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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Tuesday, July 12, 1938.  
7-11-38

Press Service  
No. 13-93

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 7/8 percent notes of Series N of the Reconstruction Finance Corporation closed at the close of business Monday, July 11.

Subscriptions addressed to a Federal Reserve bank or branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight, Monday, July 11, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and the basis of allotment will probably be made on Friday, July 15.

--c0c--

## GROUP MEETING

July 12, 1938.  
9:30 A. M.

Present: Mr. Magill  
Mr. Oliphant  
Mr. Gaston  
Mr. Taylor  
Mr. Haas  
Mr. White  
Mr. Upham  
Mr. Hanes  
Mr. Gibbons  
Mr. Lochhead  
Mr. Bell  
Mr. McReynolds  
Mrs. Klotz

H.M.Jr: China's coming in at eleven fifteen - Archie,  
and Taylor; White. Same deal?

Taylor: (Nods "Yes.")

Lochhead: Yes, I think about the same, as far as we can  
see - just carries them through the next two  
and a half months.

H.M.Jr: Want to increase it?

Taylor: (Nods "No.")

H.M.Jr: Want to decrease it?

Taylor: (Nods "No.")

H.M.Jr: Harry.

White: Same rate. There's some further information  
Archie would like to get from them.

H.M.Jr: From them?

Lochhead: Of course, we'd like to know what amount they  
really have got in London and what form it is in -  
if we have a right to ask them.

H.M.Jr: Why not?

White: They've got stories of having a hundred million on collateral, Archie says, which is a hundred million ounces.

Taylor: We asked them that before and didn't get anywhere, to my knowledge.

Lochhead: It was rather indefinite. They have left about a hundred million there now. There's some talk about there being a hundred forty over there.

H.M.Jr: Well, you can ask them anything you want.

White: It's important to know just what they have, because when they stop there are certain things that will have to be considered.

H.M.Jr: Well, get a - have some questions and put them on my desk.

(Nods to Mr. Magill.)

Magill: I had a talk with Graves yesterday, and later with Mr. Arundel, the Chairman of the Board of Tax Appeals, about their cooperation in this decentralization program of ours, all of which seemed to work out very satisfactorily. We need to get quite a little help out of the Board if the things are to work properly. We are having to set cases down on definite calendars, and conduct almost constant hearings in New York, at least during the fall. They seem to be prepared to help along on that, satisfactorily.

H.M.Jr: What else?

Magill: Well, ....

H.M.Jr: Did Hanes sit in with you on that?

Hanes: (Nods "No.")

Magill: No. He ought to sit in with Graves pretty soon, to get the feel of the things, I think. This came up very quickly; Arundel is going away and asked me to have lunch with him, and I thought it made an excellent opportunity to put the heat on him with respect to some of these matters we wanted him to do, so I got Graves over and worked it out that way.

H.M.Jr: Well, I think Hanes ought to be the one.

Magill: Yes, I think so too. I am still - I had a session with Hanes a while before you left, with respect to tax work for next year.

H.M.Jr: What are we doing at ten thirty? What's this meeting with Helvering at ten thirty? Just to get together?

Hanes: Yes, that's all; you arranged that Friday.

McReynolds: That's merely to bring in the boys who are in charge of the New York Office.

H.M.Jr: No.

McReynolds: That's different.

H.M.Jr: Why couldn't they follow that meeting; why couldn't they be here at ten forty-five and do it all at one time?

Klotz: You want to call them now.

H.M.Jr: Yes, Mac can step out.

McReynolds: Get Helvering and these two boys that are going to set up the New York Office.

H.M.Jr: Plus Harold Graves - at ten forty-five.

McReynolds: I'll call them. (Leaves the room.)

H.M.Jr: See? And then as long as we are doing that - are you going to be here at ten thirty?

Magill: I think so.

H.M.Jr: You be here? (Hanes)

Hanes: (Nods "yes.")

H.M.Jr: Now, while I'm doing that, I want to do that on taxes. Well, I can get you and Haas - we'll talk it over at ten thirty - I mean, people like Blough, and your man - Shoup - they're all around the office - we can get them, couldn't we?

Magill: Yes - anytime we want to. I think it would be a

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good idea, if you can work it in, before you go, to have a half hour, or hour's session with respect to tentative plans for next year's tax legislation.

H.M.Jr: Well, it can't be an hour. Let's see how we get along from ten thirty to ten forty-five. I mean - forty-five minutes. We can get those fellows in then. This other, we can have at eleven thirty.

(Mr. Kieley comes in.)

Have you reached the Chinese Ambassador yet?

Kieley: Yes sir.

H.M.Jr: Suppose you call him back and ask him if it would be just as convenient at ten thirty.

Kieley: Yes sir. Ten thirty.

H.M.Jr: I mean eleven thirty.

Magill: I wouldn't think it would take so long.

(Mr. McReynolds comes in.)

McReynolds: There's one man in New York. I think he was sent up there Sunday.

H.M.Jr: Well, somebody wants me to see them.

McReynolds: I was the one.

H.M.Jr: Can you bring them down tomorrow?

McReynolds: They are going to call John Kieley back, and let him know for sure.

H.M.Jr: If they are not, I'll make it ten thirty tomorrow. That will be who, Mac?

McReynolds: The Commissioner, Mooney, Hanson - those are the two men that will be in charge of the New York Office - Graves, Mr. Magill, and Mr. Hanes.

H.M.Jr: O. K. You fellows hold ten thirty tomorrow open. All right?

Hanes: Uh huh.

Magill: (Nods "Yes.")

H.M.Jr: What else?

Magill: That's all.

H.M.Jr: Hello, you monopolist.

Oliphant: Did you get your list of books?

H.M.Jr: Oh say! Listen, what does he think I want to do - study to become a librarian? Listen, with the exception of one book - I'll take the .....  
- ..... and intellectual, and he read that list through, - "You don't want that list."

