to get kicked out of the tripartite, they better drop this thing a half a franc the way they said yesterday.

I see.

Now, I want that - if I could talk French, I'd call up Marchandeuau myself.

Yes. Well, I'll get in touch with them right away. It's only a quarter till seven.

Well, I wish you'd get over there and if - if there's anybody that can talk English, I'll talk to them.
C: Oh no, no. I'll get through to Marchandeau, one, and ....

H. I. Jr: But I'd like — when you get over, why not let me talk to those fellows? I'd like to talk to them.

C: Well — I mean you can call the Treasury directly if you wish.

H. I. Jr: What?

C: You can call there directly.

H. I. Jr: No, when you get over there, if — I'll tell you this: if they don't agree to what you ask on my behalf, which is they drop it a half a franc, you say, "My instructions are to get the Secretary of the Treasury on the wire, and he wants to talk to you himself."

C: All right, sir.

H. I. Jr: And I'll talk to them with you sitting there. Rueff talks English, doesn't he?

C: Rueff speaks English very well, yes.

H. I. Jr: All right. Now ....

C: Even on these conversations where I want to be so specific ....

H. I. Jr: Yes.

C: ... usually I make the statement in English, even though my French is pretty good ...

H. I. Jr: Yes.

C: ... make the statement to Rueff in English, and then I check his translation to the Minister.

H. I. Jr: Yes. Well now, you get over there, and if they don't carry out those orders, I want to talk to the French Finance Minister, and Rueff can get on the wire and he can translate it for me.

C: All right, sir.
That's only if they don't do it.

I'm going right over without announcing my coming.

And in the meantime I'm holding up the order.

You're what?

I'm holding up the order of the Bank of France.

Yes, I understand.

I mean I'm holding it up.

Fine, I'll go right over there now.

Right. You go over there and I'm holding this up and I'm about reaching my limit.

All right, sir, I'll go right over.

And - ah - it didn't take me five minutes to get you - I suppose if they wanted to get a call through they could get a call through pretty fast, couldn't they?

I - I think they can this time of day.

Well I'm holding up the order.

All right, sir.

O.K.

All right, I'll go right over.

Thank you.

Thank you.
I. W.

Knoke:

Yes, Mr. Secretary.

HMJr:

Hello, Knoke...

K:

Yes, sir.

HMJr:

I've got a call in for Cochran.

K:

Yes.

HMJr:

And have you carried out that order yet of the Bank of France?

K:

Well, not when I came out to luncheon -- we hadn't done anything on it.

HMJr:

All right. Well now, supposing you hold that for a half an hour and don't do anything...

K:

All right, sir.

HMJr:

What would happen?

K:

Nothing would happen probably because there has been no business all morning...

HMJr:

Well...

K:

What you really mean is on the selling side; you would be willing to buy it wouldn't you?

HMJr:

Now just a minute. Yes.

K:

Yes.

HMJr:

Just on the selling side.

K:

Yes. Well then nothing would happen for a while.

HMJr:

Yes. Because I have sent a message to the Minister of Finance of France that I expect him to keep his word of honor with me and with Mr. Bonnet and drop that by a half a franc today. And I've told them that I am holding up their order and I will not execute it until I hear from them.

K:

I see.
Now, Cochran is on his way over there.

K: Yes.

HMR: And this was the word given by Mr. Bonnet and Mr. Marchandeu in the presence of two representatives of the United States Government that they would drop it a half a franc and instead of that they raised it.

K: Yes.

HMR: Now...

K: That's that we shall simply buy and not sell at the moment? - Until I hear from Washington? Is that right?

HMR: I would sit tight and do nothing for - this thing will break within thirty minutes.

K: Yes. Well, I mean, there probably will not be, but I should imagine it would be

HMR: Well, if you get any orders-I am sitting here - you call me or Archie and let us advise.

K: Yes.

HMR: In the meantime sit tight and do nothing.

K: All right, sir.

HMR: Will you please?

K: Yes. That's all right.

HMR: Thank you.
May 6, 1933
12:50

Present:

Dr. Feis
Mr. Taylor
Mr. Lochhead

(This was just in advance of the Ambassador’s visit at 1 p.m.)

Hm. Jr: Now, Herbert, these fellows told Ed Wilson -- Bonnet and Marchandiseau told Ed Wilson and Cochran that they would drop it half a franc yesterday and half a franc today, instead of which they have raised it.

Dr. Feis: Where is it?

Mr. Lochhead: 178.37 against 178.32 yesterday. Of course, the fraction is nothing except it is on the wrong side. It should be 177.37.

Dr. Feis: Where has the market been all morning?

Mr. Lochhead: They have been selling francs and buying gold in London. Still getting exchange.

Dr. Feis: How much?

Mr. Lochhead: They won’t give out the figures, but Cochran told us this morning that they had done about $7,500,000, dollars, this morning apparently.

Dr. Feis: I don’t see how you can help reminding them of what they said to you yesterday. It’s an irritating imposition besides making you take your time, day after day, to telephone across the Atlantic about the franc rate. That’s a damn imposition.

Hm. Jr: How many times so far? 27 times.

Dr. Feis: While you were still talking general policy, all right, but talking across the Atlantic on the half-franc rate!

Hm. Jr: Either there is or there isn’t something between Governments. After all, this whole matter is
a matter of confidence. Now, if the French Government are not going to keep their word, I am through! I am just through!

Dr. Feis: Has either Cochran or Wilson seen Marchandeau this morning?

HN, Jr.: Not this morning, but he's on his way over and these are my instructions; I have told them I am not going to carry this order unless I get an order to drop it. If Mr. Marchandeau will not give the orders, while Cochran is there I want to talk to Rueff myself. I will talk to Rueff in English.

Cochran says the Embassy thinks he has been too stiff in his presentation. Wilson does. And I told him that he could not be too stiff and that you have been in on all the meetings and you were in complete sympathy and Mr. Hull was in complete sympathy with what we were doing. Cochran didn't want me to pass that on.

Dr. Feis: At my first opportunity I reported both verbally and in memorandum form to Mr. Hull and then sent word back to you through Mr. Kieley that he had no comment to make.

HN, Jr.: I got it. Either these people -- their word is worth something or it isn't.

Dr. Feis: Who said to you that Cochran's approach was just too stiff? Cochran or Wilson?

HN, Jr.: Now, don't let this go back. Cochran said this morning that Wilson was upset and at one time had put in a call for Sumner Welles because he felt that Cochran was going too hard on this thing. But that's just for you.

Dr. Feis: There is a matter of manner.

Mr. Lovehead: If I remember right -- what was it? -- that if we could not do everything we said, maybe we should not go so far. I got it that if we were not ready to renounce the Tripartite, we should not go so strong as we did.

HN, Jr.: This is not any pink tea party where you
sit over a cup of tea or a cocktail over the Ritz bar.

**Dr. Feis:** I take it the Secretary of the Treasury is not willing to have the Tripartite Agreement break down now, after the announcement, over an issue of a few francs, and there can be no prospect of that type of public termination of the agreement, but you can still continue to remind these fellows of what they said they would do and say you expect them to do it.

**H.J. Jr.:** The question came up, Should I let it go because it was so small? and my answer was no.

**Mr. Taylor:** You can't be too rough with them.

**H.J. Jr.:** I am going to make a record and when the President of the United States comes back he can decide and he can evaluate this thing on Monday.

**Dr. Feis:** The only thing we have in writing, but that's quite enough, is that letter that the Ambassador brought to you.

**H.J. Jr.:** But I am not even bringing that up. You have the word of the Minister of Foreign Affairs and the Secretary of the Treasury and of two representatives that we will drop the thing half a franc Thursday and half a franc Friday.

(At this point the Ambassador came in. Mr. Lochhead dictated a report of this meeting as the stenographer's record was burned.)
May 6, 1938
1 p.m.

The French Ambassador called and presented the attached note from the Minister of Finance.

Mr. Morgenthau immediately acquainted him with the fact that the order received by the Federal Reserve Bank of New York from the Bank of France for operations in the United States markets today did not correspond with the promise given the United States Treasury by the French Minister of Finance yesterday. The French Treasury had promised to drop the sterling-franc rate by one-half a franc on both the 5th and 6th of May which should have resulted in a cross rate of 177.87, whereas the order received was 174.37.

Mr. Morgenthau advised the Ambassador that he had instructed Mr. Cochran by telephone to go immediately to the French Treasury and ask for an explanation and he, the Secretary, was awaiting a telephone call as to the result. Mr. Morgenthau when expressed to the French Ambassador in very strong terms his surprise and dissatisfaction with the absolute failure of the French Treasury to carry out the agreement to lower the sterling-franc cross rate. He reminded the Ambassador that it was not so much a question of a change in the rate of a few centimes, but the fact that the Minister of Finance had broken his word.

The Secretary pointed out that the important thing was the question of good faith between the Treasuries and if we no longer could have any confidence in their word of honor, it would practically be impossible to conduct negotiations any further with them. He said that the French Treasury had "chiseled" on their agreement ever since the recent negotiations had started and that he was disgusted with their conduct and practically at the end of his patience. (When the Ambassador interpreted the word "chiseled" as cheated" and asked the meaning of the word "chiseled," Dr. Feis explained it meant sharp bargaining.)

The Secretary explained to the Ambassador that this was not a personal matter between the Secretary of the Treasury and the French Ambassador, but in the relations between the two Treasuries. The French
Ambassador showed great distress, and in view of the Secretary's remark that this was not a personal conversation, he felt that he would have to report the text of Mr. Morgenthau's remarks to the French Treasury, which he was very loath to do.

The Ambassador remained in Mr. Morgenthau's office from 1 to 2:30, during which time Cochran reported on the telephone and the Ambassador also talked at length to both Rueff and Marchandeau.

At the conclusion of the visit, the Secretary in order to appease the Ambassador voluntarily offered to destroy the stenographic record of his conversation and carried out this offer by burning the notebook in the fireplace in his office.
le 6 mai 1936.

Le Ministre des Finances remercie M. le Secrétaire de la Trésorerie de l'amicale compréhension dont il a fait preuve au cours des dernières conversations. Pour marquer son désir de tenir compte des préoccupations de M. Morgenthau, il a donné, dès hier soir, des instructions pour que le cours du franc par rapport à la livre soit relevé de 0 f. 50 au cours de la bourse de New York. Il a prescrit qu'on agisse pendant la journée d'aujourd'hui à Paris en vue d'un relèvement équivalent.

D'ailleurs M. Marchandéau partage les préoccupations de M. Morgenthau. Cependant, s'autorisant des relations de franche collaboration qui existent entre les deux pays, il tient à ne pas lui dissimuler que les instructions ci-dessus risquent de diminuer l'efficacité de la manœuvre qu'il a en vue tendant, par une appréciation lente et continue du cours du franc, à atteindre le taux le plus bas en même temps que le plus stable possible. La seule limite à l'appréciation envisagée serait celle que constituerait un cours qu'il pourrait être difficile de défendre et où la stabilité du franc serait à nouveau menacée.

Mais il n'est aucunement exclu que cette manœuvre amène le franc à un niveau inférieur à celui de
175 francs pour une livre. Quoi qu'il en soit, l'opération envisagée sera poursuivie à partir des niveaux ci-dessus indiqués. Le Ministre des Finances sera d'ailleurs toujours à la disposition de M. Morgenthau pour le tenir informé des conditions dans lesquelles l'opération se déroulera. Il a trop apprécié la cordiale coopération du Secrétaire de la Trésorerie pour n'en pas souhaiter le développement dans le cadre d'un accord tripartite auquel il reste profondément attaché. /.
Treasury Department
Division of Research and Statistics

Date: 5/9 1938

To: Mr. White
From: L. S.

Mr. Lochhead’s secretary brought in the attached and said the Secretary would like to have a translation (photo- stat and translation to be sent to Mr. Lochhead).
May 6, 1933.

The Minister of Finance thanks the Secretary of the Treasury for the friendly understanding which he has shown during the conversations just held. To indicate his desire to take Mr. Morgenthau's concern into account, he has given instructions since yesterday evening that the rate of the franc in relation to the pound be raised 0 francs .50 50 centimes/ in the New York market. He has ordered that action be taken during the day, today, at Paris, with a view to an equivalent increase.

M. Marchandeau shares Mr. Morgenthau's concern. However, while citing the relationship of frank collaboration which exists between the two countries he is anxious not to conceal from the Secretary that the above instructions run the risk of reducing the efficacy of the operation which he has in view. This operation has for its objective the attainment of the lowest and at the same time the stablest possible level, by a slow and continuous appreciation of the franc rate. The only limit to the appreciation contemplated would be a rate which might be difficult to defend and at which the stability of the franc would again be threatened.