He's connected with what publishing firm? That's a terrible list. Oh terrible. Take my wife - she never even heard of any of the books, let alone ever read any of them. Tell him "Thank you for the compliment."

Herbert, call up Harry Sherman, of the Book-of-the-Month and ask him to give me a good snappy list, will you?

Gaston: Yeah. Yeah. (Laughter.) Is he the same Harry Sherman who's writing these anti-administration tax articles for the New York Herald-Tribune?

Magill: No.

H.M.Jr: He's the head of the Book-of-the-Month Club. I know he'll give it to me. Tell him to send me down a good snappy list.

Klotz: This (list) is special.

H.M.Jr: Let's leave that and then we'll get Harry Sherman's list.

(Speaks aside to Mrs. Klotz.)

I bought that one (indicating) - (title inaudible.)  
I bought that.

All right.

Oliphant: In that last report on the monopoly thing, I - there was a tax statement Peoples and I worked out .....

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

Oliphant: In the last report, at the last meeting of the monopoly thing, I attached a tax statement Peoples and I worked out, as a basis for discussion.

H.M.Jr: I haven't got it yet, Herman. Maybe they mailed it to me. They did once.

Oliphant: (Hands H.M.Jr. copy of statement.)

H.M.Jr: All right. What else?

Oliphant: Well, ....

H.M.Jr: Did you fix up your assistant for Ed?

Oliphant: Tietjens. That's a very good man.

H.M.Jr: Did you O. K. his hiring an Assistant to Ed Foley?

McReynolds: (Nods "Yes.")

H.M.Jr: What's his name, Herman?

Oliphant: Tietjens. T-i-e-t-j-e-n-s.

H.M.Jr: Anything else? Do I have to read this (tax statement)?

McReynolds: Herman's hiring this man; he's just a replacement for one of the boys he lost down there in the same office. Herman always gets a little the best of it though. He lets a four thousand boy go and wants a six thousand boy in his place. Otherwise, he's getting to be a pretty good boy.

Oliphant: When Clarence was there he had Bernie to help him.

H.M.Jr: Don't explain, Herman. You'll get yourself in trouble.

All right. Herbert.

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Gaston: I talked to Thomas, over in the State Department, who is taking McDermott's place, about this press conference the Secretary of State held in connection with a trade agreement with Great Britain. He got himself in bad, and Thomas was very apologetic about it. He wanted to know if he shouldn't have the Secretary hold another press conference today and clarify the thing. What was said was something like this. A reporter said that the dispatches from New York today say that on the exchange market the British pound declined as a result of rumors that the trade agreement that will be signed will fix a ratio of \$4.86 to \$4.87 for the pound; and Hull said, "Well, that's more in line with the Treasury Department's responsibility - purely monetary phase," and then he went on to say that in his judgment if the trade agreement agreement is signed, it will be a great factor in restoring trade. A little later a fellow asked him a rather tricky question; he said, "Would you go so far as to say that a trade agreement will be concluded apart from any monetary arrangement?"

(Telephone rings.)

H.M.Jr: Excuse me. Hello. O. K. Hello. Hello, Bill, how are you? (Conversation with Ambassador William C. Bullitt at 9:44 a.m., attached.)

July 12, 1938.  
9:44 A. M.

H.M.Jr: Hello.

William C.  
Bullitt: Hello, Henry, how are you?

H.M.Jr: Hello, Bill, how are you?

B: Fine.

H.M.Jr: Ah - Bill ....

B: Delighted that you're coming over.

H.M.Jr: Pardon me.

B: I say I'm delighted you're coming over.

H.M.Jr: Well, so are we. Ah - ah, Bill, I got your letter about, ah, your kind offer to have a luncheon on Sunday.

B: Yes.

H.M.Jr: And I talked it over with the family.

B: Yes.

H.M.Jr: And this is what we thought we'd do in view of your letter.

B: Yes.

H.M.Jr: That we would spend, say three days in Paris instead of one.

B: Two days.

H.M.Jr: Three.

B: Three.

H.M.Jr: Yes.

B: Yes.

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H.M.Jr: And then possibly not come back on our way back at all.

B: Yes.

H.M.Jr: Now, would that be agreeable to you?

B: That's entirely agreeable to me, Henry. Anything that suits you best.

H.M.Jr: Well, the children say that they want more time in Paris.

B: Yes.

H.M.Jr: And inasmuch as I'm - ah - want them to enjoy the trip, why, I think we'll spend three days.

B: Yes.

H.M.Jr: And, ah, I'm more than willing to put myself in your hands.

B: Well, now, Henry. If you're going to be here for three days, ....

H.M.Jr: Yes.

B: ... ah, ah, would - would you like me to get together almost all of the political people of any importance?

H.M.Jr: I think it would be grand.

B: All right. Now, ah, would you - ah, how many youngsters have you got with you?

H.M.Jr: Well, I have two sons, one twenty-one and one nineteen.

B: Yes.

H.M.Jr: And my daughter, fifteen.

B: Yes.

H.M.Jr: Ah - ....

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C: That's perfectly fine.

H.M.Jr: Well now, Bill, don't you think we'd better go to a hotel, see - we're going to be there that length of time?

C: Not a bit of it - I'll tell you what I'll do. I'll simply hold the establishment in town.

H.M.Jr: No, but would - it, it, it - it's asking really too much.

B: No, not at all; it's no trouble at all. All I'll do is simply to, ah, have the town house to stay open, and you can stay at the town house, and there's plenty of room for everybody.

H.M.Jr: Well, now - ah - Bill, I - I, ah, I, I - really, I feel as though it's too much.

B: No, it's not too much at all. It's perfectly easy. Well then, I'll change your reservations.

H.M.Jr: Yes.

B: And you'll get down, ah - ah, you'll get down to, ah, ah - Antibes two days later.

H.M.Jr: Yeah. We - we'll spend the, ah, twenty-fourth, twenty-fifth, and twenty-sixth.