But this operation by no means excludes the possibility of bringing the franc to a level lower than 175 to the pound. Be that as it may, the contemplated operation will be prosecuted from the levels above indicated. Moreover the Minister of Finance will always be at the disposal of Mr. Morgenthau to keep him informed of the conditions in which the operation will develop. He has too much appreciation for the cordial cooperation of the Secretary of the Treasury not to desire its development within the framework of the Tripartite Accord to which he remains deeply attached.

(Translated by S. Adler
Checked by H. D. White)
le 6 mai 1938.

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Operator: Just a minute, please.
HMJr: Go on, put him on.
O: He's on.
Rueff: Hello.
HMJr: Hello. Mr. Rueff.
R: Hello.
HMJr: Mr. Rueff.
R: Yes.
HMJr: This is Mr. Morgenthau speaking.
R: Yes. Rueff speaking.
HMJr: Is Mr. Cochran with you?
R: Hello.
HMJr: Is Mr. Cochran with you?
R: Oh yes, he's just beside the phone booth. Did you want to speak to him?
HMJr: Yes. Will you have him come please to the telephone?
R: Yes.
HMJr: Can he come to the telephone?
R: I will call him. Let me say particularly...
HMJr: Yes.
R: May I tell you that we checked those rates and that there was a little misunderstanding in our order which has been given to New York.
HMJr: Yes.
R: We are just now telephoning to make the point clear.
That's right, isn't it?
HMJr: Well, don't let Cochran go. I'd like to talk to him please.

R: No.

HMJr: Please.

(Short pause)

R: Hello.

HMJr: Hello.

R: Hello.

HMJr: Well, thank you so much, Mr. Rueff. My respects to you.

R: Thank you so much.

HMJr: Now, may I ask what orders you are telephoning to New York?

R: Yes. We've just given the order - one seven eight.

HMJr: One seven eight?

R: I suppose that there has been some misunderstanding in figuring that half a franc here. Monsieur Cochran will be here in one minute.

HMJr: He will be?

R: Yes. Well you people will have Monsieur Cochran in just a moment.

HMJr: Thank you.

R: Hello.

HMJr: Mr. Rueff....

R: Yes.

HMJr: The Ambassador - your Ambassador is sitting right here and when I'm through he wants to talk to you please.
H:\MJr: Just a moment, please.
(R: short pause)
R: Hello.
H:\MJr: Yes.
R: Yes.
H:\MJr: Is Cochran there?
R: Yes. But you said you'd give me Monsieur/Ambassador.
H:\MJr: All right, Just a moment please.

Count de Saint-Quentin,
French
Ambassador: Hello.
R: Oui, Monsieur L'Ambassador.

Ambassador: (Carries on lengthy conversation in French with Rueff - almost full length of a dictaphone record)

Cochran: Hello.
H:\MJr: Hello, Cochran.
C: Yes, Mr. Secretary. (Laughs)
H:\MJr: Well now, whuld you/mind telling me where we stand please?
C: Well, most of his plea was put into explaining a double rate, you see.
H:\MJr: A double what?
C: A double rate. He said both a buying/rate.
H:\MJr: Yes.
C: Nothing specific enough for me to get it.
H:\MJr: Yes.
C: He insisted that the Ambassador seek your confidence that he is going down just toward that one seven five and so on.

HMJr: Yeah.

C: And he is willing to rectify that instruction tonight to give two rates...

HMJr: Yes.

C: Whether Rueff would have the authority - I didn't get the idea myself.

HMJr: Have you got it now?

C: No. I haven't yet. I was right here. They had gone into a huddle in the other room for a minute.

HMJr: Well, I mean, won't they give that through the Bank of France?

C: Yes, but he - they're going to give instructions to the Bank of France but I'm not sure yet that it's what you want. And I'd rather check up with Rueff as to those rates, you see.

HMJr: Well, who's in a huddle?

C: Rueff and the Minister have gone in the other room; I'm here by myself - or with the Minister's secretary, you see.

HMJr: I see.

C: And they're in the other room and so I couldn't get a chance to confirm from Rueff my understanding - or rather his understanding of what they said because it was not specific to me.

HMJr: Well, of course, the French Ambassador has given me an official memorandum and - about this half franc business. See?

C: Yes.

HMJr: I can't read the French but there's a particular sentence which covers that. See?

C: A sentence which confirms the understanding of Rueff on that?
Yes. They've given it to me officially. Let me have Herbert read it to you in French.

All right.

And then maybe you could translate it—what you think it means. I want Herbert to read you this part right here.

Yes.

"In order to indicate..."—Oh—"Pour marquer son désir de tenir compte..."

I don't get you, Herbert.

"Pour marquer son désir de tenir compte dès préoccupations de Monsieur Morgenthau..." Got that? Hello?

I'm sorry, I don't, Herbert.

I think it might be much better if the Ambassador would read it to you.

All right....

Hello.

May I suggest another way?

Ambassador: Hello, Monsieur Cochran? Hello?

Yes.

Who is—Cochran speaking?

Yes. Yes.

Saint-Quentin.

Yes.

I'm giving to you the French text.

Yes.
Ambassador: "Pour marquer son désir de tenir compte des préoccupations de Monsieur Morgenthau, il a donné, dès hier soir, des instructions pour que le cours du franc par rapport à la livre..."

C: "...des hier soir..."

Ambassador: "...des instructions..."

C: "...des instructions..."

Ambassador: "...pour que le cours du franc..."

C: "...pour..."

Ambassador: "...que le cours du franc..."

C: "...le cours du franc..."

Ambassador: "...par rapport à la livre..."

C: "...par rapport..."

Ambassador: "...à la livre..."

C: "...à la livre..."

Ambassador: "...soit relevé..."

C: "...soit relevé..."

Ambassador: "...de zero franc 50...

C: "...de zero franc 50...

Ambassador: "...au cours - au cours de la bourse de New York."

C: "...au cours..."

Ambassador: "...de la bourse..."

C: "...de la bourse..."

Ambassador: "...de New York."

C: "...de New York."

Ambassador: Period.
C: Yes, sir.

Ambassador: "Il a prescrit..."

C: "Il a prescrit..."

Ambassador: "...qu'on agisse..."

C: What?

Ambassador: "...qu'on agisse..."

C: I don't get that.

Ambassador: "...qu'on agisse..." - that - that action should be taken, you see.

C: Hello.

Ambassador: "Il a prescrit qu'on agisse pendant la journée d'aujourd'hui à Paris - à Paris."

C: "Il a prescrit pour ...?"

Ambassador: "...qu'on agisse..."

C: Oui.

Ambassador: "...pendant la journée d'aujourd'hui...

C: "...pendant..."

Ambassador: "...la journée...

C: "...la journée...

Ambassador: "...d'aujourd'hui...

C: "...d'aujourd'hui...

Ambassador: "...à Paris...

C: "...à Paris...

Ambassador: "en vue..." - "...en vue..."
Ambassador: "...en vue..." - in view.
C: Oh, "...en vue..." - yes.

Ambassador: "...d'un relèvement..."
C: "...relèvement..."

Ambassador: "...équivalent..."
C: "...équivalent..."

Ambassador: Right.
C: Yes.

Ambassador: Well....
C: 

Ambassador: This was - I think that was about what Mr. Morgenthau wanted to

BMJr: Hello.
C: Hello, Mr. Secretary.

BMJr: Now, Cochran....
C: Yes.

BMJr: Morgenthau speaking.
C: Uh huh.

BMJr: Now it's just over that, you see, it's the question - the question that I've been raising is that if not only did they tell you this but - ah - the Ambassador has given me this official document which we interpret that - that they would do another half a franc today.

C: Yes.

BMJr: Now, after you've read the thing how do you interpret that?
C: Now let me read it here - some of it didn't come over well.
HMJr: Yes.
C: And Rueff is right here. Let me read it....
HMJr: Well, Rueff must have the original there. --- Rueff must have the original there, hasn't he?
C: I'll ask him; one minute.
(Short pause)
HMJr: Hello.
(Short pause)
C: Hello.
HMJr: Hello.
C: This is all mixed up here. We've got - Rueff's here now and we've got the fellow who was listening in here, Marchandeau's secretary,...
HMJr: Yes.
C: ...trying to figure this out now. May we have just a minute?
HMJr: Surely?
C: All right.
HMJr: Sure. I'll let - I'll let her hold it.
C: Just a minute.
HMJr: That's all right.
Operator: Hello.
HMJr: Hold on to this please.
O: All right.
HMJr: (Hangs up.)
H. Merle Cochran: Mr. Secretary.

HMJr: Yes.

C: Mr. Rueff has been in with the Minister and they've been speaking with the Bank of France.

HMJr: Yes.

C: Now Rueff has come back and is with me here now.

HMJr: Yes.

C: And he wants to know - I told him that it was our understanding that the rate was to be lowered by two successive steps of fifty centimes each....

HMJr: Yes.

C: ...one to be effective yesterday and the other to be effective within twenty-four hours....

HMJr: Yes.

C: ...today.

HMJr: That's right.

C: I told him that was our understanding last night.

HMJr: Well that's what you told me - that they had informed you and Wilson.

C: I don't understand.

HMJr: That's what you told me - that Mr. Bonnet and Mr. Marchandeau had told you and Wilson.

C: That's right.

HMJr: Yes. Was Rueff present?

C: Rueff was not present, no.

HMJr: Oh.

C: The other day -- but he is right here now.

HMJr: Yes.
And I've explained to him that I've expected the rate of the instruction to be fifty centimes below that of yesterday which was given to you people as one seven eight three two.

Yes.

And he said that he figured that that should have been one seven eight forty, which is fifty centimes below the rate here and one seven eight ninety. And he says they now - to reduce this - will give a new instruction to be fifty centimes under one or the other amount.

Well now, just a minute.

And that would bring it to one seven seven ninety according to his figures...

Yes.

And to one seven seven point eighty-two according to mine.

Well, you let the French Government decide which they want.

Beg pardon?

It's immaterial - let the French Government decide which they want.

Ah - whichever one of the two they want?

Yeah - but tell me now which it's going to be.

All right. One moment.

(Pause while Cochran talks to Rueff)

Hello.

Rueff is going in the other room to the Minister to decide on which of those.

Yes. I don't want to decide that.

All right. He's going to decide and call me back.
HMJr: Be either one seventy-seven ninety or one seventy-seven eighty-two.

C: That's right.

HMJr: Uh huh.

C: He said that fifty centimes below yesterday's rate which you had, which was one seven eight three two, would be one seven seven eight seven. They're figuring it — they're figuring two successive reductions of fifty centimes on their own rate here yesterday....

HMJr: Yeah.

C: ...which was one seventy-eight ninety.

HMJr: Yes.

C: You see.

HMJr: Yes. Well now, was there any discussion as to what did take place yesterday?

C: What was that?

HMJr: I mean what — did they discuss with you about the question of the two successive lowerings of the franc - a half a franc each time?

C: I heard just every other word on what they're trying to do.

HMJr: Oh. But the answer is they're going to do it anyway - that's the answer.

C: All right. Well, just a minute, these French will answer now.

HMJr: Please.

C: And they'll give us a definite answer on one of those rates.

HMJr: If you please.

C: Yes.

(Long pause)
Hello.

Just a moment. Rueff is talking to me now. Just one second.

(Short pause)

May I ask Rueff to speak to you directly?

If you please.

All right, sir.

Hello.

Hello, Mr. Rueff.

Secretary?

Yes.

... just finished a talk by telephone to the Bank of England through Marchandeau and through Bonnet. Marchandeau and Bonnet, sir, want me to make you - give you

Give what?

Give you best regards.

Thank you so much.

And members of the Treasury. Bonnet that first statement that you questioned - asked me what they were because of the movement which will be on this Monday in the New York Market.

Yes.

And now he says - Marchandeau says that he will press the Bank of France to give as the minimum rate one seven seven ninety.

I understand - one seven seven ninety.

He said they understood that this rate is the minimum rate in case we continue to

Hello?

Yes.
R: Yes.
HMJr: There has to be another release which will be from
R: I see. Well now, Mr. Rueff....
HMJr: What?
R: Do you understand me?
HMJr: Yes.
R: May I say first that your Ambassador here has been most helpful to me.
HMJr: He has?
R: And it's been a great comfort to have him here.
HMJr: Really? - a very complicated matter?
R: It's been a great comfort to have him here - your Ambassador.
HMJr: Yes.
R: Please tell Mr. Marchandeau to tell Mr. Bonnet...
HMJr: Yes.
R: ...that the French Ambassador has been most helpful during this whole week.
HMJr: Yes. Thank you so much. You're very kind and we'll send that right over.
R: Yes. Now...
HMJr: misunderstood what Bonnet said?
R: Well, what I would like to say is this: Through your Ambassador and through Cochran I understand that you are going to try over a period of the next few days to gradually lower the franc.
R: ...gradually....
Lower - lower the rate.