B: Yes.

H.M.Jr: And leave on the night of the, ah, twenty-sixth; is that right?

B: Yes. All right, that's fine, Henry.

H.M.Jr: Is - is that right? I think that's - we get in, yes - we get in there to Paris late the night of the twenty-third.

B: Yes.

H.M.Jr: And we'll spend the twenty-fourth, the twenty-fifth, and leave the afternoon of the twenty-sixth.

B: All right; that's perfectly fine..

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H.M.Jr: And - and, ah - if it - if you could have somebody change the reservations.

B: Yes, I'll do that; I'll change all the reservations.

H.M.Jr: And I - I don't think I'm going to England at all, Bill.

B: Yes.

H.M.Jr: See?

B: Yes, I see, Henry.

H.M.Jr: I don't think I'll go there at all.

B: And then I will - I'll get you reservations for the evening of the twenty-sixth instead of the twenty-fourth.

H.M.Jr: The evening of the twenty-sixth.

B: Yeah.

H.M.Jr: Yeah. And if somebody could let the hotel know, also.

B: Yes, I'll notify everybody.

H.M.Jr: And, Bill.

B: Yes.

H.M.Jr: If there is a luncheon for the - which will be for the men.

B: Yes.

H.M.Jr: Ah - and it was possible, I'd like my two sons to be with me.

B: All right, fine.

H.M.Jr: See?

B: Yeah.

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H.M.Jr: Because the whole purpose of this trip is ....

B: The only reason I thought of having a men's luncheon was because I thought you'd just be here for one meal, and would want to see so many people.

H.M.Jr: Well ....

B: There isn't - ah, there isn't a faintest reason we should have a men's luncheon, because we'll now have time to put in people at different meals.

H.M.Jr: Well, ah, I - I, I' - I'll - I'm more than willing to leave it entirely in your hands.

B: All right.

H.M.Jr: Just don't rush me too much.

B: Well, that's fine.

H.M.Jr: Remember I'm an old man.

B: All right. Fine.

H.M.Jr: All right.

B: You don't get here until late in the evening of the twenty-third, do you?

H.M.Jr: We get there the late evening of the twenty-third.

B: Yeah. So really what you have is the twenty-fourth and the twenty-fifth.

H.M.Jr: And the boys want to know already what can they do Saturday night in Paris?

B: Well, let them go into town and don't - don't bother them.

H.M.Jr: All right. (Laughs) Thank you so much.

B: Fine, Henry, God bless - look here, things are going much better, aren't they?

H.M.Jr: What's that?

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B: I say things at home are going better, aren't they?

H.M.Jr: Oh yes. If you remember, I was foolish enough to forecast that there wouldn't be any busted railroads for a month.

B: Yeah.

H.M.Jr: Well, it still is good.

B: Well, how about it, Henry - not going to bust now?

H.M.Jr: Well, I wouldn't want to go on record, but - but everybody feels much more comfortable.

B: Yeah.

H.M.Jr: And the President's trip out West seems to be a great success.

B: That's fine.

H.M.Jr: Yes.

B: Well, goodbye, Henry; good luck. I'll look forward very much to seeing you.

H.M.Jr: Thank you.

B: Goodbye. Goodbye.

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H.M.Jr: I certainly gave him plenty of opportunity to fall out of having the family. That was the main purpose - I mean, for all of us to descend on him - but he insists on opening his Embassy in Paris. I think it will work out, and we don't think we'll come back at all. We're going to drive up along the Italian border in to Chamonix, into the French Alps, and come out that way. We may go into Holland and Belgium, and then , and not go into New York. I can't say it in French - the Alpine drive from the Riviera down through a town called Barcelonnette.

Taylor: I've been in on the other half of it, from Italy, up.

H.M.Jr: You go up, almost over three or four thousand meters.

Taylor: Go over the Marseille Pass when you come up from Italy.

H.M.Jr: We didn't think we'd come up through Paris at all, so we compromised on three days while we are there.

Herbert, you were talking about .....

Gaston: Yes. Well, here's where Hull put his foot in it; they asked him this tricky question - "Would you go so far as to say that a trade agreement will be concluded apart from any monetary arrangement?" and he said, "You may recall that it's been the policy here all along to carry on the strictly trade agreement side, here in the State Department. Along parallel with it is the question of exchange stability and more permanent monetary arrangements. You will have to speak to the Treasury about them."

That carries the plain implications that there are new monetary negotiations going on. Thomas was in great difficulty trying to explain what Hull meant by that. He went back and talked to him about it and the substance of his talk was that Hull merely meant to say that the trade agreement itself would result in greater exchange stability as the result of increased trade, but as to the exact monetary arrangement, that was up to the Treasury Department.

H.M.Jr:

Just for the record, I called Mr. Gaston last night and asked him to do this for me, see? Just for the record, and here's Sid Olson's story in the Post. (Washington Post, July 12, 1938.) Put that in the record please.

(The Olson story follows:)

"STATE DEPARTMENT QUELLS RUMOR OF MONETARY PACT WITH BRITAIN" "Misconstruction of Hull Remark Blamed for Report of Contemplated Accord; Venezuela Tariff Treaty Negotiations Opened."

"By Sidney Olson."

"The State Department last night scotched rumors Secretary of State Cordell Hull had indicated a monetary agreement paralleling the proposed Anglo-American reciprocal trade agreement is contemplated.

"Confusion arose over a misconstrued press-conference remark by the Secretary to the effect that greater monetary stability was a natural corollary to the lowered trade barriers which are a consequence of a reciprocal trade agreement.

"Some observers took the view Hull had indirectly confirmed reports dating from last April that some revision of the present tripartite monetary agreement is a part of the Administration's vast economic program.

"Present Pact Satisfactory.

"A majority of Federal financial officials, however, held there is no present pressure from any major source to revise the flexible and until now satisfactory tripartite agreement on stabilization of the currencies of England, France and the United States, that agreement has been on a 24-hour basis ever since its inception, it was pointed out, and even the May 5 devaluation of the French franc by Premier Edouard Daladier did not affect the monetary accord.

"This situation, based almost entirely on hot weather speculation, was immediately coupled in some quarters with the impending trip abroad of Secretary of the Treasury Henry Morgenthau, Jr., who leaves Friday for London and Paris before vacationing in southern France.

### "Venezuela Negotiating.

"It overshadowed the immediate news from the State Department that formal negotiations are now commencing for a reciprocal trade agreement with Venezuela. Others are under way with Great Britain, Ecuador, Turkey and Canada. Negotiations with Canada, with which this country concluded its first major trade agreement in November, 1935, are intended to broaden its scope and key it into the huge contemplated agreement with Great Britain.

"Seventeen trade agreements in all have now been concluded, with Belgium, Brazil, Colombia, Costa Rica, Cuba, Czechoslovakia, El Salvador, Finland, France, Guatemala, Haiti, Honduras, The Netherlands, Nicaragua, Sweden and Switzerland.

"Reports from New York and dispatches from abroad concerning a possible parallel monetary agreement to the British-American trade agreement had said the dollar would be placed against the pound at a valuation of \$4.86 or \$4.87. For many months the pound has been somewhat weaker than that point, having dipped below \$4.90. Closing figure yesterday was \$4.92 7/8. The reports began in the belief the pound is weakening.

### "Changes Held Unlikely.

"Officials here, noting the long-continued influx of British gold into this country has slowed to almost nothing, said the British have worked harmoniously with this Government to keep the currencies in close relationship, with the flexible working agreement serving to implement necessary operations in the market.

"While not willing to make long-range predictions, the officials said that at least for the present there is no probability of a change in the present monetary accord, as there is no reason of major importance for disturbing the existing parity in the currencies. They cited the French pinning of the franc to the British pound sterling at 179 francs to the pound - third devaluation of the franc since the World War - as an example of how even the most sweeping operations can be carried

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off successfully in conformity with the theory of international monetary stabilization.

"Hull, whose misreported remarks gave rise to considerable speculation during the afternoon, referred all further inquiries to the Treasury. Morgenthau, who yesterday attended the funeral of Supreme Court Justice Benjamin Cardozo, in New York, was expected to return to Washington today to clear his desk for his departure Friday."

- H.M.Jr: How often does Mr. Hull have trade agreement press conferences?
- Gaston: I don't know; it's his regular press conference.
- Taylor: They have a regular press conference every day over there.
- H.M.Jr: I think he ought to clear up - he ought to clear it up, because the Bank of England had to give out a statement on this thing. I spoke to Archie early this morning about it.
- Lochhead: There was a very heavy turn-over in the London markets this morning. There was some form of agreement in process which would bring the sterling rate down to the old parity. The Bank of England said to us they had intimated to the market they knew nothing of any such arrangement.
- High officials stated - the Secretary said, "That is rather unusual." It showed that the rumor had taken great force.
- Gaston: That rumor preceded his press conference. It was put up to Hull at the press conference. The way he answered it tended to give weight to the rumor.
- Lochhead: The rumor has gained weight the last three or four days.
- Gaston: I think he ought to straighten it out, but I'm afraid he'll gum it up some more.
- H.M.Jr: Wayne, you want to get in on this?
- Taylor: I saw the story in the Post this morning; Olson handled it very well.

Gaston: I talked to Olson and some others; I told them I knew of no arrangements different from the present arrangement.

H.M.Jr: Why not let's let it ride and see what happens to sterling. How is it now?

Lochhead: Sterling is more or less steady now. I imagine you will be getting inquiries.

H.M.Jr: I don't have a press conference until Thursday.

Lochhead: Well, the market has turned around and gotten steady now.

Gaston: Thomas wants me to call him back after talking to you and let him know whether Hull ought to open it up at a press conference today. I doubt that he ought to call a press conference for that purpose.

H.M.Jr: I doubt it. But I think that if he has another opportunity to hit it he ought to hit it again.

Gaston: Without calling a press conference for it.

Taylor: I think they have a press conference every day, and he can very easily repeat what is in that Olson article without making any other comment on it. "I'm sorry I was misunderstood; I simply meant the Treasury takes care of monetary arrangements."

H.M.Jr: Will you get in to me - when you come in on the Chinese, bring me the little paragraph that's in all of these trade treaties, on this leeway on foreign exchange. You know, that paragraph. Will you bring me in that thing - will you?

White: (Nods "Yes.")

H.M.Jr: The paragraph covering that in the trade agreement - bring that in, Harry.

White: The paragraph covering the general trade agreement. In that connection, the discussion which is apparently going on, indicates that they would like, and rather expect, sterling to drop.

H.M.Jr: Who?

White: The British, and those engaged in the trade agreement, from the general talk, seem to be concerned as to what our attitude would be in case of a drop, and from the discussions in the British financial circles, it's common knowledge they are worried about their unfavorable balance in trade, and I think we can expect they will do nothing to stop the decline down to \$4.86 or \$4.88 - something like that, within the next short period.

H.M.Jr: Are you sure of that, Harry? That that's to their interest?

White: I should do that if I were in their place. I believe that implicitly. It's greatly important. I wouldn't give it too great a significance, either to their interest or adversely. It would be to their interest.

Haas: It's a bad thing for us.

White: From their point of view, I mean.

Taylor: The general dope is, Harry, that they had just as soon have it where it was, until they have completed certain amounts of purchases for their rearmament program. After that happens, they'd just as soon have it ease off.

White: Except their armament purchases are going to extend over a longer period of time, and they seem to be disturbed about the fact that the trade is going against them. I mean, they do not regard it as a prime important factor, in any sense, and they would like to see it ease off and they will do nothing to stop it, which they easily could stop it.