Yes.

Hello?

Yes.

Now I am not going to attempt to tell you each hour what that should be or how many centimes it should be.

Yes.

I am going to accept the good faith of the French Government as to their objectives.

fifty centimes the rate which has been indicated at the convention of yesterday - has been filled up - closed in.

Oh. Well, I accept that.

Yes. Secondly, it is their intention to lower the rate - the rates which are now covered.

Yes, I understand.

Yes. said they'd asked you to be confident in their intention which he you in this direction.

Well, I think I understand.

Yes. I'm sorry my English is no good.

Well, if my French were one third as good I would be happy.

Yes. All right.

So I think we understand each other and I hope over the next week or ten days that this whole question will work out satisfactorily.

I hope so.

Yes.
My good thoughts again, Monsieur Secretary.

Pardon me?

I send you my good thoughts again.

Thank you so much and my best regards to Mr. Marchandau, and.....

Thank you so much. They told me that they're sorry they can't speak English but

And I'm sorry I cannot speak French.

And I'll give you Cochran again.

Thank you.

Cochran alone?

Yes.

Cochran has been also the most helpful in our whole negotiation.

Fine.

Thank you.

Hello Mr. Secretary.

Cochran.

Yes.

This is what I said. I am not going to attempt to tell the French Government how much - what the rate should be hourly by centimes...

Uh huh.

I am going to accept their statement that they wish to progressively lower the rate.

Yes.
They must keep in mind that the rate at present is a heavy drain on Belgium. The fact that they have gained money so rapidly and in such large quantities shows that they have lowered it too far. And they're sure the French Government doesn't want to gain an advantage over another member of the Tri-partite.

Hello? Hello? Hello? Hello?

Operator: Just a moment, sir.


Operator: Operator:

HMJr: Yes. They're gone.

O: Were you cut off?

HMJr: What's that?

O: Were you cut off?

HMJr: Yes.

O: All right. I'll get them right back for you.
The Minister of Finance thanks the Secretary of the Treasury for the friendly understanding which he has shown during the conversations just held. To indicate his desire to take Mr. Morgenthau's concern into account, he has given instructions since yesterday evening that the rate of the franc in relation to the pound be raised 0 francs .50 (50 centimes) in the New York market. He has ordered that action be taken during the day, today, at Paris, with a view to an equivalent increase.

M. Marchandeau shares Mr. Morgenthau's concern. However, while citing the relationship of frank collaboration which exists between the two countries he is anxious not to conceal from the Secretary that the above instructions run the risk of reducing the efficacy of the operation which he has in view. This operation has for its objective the attainment of the lowest and at the same time the sturdiest possible level, by a slow and continuous appreciation of the franc rate. The only limit to the appreciation contemplated would be a rate which might be difficult to defend and at which the stability of the franc would again be threatened.

But this operation by no means excludes the possibility of bringing the franc to a level lower than 175 to the pound, be that as it may, the contemplated operation will be prosecuted from the levels above indicated. Moreover the Minister of Finance will always be at the disposal of Mr. Morgenthau to keep him informed of the conditions in which the operation will develop. He has too much appreciation for the cordial cooperation of the Secretary of the Treasury not to desire its development within the framework of the Tripartite Accord to which he remains deeply attached.

(Translated by J. Adler
Checked by H. D. White)
Secretary of State,
Washington.

381, May 6, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

The British press has given the new franc and the Daladier decrees a good send-off and the comment of the DAILY TELEGRAPH is typical: "The outlook at the moment appears uncommonly favorable but before passing a final judgment it would be prudent to wait on the events of the decisive weeks that lie ahead".

The TIMES concludes its editorial by saying: "certainly Daladier has a great opportunity. Capital has begun to return. It will remain and more will follow if by a comprehensive series of measures involving something like equal sacrifices from all classes, he can provide the psychological stimulus necessary to break through the vicious circle in which French industry and enterprise have been imprisoned. Possibly the most immediate danger is that depreciation may be followed by a rise in prices which would inevitably lead to
to demands for increased wages and renewed labour unrest. Measures have already been promised to meet this possibility; but it is hard to see how it can be checked without some bold departure from protectionist theory in the direction of encouraging international trade.

The FINANCIAL TIMES concludes: "the tripartite agreement has been badly strained from time to time, but international commerce as well as finance owes a debt of gratitude to our own country and America for the sympathetic and accommodating attitude which has permitted the pressing demands of France to be met without disrupting the framework of the pact. This means that the franc will still have this support in case of need of France's associates therein. Little of that will be necessary if the nation rallies as it should round M. Deladier. On the contrary if he can infuse his own spirit into his people he will initiate the long desired repatriation of capital which is necessary to the revivification of industry although even then the bearing of social policy upon commercial activities will have to be narrowly watched."

The FINANCIAL NEWS concludes: "there is no longer any reason except the political one to prevent Frenchmen
from bringing their funds back to Paris. This means in effect that while M. Daladier and M. Reynaud are the effective controllers of French policy there is a real hope that confidence and capital will return. But confidence and capital will not return unless the political outlook is reasonably clear and unless M. Daladier and M. Reynaud seem likely to remain in power. Repatriation may therefore be only on a relatively small scale until M. Daladier has met the Chamber and has shown to the nation that he retains the Chamber's confidence. If at that stage the basis of the Government could be broadened under the leadership of MM Daladier and Reynaud then the outlook would indeed be good.

But in the intervening period, there are a number of very difficult problems which must be solved failure on any one of which might have the most serious effects upon the stability of the Government. There is the inevitable labour problem which must always come to the fore as soon as prices begin to rise and which is now rendered difficult by the obvious confusion of the parties of the Left. There is the problem of arms production. And there is the problem of the financing of public expenditure. But M. Daladier has made an excellent
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-4- #381, May 6, 7 p.m., from London.

Excellent start. He began by settling a strike wave which threatened to be a serious menace. He continued by a very satisfactory conference in London. And now he has tackled the problem of the franc with vigour and determination. The prospect is certainly beginning to clear.

The franc has continued bid throughout the day but the volume of today's movement has been about half of yesterday's exceptionally large amount. The franc opened at 178-½, moved to 3/8, and closed at 1/4. Sentiment continues favorable.

The Bank of England has informed the market that the restrictions on dealings in forward gold are removed.