H.M.Jr: I don't know how many millions of dollars of sterling was bought during this rumor period; we were talking about - we were going to increase the price of gold. There were millions and millions of dollars. The natural thing is, these people tried to get their dollars together and sell sterling, and that readjustment period is on now. Is that right, Archie?

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- Lochhead: They are giving up a certain amount of gold and a certain amount of foreign exchange. See, they could, if they wanted to, do more, but they are doing enough.
- White: They could stop it, but they don't mind it going down a little, and I think they'd be a little happier if it gradually went down without them being subjected to the charge that they are pushing it down.
- H.M.Jr: Well, I think, again, we've got to watch ourselves and see that they don't pull the wool over our eyes. But I am glad that Mr. Hull's press man is disturbed, and you can say to him that I was equally disturbed, but - and I think that Mr. Hull - if he had an opportunity to correct it, - not correct it but amplify his statement, I'd appreciate it very much.
- Gaston: Yes.
- H.M.Jr: Herbert, this story of Alfred Flynn's, in which it says I've got these bank examinations on a temporary basis - it has disturbed Mr. Jones. Would you see Mr. Alfred Flynn and have a little talk with him?
- Gaston: They called me the night this came out. I didn't know they had - they didn't tell me who had this story, but I told them it wasn't correct.
- H.M.Jr: Tell Mr. Flynn it isn't correct and while I realize it is summer and they haven't had any week-end stories, and all that, I'd appreciate it if he wouldn't do it at my expense.
- Gaston: Of course, he didn't just pick this out of the air.
- H.M.Jr: Oh no!
- Gaston: This was fed to him.
- H.M.Jr: I know, and I haven't been in Washington for five years for nothing, either, but I still think, in kindness to Mr. Flynn, I think the thing to do is to send for him and if he wants to get back to a Federal story, that's his business. That's playing on the level with him.

- Taylor: In addition - I'm not saying—on that same subject, why, Mr. Eccles and Mr. Jones think it would be advisable for you to deny that as hard as possible.
- H.M.Jr: No, I'm not going to do that. No. I'm not going to do that. Herbert will handle it. I'm not going to. I can't keep up with these boys that are interested in bank examinations; I just can't keep up with them. I mean, it's just too much. Herbert can do it.
- Gaston: What I've told the boys who asked about it - they asked me whether this was temporary or permanent or for trial period. I told them nothing was ever permanent but these were not put in for trial periods. Later, if we found some bugs in it .....
- H.M.Jr: In the room here, did it come out of the F. D. I. C. or out of the Comptroller's Office?
- Gaston: That's right. (Laughter.)
- Oliphant: All right, Herb, go to the end of the class.
- H.M.Jr: Which shop?
- Upham: I agree with Herbert.
- H.M.Jr: All right - if you don't want to play.
- Gaston: It might have come out of both.
- Upham: Flynn's on vacation; you'll have a little trouble getting him.
- H.M.Jr: Well, he can ask for Flynn and if he isn't there then whoever the Washington manager is.
- What else?
- Gaston: That's all.
- H.M.Jr: Mr. Hull asked me to have lunch with him today and their Royal Highnesses, so lunch is off today.
- Taylor: So does Mr. Jones - he wanted to beg off on that too.

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H.M.Jr: Fine. What else?

Taylor: (Nods "Nothing.") I think that thing has more important implications, not on any row, but on the credit structure, than would appear at first flush.

H.M.Jr: Listen, I am practically on the Holland-America boat. I am just sort of in between.

Upham: The New York Times commented on it this morning, and regards it as a victory for the Secretary of the Treasury.

H.M.Jr: Well, I still will let my able public relations gentleman, Mr. Herbert Gaston, handle that. If he will handle that as well as he did Mr. Hull's faux pas. Huh?

Taylor: That required rating of yours is included in the Anglo-French dictionary, if you're practicing.

H.M.Jr: What else?

Taylor: Lots of curiosity about the Chinese.

H.M.Jr: Well, we'll see them.  
Georgie?

Haas: Some cabbage, syrup, and fresh tomatoes.

H.M.Jr: What else?

Haas: That's all.

H.M.Jr: Harry, you old optimist.

White: We'll pass that.  
Before you go, would you like a written or oral report on the French situation to date, and the Far Eastern situation?

H.M.Jr: Does that come under the reading of detective novels?

White: The French might.

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H.M.Jr: Yes. Yes.

White: Which would you prefer. Something you don't have to read or something you have to listen to.

H.M.Jr: As Gaston says - both.

White: There are two articles - one in the British Economist - on the United States that I think somebody in the Administration ought to handle. The British Economist is read by certain groups, as you know, and since you are going to be in Europe, particularly, I think that article is rather an unfortunate one, and I think some day the Administration ought to answer that.

H.M.Jr: Will you discuss it with Herbert right away?

White: And I'd like to see you for a minute on some other things. Then there was a recent report that came out on Japan.

H.M.Jr: Three fifteen. (To Mrs. Klotz:) Today?

Klotz: (Nods "Yes.")

H.M.Jr: Harry, call Mrs. Klotz about - when I come back, I'll have you on a temporary list for this afternoon.

White: Good. The gold production in Japan has been stepped up very substantially so that they - it is estimated they will produce about seventy to eighty million dollars worth of gold next year, and they have cut their .....

H.M.Jr: How much gold?

White: From seventy to eighty million. That's the most optimistic estimate, but it seems to be somewhere near what is reasonable. I mention it only to indicate that her exchange problem is being well met. Her problem - her chief problem now is maintaining adequate stores and adequate imports of raw materials, not for the Chinese war but for any rushing difficulties. She has stepped up her gold, and moved down her adverse balance of payments so there is no reason to expect any serious exchange difficulties, rushing trouble doesn't come through.

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H.M.Jr: What else?

White: That's all.

H.M.Jr: Cy.