KENNEDY

HPD
Carigué called me at 3:35 and asked whether we had received his cable #216 "Our £14 your 130 please alter limits to 178.12 and 178.83 respectively." I replied that it had just been handed to me. He requested that we now make the limits 178.02 to sell and 178.06 to buy. This, he claimed, was equivalent to 177.30 and 178.20, allowing for brokerage, as agreed upon by Mr. Morgenthau. Did I agree with his calculation? I replied that I would have to get busy and figure it out. Meanwhile, I said, francs were here £.60 offered, equivalent to 178.37 per pound sterling and the market was very quiet.

P.S. The above calculations are correct.

LWK:KH
May 6, 1938

My dear Cordell:

I have just completed an extremely difficult week keeping the Tripartite Agreement alive.

I want to take this opportunity to thank you personally for your sympathetic understanding.

I wish that you would convey to Dr. Herbert Feis, Mr. Edwin C. Wilson, Mr. H. Merle Cochran and Mr. William W. Butterworth my deep appreciation for the very able assistance which they have again given me during this past week.

With kind regards, I remain

Yours sincerely,

The Honorable

The Secretary of State.
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Paris, France
DATE: May 6, 1938, 6 p.m.
NO.: 717

STRICTLY CONFIDENTIAL. I am giving below, for transmission to the Secretary of the Treasury, a brief summary of my conversations yesterday in order to round out the record for him.

Yesterday afternoon a little after four o'clock I had a telephone call from Bonnet who asked me to come to see him immediately. When I called on Bonnet (he was visibly disturbed) he said that the Prime Minister had told him the Finance Minister had received a message from Mr. Morgenthau which was understood to mean that unless the French brought the rate for the franc back to 175 to the pound that afternoon the Tripartite Agreement would be regarded as ended. The situation of France internally and externally was mentioned by Bonnet. He said that the French Government intended to bring the rate down gradually to 175. If it should try to do so at one stroke, they would be defeating the purpose of the monetary operation, which was to encourage capital to come back to France. The Government would probably fall if they failed in this, and a most serious situation would arise. Bonnet appealed to me to telephone the Secretary of the Treasury and explain the situation to him.

END SECTION ONE.
I told him that I thought I ought to explain certain matters as they appeared to me, in an effort to clear up misunderstandings. I was posted on the situation because Cochran had kept me fully informed of his conversations and messages delivered back and forth.

I told Bonnet that I understood the Tripartite called for consultation and presupposed a frank and friendly exchange of views among the parties to the arrangement. Cochran had, under instructions from the Secretary of the Treasury, twice sought information as to the financial plans of the present Government since it came into office. Only the vaguest replies had been given him. Of course I appreciated that this was due to the fact that the Government had not been able to formulate its plans until the last minute. But the fact nevertheless remained that no information had been given to Secretary Morgenthau. Without prior consultation, Mr. Morgenthau was suddenly confronted with a fait accompli in the form of a message that the franc would be devalued to a rate of 175.

Secretary Morgenthau gave the matter consideration, and wishing to help the French Government in its present difficulties, had accepted this devaluation and had given out a statement most friendly and helpful to the French. He had done this on his understanding that a rate of
of 175 to the pound would not be exceeded. However, contrary to his understanding the franc had opened at a rate of 179 to the pound. It seemed to me that Bonnet, under the circumstances, could appreciate that Secretary Morgenthau had found himself in a very difficult position.

The Foreign Minister said that he was greatly embarrassed and upset about the matter; he said he was not Minister of Finance and had not made the decisions. However, he told me that I could assure the Secretary of the Treasury that in a week or ten days' time the franc would be brought back to "about" 175. I told him that it might be desirable to give me the assurance in definite form before I communicated with the Secretary of the Treasury. The Foreign Minister began to write out something, and then said he would first have to get the approval of the Prime Minister, and tried to get him by telephone. Apparently the Prime Minister hesitated to give this approval, and said he would have to consult with the Finance Minister and with Governor Fournier. Bonnet then said that he would telephone me as soon as he got a statement from the Finance Minister which he was authorized to give me for transmission to the Secretary of the Treasury.

After I got back to the Embassy I found Cochran talking with the Secretary of the Treasury by telephone. I reported my conversation with the Foreign Minister.
Secretary Morgenthau told me that his message to the Finance Minister was not (repeat not) an (omission); however, the manner in which this matter had been handled by the French had deeply shocked him. He had gone beyond anything that could have been expected of him, out of sympathy with the French people. But there was a limit beyond which he could not go. The franc remained pegged in New York, and he said he must insist that instructions for lowering the rate be given today; he was insisting upon this as a sign of good faith on the part of the French. The telephone was then taken over by Herbert Feis, who said that while he had had no opportunity to discuss this development with the Secretary of State, and while it was clear that we must compose these difficulties and maintain an undisturbed financial relationship, he agreed fully with the position taken by the Secretary of the Treasury. I also said I was in agreement with this position, and would tell Bonnet about it.

Up to six o'clock I had not heard from Bonnet, so I telephoned to him and said that I had talked with the Secretary of the Treasury while waiting to hear from him, and I believed that if we could have another talk it would be useful. Bonnet told me that the British Ambassador was with him at the time, and that in a few minutes I should come
Marchandeau, accompanied by Cochran, arrived while I was waiting at the Foreign Office, and after the British Ambassador had left we all went in together to see Bonnet. The Finance Minister explained why his experts had found it necessary to begin at 179 in order to realize the greatest benefit of the monetary operation. He insisted that they intended to bring the rate down below 175 to the pound.

Then Bonnet said that Daladier had just told him that the Chancellor of the Exchequer had just sent him a message congratulating the French Government on the way the monetary operation had been handled; the Chancellor's message, he said, stated that while the rate of 179 to the pound seemed to be too high and might put Belgium in a difficult position, he was happy to have received the assurance that the rate would be lowered. In addition the Chancellor stated that should he be questioned about the operation in the House of Commons he would say that the British Government was satisfied with the way it had been carried out, and that assurances had been received that the rate would be lowered.

The Foreign Minister said that this message had been a great help to them, and he failed to see why we should be so disturbed in view of the attitude the British had taken.

I told Bonnet that the Secretary of the Treasury had told me over the telephone that he had been informed by the
the British Treasury that they were in agreement that the rate should be brought back to 175 to the pound that very day.

I then gave Bonnet and Marchandeau the message which the Secretary of the Treasury had given to me, and added that it seemed to me that more than a few hundred million francs was involved in the matter — it was a matter of keeping up the spirit of the Tripartite and preventing future difficulties of this kind.

The Minister of Finance said that he was prepared to give orders immediately to lower the rate by 50 centimes by the close of the day's dealings in New York, and by another 50 centimes in Paris the next day. He would continue to bring it down by smaller amounts next week as favorable opportunities were presented. Marchandeau and Bonnet insisted that the Government intended to bring the rate below 175 to the pound. The Minister of Finance then telephoned to the Bank of France and instructed it to bring the rate down in New York by 50 centimes that afternoon.

The Foreign Minister, Bonnet, during the course of the conversation, said that he knew the sincerity of the friendship which the Secretary of the Treasury had for France and appreciated all that Secretary Morgenthau had done to help them; he very much regretted that the incident had come
come up.

When we had finished talking, the Minister of Finance said that he hoped the Secretary of the Treasury would understand the great pressure and difficulties under which he had been working and that he "would continue to have sympathy for the French Finance Minister".

When I got back to the Embassy, I telephoned to the Secretary of the Treasury and gave him a report of this conversation.

END MESSAGE.

WILSON.
6th May

My dear Wagner,

Minister of War from British reply which I have been instructed to communicate to you. I am not sure if the words are French or Latin. They are handwritten in English.
with instructions for us to feel in the French text. I have
translated as best I could her if I have picked a
wrong word, with your counsel is.

Kemmler Bradley
The reply communicated on behalf of His Majesty's Government to the French Financial Attache at 7.30 p.m. on the 4th May was in the following terms.

"His Majesty's Government regret to learn from the communication made to the Chancellor of the Exchequer by the French Ambassador on May 2nd that the French Government considered it impossible to maintain the current rate of the franc and that they felt they had no alternative but to allow the franc to fall to a rate in the neighbourhood of 175. At the same time His Majesty's Government takes due note of the intention of the French Government as explained by Monsieur Bonnet to the Chancellor of the Exchequer to achieve as the eventual result of their policy a rate corresponding to the economic position and giving to France no competitive trade advantage. They note also the assurance given by the French Government to the United States Government on May 4th as to the finality of the present reduction. ("Nous donnons l'assurance que le Gouvernement fixe la chute envisagée comme la dernière.") In these circumstances and after consultation with the United States Government His Majesty's Government are prepared to regard the proposal as being not inconsistent with the tripartite agreement which in common with the United States Government they regard as continuing in full operation."
In reply refer to EA.

May 7, 1938

My dear Henry:

I am glad that the Department has been able to be of assistance in your difficult task of sustaining the Tripartite Agreement during the past difficult week.

I appreciate your kind reference to me, and I have had pleasure in conveying your message of appreciation to Messrs. Feis, Wilson, Cochran, and Butterworth.

Sincerely yours,

The Honorable

Henry Morgenthau, Jr.,
Secretary of the Treasury.
My dear Mr. Secretary:

There is enclosed for your confidential information one copy of paraphrase of sections two to six, inclusive, of telegram No. 717 of May 6, 1938, from Mr. Wilson in Paris.

Sincerely yours,

Herbert Feis,
Adviser on International Economic Affairs.

Enclosure:
Sections 2-6, No. 717 from Paris, May 6.

The Honorable
Henry Morgenthau, Jr.,
Secretary of the Treasury.
Secretary of State,
Washington.

May 7, 11 a.m.

FOR THE SECRETARY OF THE TREASURY

One. According to National Bank sources, outflow of capital from Switzerland in the past two days since devaluation French franc has amounted to about 70,000,000 Swiss francs including 50,000,000 repatriated French capital, balance mainly transfer of part of recent Swiss Bank consortium credit of 40,000,000 francs to Argentine Government. Return movement of French capital already shows a tendency to slacken. This movement, I have been told, may not be fully reflected in National Bank's next weekly statement because of a partially concealing effect of Swiss equalization fund operations.

Two. Bank authorities still estimate that French capital amounting to at least 500,000,000 Swiss francs will be repatriated under favorable conditions in France.
EG

GRAY
London
Dated May 7, 1938
Rg'd 8:20 a.m.

Secretary of State,
Washington.

383, May 7, 1 p.m.

FOR TREASURY FROM BUTTERWORTH

The French control held the franc at 177 7/8; at noon when the control went out the rate moved to 177 5/8. The volume was not as large as yesterday but market sentiment continues favorable to covering and repatriation.

KENNEDY

KLP
Secretary of State,
Washington.

720, May 7, 9 a.m. (SECTION ONE)
FROM COCHRAN.

The following paragraphs of principal interest are exempted from the 8th annual report of the BIS which will be rendered at 3:30 Monday, May 9 before which hour no publicity should be given:

One. "Summing up the whole picture of the recovering from the severe depression of 1929-32; it may be said that the world economy fought its way back to recovery in abnormally adverse circumstances, and that the natural forces of recovery were partly strengthened, partly hampered, by the action of governments. In Europe, where the adverse elements were strongest, recovery was showing signs of stability by 1936, though of course many abnormal factors were still at work. The setback experienced in the world in the following year originated in the United Kingdom, and in this respect the developments in that country are of particular importance. In no country except those in
FS 2- No. 720, May 7, 9 a.m. from Paris

in which the government practically controls the whole of economic life, has administrative action been so strong and widely spread. No country is so naturally independent of other countries and so well protected against international political troubles. Nowhere, however, has the reaction been so violent. It has proved to be infinitely more difficult to direct the trend of economic life by government action, even in a country with a very large home market and an organized banking system, than the weight of well studied experience and the attentive survey of economic developments encouraged many to believe. (END SECTION ONE)
Gray
Paris
Dated May 7, 1938
Rec'd 10:15 a.m.

Secretary of State,
Washington,

720, May 7, 9 a.m. (Sec. Two)

The recovery in the past few years in the United States was not in fact marked by a large development of new investment in capital equipment. There was a better use of productive capacity already existing but no widespread increase of capacity. This seems to prove the correctness of the assumption that only a rise in the rate of new investment can provide a more durable basis for an upswing in business activity. The mere stimulation of consumption by Government expenditure or - as in France - by suddenly imputed labor conditions does not provide business activity with this basis. It may stimulate when it is introduced but it does not awaken the more normal and permanent motive forces and if it puts too heavy a burden upon production the ultimate effect may even be the reverse of that intended.