Upham: Can you put Smyth on that temporary list?

H.M.Jr: This afternoon?

Upham: (Nods "Yes.")

H.M.Jr: What else?

Upham: That's all.

H.M.Jr: John, everything under control?

Hanes: Yes sir.

H.M.Jr: (Nods to Mr. Lochhead.)

Lochhead: Mostly talk about the sterling dollar rate; the franc, under cover of this, is also getting very weak and there is quite a change in spirits over there. They seem to be getting quite pessimistic. Of course, you got that cable yesterday - but the market is rather disturbed. Secondly, the gold hoarding in London still persists, in spite of the fact they talked about devaluation of the - there is still a steady demand for gold, and gold coins are demanding a premium, and apparently has no signs of let-up yet.

H.M.Jr: Looking back over two or three weeks, is Europe on fire about stocks?

Lochhead: I'd say no.

White: About two million dollars worth on balance, the last we have reports on, and before that there's been net sales - so on the whole, you can say there are almost about zero net sales in the last few weeks, - net purchases in the last week.

H.M.Jr: Any trend on the net movement of capital out of this country?

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White: It continued very mildly the last week we have any record of - the week of July 2.

H.M.Jr: Any record of those going out.

White: It too is so small.

Lochhead: I think it is so small you can hardly call it an outflow.

H.M.Jr: (Nods to Mr. Gibbons.)

Gibbons: Tremaine has been going to follow Lehman provided the General Counsel gives us an opinion that the Comptroller General can step in.

H.M.Jr: Did you tell him the kind of opinion you wanted?

Gibbons: Yeah.

McReynolds: He's been working on it; it's just a question of whether our specifications are unreasonable. It's a thousand to one whether it's favorable or not.

H.M.Jr: O. K. What else?

Bell: Well, it ought to be a good opinion. Whether or not the Comptroller General can step in after it - I'd like to read that.

Oliphant: That is "Yes." Huh?

Bell: That's the safest answer.

Gibbons: Before you go, I'd like to talk to you about that Customs situation - Ballinger and I.

H.M.Jr: Will you put Gibbons down?

Klotz: We can give it to him right now. Three fifteen tomorrow.

H.M.Jr: Three fifteen tomorrow. All right.

Gibbons: Outside of that, that's everything.

H.M.Jr: Politics all right?

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Gibbons: It's too hot to think about politics.

H.M.Jr: Are you through?

Gibbons: I think I'll go fishing after you leave, with some politicians. (To Mr. Oliphant:) Is Bob Jackson going to be in Washington?

Oliphant: He's on leave now; he'll be back the first of August.

Gibbons: General Mooney, Buck, and that crowd goes up to Canada each year.

H.M.Jr: Will you send a cable to Butterworth - as long as I'm going to be in Paris three days - so I'll get it that Monday instead of Sunday?

Lochhead: (Nods "Yes.")

H.M.Jr: (Nods to Mr. Bell.)

Bell: I think I'll have those expenditure figures sometime tomorrow; they'll be in the rough and will not be in the chart. I don't know how long it will take George to put them in chart form.

H.M.Jr: All right.

Bell: And the President will get the bad news on the Budget this afternoon for tomorrow morning's papers.

H.M.Jr: That's the Budget's own stuff.

Bell: Yes.

H.M.Jr: All right. What else?

Bell: Ah .....

Gibbons: Incidentally, ....

H.M.Jr: Do I sign that or not? You and the President?

Bell: I am releasing it.

H.M.Jr: It doesn't go out over my signature?

Bell: It's the President's statement and I release it.

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Gibbons: What did Senator King want?

H.M.Jr: I thought I paid that debt.

Gibbons: I saw something complimentary in the paper about what King said about it.

Upham: That reminds me, Mr. Secretary. Congressman Cochran is trying to reach me this morning.

H.M.Jr: If he wants the truth, the man he wants to promote - if he presses me much more I'll fire the man, because he's a crook. It's just gotten down to the basis - I wrote him a letter and told him we couldn't promote the man. If he presses me, I'll just have to fire him. I don't know why he wasn't fired a long time ago. Why hasn't he been fired, Mac?

McReynolds: Jack knows everything about him; Jack is the one that kept him out of jail. (Laughter.) You can't tell him anything else.

H.M.Jr: O. K. We'll make him Warden.

McReynolds: I told him in that letter, we couldn't promote him.

Taylor: He kept him out, but we've got the business now.

H.M.Jr: All right. Let him call.

Upham: He'll call me.

H.M.Jr: Refer him to McReynolds.

McReynolds: He's been talking to me about it for three years.

H.M.Jr: Mac?

McReynolds: Have you been taking all of Jesse's money away from him over there at R. F. C.? The last five mornings he's called and wanted taxi service from his hotel, for an hour. I've given it to him.

H.M.Jr: No.

McReynolds: He called this morning.

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

McReynolds: He started last Thursday - every morning since then, he's asked to have a car sent over to pick him up at his hotel, and he wanted to use it about an hour.

H.M.Jr: Well, keep giving it to him.

McReynolds: I told the boys to let him have it; every time he wants a car to let him have it.

H.M.Jr: How do you dope that one?

McReynolds: I thought maybe Dan and Wayne and yourself had taken all the money away from him and he didn't have any money for taxi fare.

Gaston: He's probably sent his car to Texas.

McReynolds: I asked somebody - I've forgotten who it was - "Hasn't Jesse got a Cadillac?" They said, "But Mrs. Jones is using that."

H.M.Jr: Just as long as Jesse wants a car from the Treasury let him have it.

McReynolds: We now have a letter from the Maritime Commission asking the Coast Guard to go ahead on the training; they say they will pay the bill.

H.M.Jr: Grand.

McReynolds: Herman is a little worried about the labor implications. I didn't think there was anything new in it; I didn't see why we shouldn't go ahead. I think Herman's idea - I ought to let him express his own.