Bullitt

WWG1GW
Two. World production of gold increased by five per cent in 1937 i.e. at a lower rate than in previous years. The slowing up of the increase has been due almost wholly to a decline in the absolute amount of U.S.S.R. production from 1936 to 1937. Shipments from the east have lost their importance as far as dehoarded gold from China and India is concerned, but exports of gold from Japan to cover commercial and other needs attained almost $250,000,000. In western countries the dehoarding movement that began in the last quarter of 1936 continued during the first half of 1937, reaching in nine months nearly $1,000,000,000; gold hoards located in London were reduced by more than half.

In this as in other fields the change in the situation in the last half of the year was sudden and unexpected; under the influence of falling commodity prices, a set back in
In industrial production, especially in the United States and rumors of a further devaluation of the dollar apprehensive holders of currencies again turned to gold as a refuge. Some 150 to 200 million dollars gold was reabsorbed into private hoards, while the monetary authorities in a number of countries, from which gold had flowed in the spring, made substantial purchases. In November and December 1937 there was a net export of gold from the United States; and in the autumn the British exchange equalization account supplied some of the gold needed on the market out of its own accumulated holdings. Even so, the gold reserves of the United States and the United Kingdom were greatly increased over the year; and this is true also of the Netherlands. The total gold acquisitions of these three countries in 1937 were nearly twice as high as the current gold production now running at a rate of $1,220,000,000 a year.

BULLITT

EMB:EDA
Secretary of State

Washington

720, May 7, 9 a.m. (SECTION FOUR)

Three. The measures that have been taken in the United States during the past two and a half years to control the impact of gold movements on the credit system have not been related to the working of the American exchange stabilization fund. This fund was formed in 1934 by the allocation of $2,000,000,000 in gold out of the 'profits' from the revaluation of the country gold stock. It has been held in its original form except for $200,000,000 placed with the Federal Reserve Banks as a working balance. From time to time the fund has engaged in exchange and gold operations; as, however, the dollar has been tied to gold the need for such operations has not been as great as in those countries where no gold price has been fixed. By the nature of its resources the fund could play no part in the gold sterilization policy inaugurated at the end of 1936. To offset the expansion of the credit base that normally results from an influx of gold sales of securities are necessary but the American fund unlike the British exchange equalization account has not been given borrowing powers i.e. the right to acquire gold against sales of securities. The policy adopted during the period of business expansion to
counteract an excessive increase in the cash reserves of the banking system took two different forms: (one) sterilization through the purchase of gold against sales of securities by the Treasury itself, this gold constituting the so-called 'inactive fund' which rose to a maximum of $1,400,000,000 in the second week of September 1937; and (two) an increase in the legal cash reserve requirements of the member banks. By these measures the excess reserves of the member banks of the Federal Reserve System were reduced from over $3,000,000,000 in the summer of 1936 to less than $800,000,000 in the summer of 1937.

BULLITT
In view of the strain that was experienced particularly by the New York banks, it was considered advisable to modify this policy in the autumn of 1937 and an expansion of excess reserves was brought about, firstly, by the release of 300,000,000 from the inactive fund in September 1937, secondly, by the purchase of securities by Federal Reserve Banks to an amount of $20 million in November 1937 and thirdly, by the decision announced in February 1938 that 'for the present, additions to the gold stock up to 100,000,000 in any one-quarter of the year will not be placed in the inactive gold account.' By these various measures the excess reserves of member banks were, increased to about 1,500,000,000 by the end of March 1938. In the following month, however, as part of a general program for the revival of business the authorities reversed altogether their previous sterilization policy. It was decided to de sterilize all the gold placed
-2- #720, May 7, 9 a.m. (SECTION FIVE) from Paris.

placed in the inactive account and to discontinue sterilization for the future, this action being supplemented by a reduction in the required reserves of the member banks". (END OF MESSAGE)

BULLITT

EDA: EMB
TELEGRAM SENT

GRAY
May 7, 1938
4 p.m.

AMBASSADOR
LONDON (ENGLAND).

202,

I am requested by the Secretary of the Treasury to convey to Mr. Butterworth his deep appreciation for the very able assistance which he has again given him during the past very difficult week in connection with the Tripartite Agreement. I take pleasure in adding an expression of my own appreciation.

HULL

ENGLISH
TELEGRAM SENT

GRAY

May 7, 1938
4 p.m.

E.M.EMBASSY,

PARIS (FRANCE).

266.

I am requested by the Secretary of the Treasury to convey to Mr. Wilson and to Mr. Cochran his deep appreciation for the very able assistance which they have again given him during the past very difficult week in connection with the Tripartite Agreement. I take pleasure in adding an expression of my own appreciation.

HULL

EATFL:EA3
This was written by the Secretary on Sunday, May 8, by the Secretary while he was on the Farm for the week-end.

III.

Transfer certain Close of P.W.H. entirely and have also relief activities of Farm Security to W.P.H.

In this manner set up one spending agency.

IV. Increase appropriation of W.P.H. to two billion with no Wolumn amendment.
(This was written by the Secretary on Sunday, May 8, by the Secretary while he was on the Farm for the week-end.)

V. Congress should sit as a committee of the whole and settle the public utility fight between private companies and T.U.P. and hear any other complaint of private companies. Second should also sit in similar capacity and settle railroad matters.
I have only one standing

II. Have  committee  conduct

This committee act as the,  

Sec. of house  chairman.  

and House  finance  committee  on  spending  on  federal

and president  of  zo.  

I have my one standing
MEMORANDUM

May 8th, 1938.

Secretary Morgenthau called Mr. McReynolds at 9 o'clock this morning and asked him to consider and discuss during the day with Dan Bell, Herbert Gaston and Eddie Bartelt the desirability of the Secretary recommending to the President that the entire spending program be changed as follows:

That we have only one spending agency: transfer to it the entire PWA organization, letting that organization as such lapse; also all relief activities of the Farm Security organization.

Ask for a lump sum appropriation of 7 billion dollars without the Woodrum amendment; the spending of this fund to be controlled by a committee headed by the President and composed of the Secretary of the Treasury, the Director of the Budget, the Secretary of the Interior and the Secretary of Agriculture; and the Chairman and Minority Leader of both the Senate and House Appropriation Committees — this committee to sit one afternoon each week to pass on allocations for projects.

The group considering this came to the decision that the committee arrangement, suggested for controlling the fund, could not be made effective as an authoritative body, but that the consolidated expenditure program would necessarily have to be placed in the President's own hands and the final authority and responsibility would have to rest

Regraded Uclassified
with him.

There was uniform agreement that the idea of having one spending agency only, whose head would have no control over the availability of funds but would have complete authority over the operation of the program once money was released to him, is both practicable and desirable.