H.M.Jr: Well, I can't do it on the fly. Let's have a talk on it.

Gibbons: I think there is some dynamite in it, unless we have the whip-hand.

McReynolds: The letter is in his shop.

Oliphant: I have initialed it and sent it through.

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Gibbons: It's on my desk now.

H.M.Jr: Let's talk about it. Everybody interested in having the Coast Guard train able bodied seamen for the Maritime Commission, at three thirty o'clock tomorrow. And ask the Assistant Secretary of Labor to be here, too, to advise me.

Gibbons: There's only one over there.

H.M.Jr: I know, but he's a good egg.

Taylor: McLaughlin.

H.M.Jr: Ask McLaughlin to be here.

Bell: I think it would be grand if we could hold the whole thing.

Gibbons: If we wouldn't have Labor and C. I. O. butting in on you.

McReynolds: Steve, you want to call the Assistant Secretary of Labor?

Gibbons: I've been talking to him.

H.M.Jr: Herbert, ask Bob Jackson whether he thinks I ought to take this or not. Will you call him up, and ask him what he thinks - if we ought to take this.

Bell: Waesche has had some contact, hasn't he, with the Labor leaders?

H.M.Jr: Anybody want ....

McReynolds: They've got it in the bill.

Oliphant: Could I have a minute now?

H.M.Jr: Now, Oliphant, just a minute.

O. K.

7-12-38  
(postmarked)

The Chief



31

EN ROUTE

Dear Henry-

I see in The Times that you are sailing on Friday - the day on which I expect to get home. So this letter will take the place of the phone call I expected to see you.

I've been all around the country on a strenuous tour. I was prompted to take it by virtue of the Red Queen's philosophy: "Speak first & think afterwards - it saves time." I was in Europe for a month & returned just five weeks ago. As a result of that trip we had an editorial which you may have seen, called "a way

The Chief



EN ROUTE

farmers,  
 newspaper men - a couple of governors  
 & Senators - mayors - Govt  
 administrators, a labor leader etc  
 & in every place I found  
 agreement with our view that  
 if war should come in Europe  
 we would inevitably be drawn  
 into it. In each case I told  
 them how when I'd gotten out of  
 the army, I got out of the reserves  
 & the kids never had any toy  
 soldiers. I admitted that our  
 isolation policy sprang from  
 deep roots which had been  
 heavily nourished by our experience  
 in the last war & the post war  
 period - our debts hadn't been

if bits" (I include a copy of it several  
 years) The book caused considerable  
 comment - The German Foreign Office  
 policy announced it was justified,  
 it was - it was justified by my trip.  
 At my rate I decided I'd like  
 to check up to determine if we  
 were right about American public  
 opinion & so I started off  
 two weeks ago tomorrow. I went  
 by train to St Louis - the next  
 night to Kansas City - from there  
 Omaha. I asked the hotel manager  
 Omaha & then the hotel manager  
 to San Francisco - then to Seattle.  
 Then Portland & then Los Angeles.  
 The back to train travel was  
 on my way to Chicago - making  
 to see Miss La Follette & then  
 home. In every point I met  
 with leading names were

The Chief



EN ROUTE

all the decent people seem against him + should be to nominate they will have to support the Democrat. Landon told me that (he's much concerned on the whole issue) so did the Star people.

The most fortunate thing for you is that the labor leaders of the Pacific coast are not of that faith. If they were it would be dangerous in the extreme for the labor issue is paramount - it's all they talk about apparently & the Wagner act. The NLRB's prejudices & those Perkins all vie for a new high in lows.

In the middle west they admit that the farm problem is not political but agree that

per & - in doubt like the front etc.  
 But I said - doubt that I think  
 will become involved, some  
 suggested a bit - others admitted  
 pointing that they did too. I  
 think the right in saying that  
 may we have discussed - a change  
 + the signs he would point up  
 on a situation - that that type  
 in every case too there was no  
 question as to what to do -  
 would be on - the double &  
 dictatorship or judgment +  
 discouraging.  
 Don't seem to have so difficult  
 in a few to check. When the  
 feeling knows that it is  
 following the normal course &  
 had time which is when it  
 change thinking. In Kansas  
 when Landon is running for  
 Republican Senator nomination

political business will rise +  
 fall in it. In the spirit that  
 I met (and they can by no  
 means all out with me) Wallace  
 was regarded with a great deal  
 of disfavor. On the other hand  
 I think jeans made from him  
 top of his head the same job.  
 It was in St. Louis that I  
 got back to Tom Smith - the  
 fact which really brought the  
 fiction. He's a mighty good  
 friend of mine - had's you in  
 the highest esteem + respect  
 just with the mockingbirds  
 that you have been in what I  
 think the three of us might agree  
 since this is written in private  
 with no copy, has been a  
 excellent opportunity.



EN ROUTE

know is the surest place in  
 encountered so far as business  
 is concerned. My judgement  
 would be that God will determine  
 the politics of the mid west  
 + thus far God is pro New Deal.  
 The mid west doesn't need the  
 almighty as an intermediary.  
 P.W.A. seems to be doing the  
 trick.

This is getting too long - it  
 was started to tell you of Tom  
 Smith + instead you now have  
 a summary of the world  
 condensed into twice its size.  
 F.D.R. has certainly been  
 fine on the Erian matter +



EN ROUTE

P.S. Possibly I should add that what prompted the editorial which in the manner of the house that falls built prompted this trip, was consciousness of the pity that the weight of the U.S. could not be used in advance of trouble in Europe to help prevent it, rather than after trouble had started to help one side win. I realized that no state dept could commit us that way but had the feeling that all our isolation talk was misleading & that in those capitals where peace seemed less highly regarded than in others, they had better know that they could not

I have been conscious that your presence must have had weight either directly or indirectly in the matter. I made I might tell him so but the has or however occasion discussed that with the holders medals make it easier for me to stay away. Besides the diff culture may get to be in guidance + amount not to tumbled out of that frame of mind. It is a good vacation + forget it all. Maybe in a couple of years we can have another meeting of the PEP club. My kin to all.

Waterbury Court in Ct. ✓  
just that such knowledge might  
differ from your standing. A.K.A.  
A.K.A. ✓



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Hon. Henry Tinsmith Jr.

S.S. Statendam  
Sailing July 15<sup>th</sup>

42

Holland American Line  
New York City

July 12, 1938.

MEMORANDUM TO MRS. KLOTZ:

Today, Tuesday, July 12th, the Secretary asked Mr. Gaston to talk to Gardner Jackson and get his opinion on the request of the Maritime Commission that the Coast Guard be authorized to establish training schools for merchant seamen. Mr. Jackson said he would like about fifteen minutes to talk to the Secretary about it and a conference was arranged for 4:30. There were present the Secretary, Gardner Jackson, Lowell Mellett and Mr. Gaston.

The Secretary told Jackson that being only a simple farm boy he didn't want to be used as a tool in a plan to crush the marine unions and he wanted to know whether Mr. Jackson thought these schools of seamanship would have that effect. Mr. Jackson said that his unions (the C.I.O. group) had fought energetically the original proposal to have the Coast Guard train merchant seamen as they thought it was simply a device to break the unions by furnishing a supply of trained seamen who were not union members. However, their objections prevented the enactment of the bill in its original form and as finally passed they saw no great objection to it. The effect would depend a great deal on how the act was administered. The Secretary repeated that he was not going to permit himself to be used as a tool to break the unions and he wanted to be very careful not to commit himself to anything that would do that. He said he would like to have the benefit of Mr. Jackson's advice in connection with organizing the work, if he approved it. Jackson said he would be very glad to cooperate.

The Secretary called in Mr. McReynolds and read the proposed letter, which merely committed the Secretary to authorizing a conference with the Maritime Commission to discuss the proposal. The Secretary signed the letter. Mr. Jackson asked if the Secretary would like to have some more details on the subject and the Secretary said no, he would not have time to go into it now, but he would leave the matter in the hands of Mr. McReynolds, Mr. Oliphant, Admiral Waesche, Mr. Gaston and Mr. Jackson. He said that Mr. Gaston would be Mr. Jackson's contact man and would arrange for a meeting with the others to discuss plans. Mr. Jackson expressed himself as well satisfied with this arrangement and said that he would expect to hear from Mr. Gaston.

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## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE July 12, 1938

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: Commercial loans in relation to inventories.

Summary

On June 29 a letter was sent by the Treasury to the presidents of each of the 12 Federal Reserve Banks, asking each to contact a group of representative banks in his district to determine to what extent the reduction in commercial loans since last October was due to the liquidation of inventories.

The replies indicate the difficulty of determining with any degree of accuracy the reasons for reductions in loans in individual cases, but nearly all the banks are in agreement that there has been a liquidation of inventories since last October, and that this has been a factor of greater or less importance in the reduction in commercial loans. Opinions vary as to how much of the reduction has been due to this factor. Two other factors, the liquidation of receivables and the liquidation of finance company loans, are also mentioned by most banks as partly responsible for the decline in commercial loans.

It may be noted that the liquidation of receivables itself reflects a liquidation of inventories, since a common way for a merchant or other buyer to stock up with goods and materials is to buy on credit, liquidating his account when the goods are sold. This fact is recognized by some of the banks; the letter from the Federal Reserve Bank of New York, for example, says that the reduction in accounts receivable "may in fact represent a decrease in inventories in some other stage of the manufacturing and merchandising process."

Secretary Morgenthau - 2

A summary of the individual comments by Federal Reserve districts is given herewith.

Boston: "It has long been recognized that there was a general conformity between the movements of inventories and of commercial bank loans." While certain questions were raised by the banks interviewed, "in the main the banks conceded that there was a general correspondence between the decline in loans and the decline in inventories. .... Whatever the qualifications, it seems reasonably certain from the experience of 1921 and 1938 that commercial bank loans and inventories follow in a general way the same trends -- both downwards and upwards -- whether or not with a lag in inventories may be a debatable question."

New York: "Inventory liquidation, of course, has been one of the major factors causing reductions in the commercial loans of the New York City banks, but lack of data makes it hazardous for the banks to give anything but the roughest sort of guess of its exact influence."

Another principal factor has been a reduction in accounts receivable. "This reduction in accounts receivable may in fact represent a decrease in inventories in some other stage of the manufacturing and merchandising process."

"In addition .... most of the New York City banks interviewed reported that a substantial part of the reduction in commercial loans has been due to a reduction in borrowings by finance companies."

Philadelphia: "In most instances it does not appear that the reduction of inventories has been a factor of any unusual significance, although some cases of declining loans can be traced directly to inventory liquidation." Other factors cited are (a) Greatly reduced volume of business; (b) lower level of prices; (c) reduction of receivables; (d) substantial liquidation of finance company paper; (e) general apprehension of future developments.

Cleveland: "We wrote to fourteen representative banks for an expression of opinion. .... In the main the opinions voiced by these banks substantiate the statement that the reduction in commercial loans reflects a liquidation of inventories."

Secretary Morgenthau - 3

Richmond: A summary of replies from 14 banks whose loans had been reduced since last October shows that 11 consider inventory liquidation to have been a factor in the reduction, although estimates of its importance vary.

Atlanta: "I think it is undoubtedly true that commercial loans have been reduced to a material extent by reason of the liquidation of inventories." One banker reported that inventories of his borrowing customers had declined by 20 percent, and loans by 17 percent. One banker estimated that liquidation of inventories accounted for 60 percent of reduction in commercial loans; two other bankers in the same city estimated 33 1/3 percent and 25 percent, respectively. Another banker estimated that 75 percent of its decline in loans was due to this cause, while still another attributed practically the entire reduction to liquidation of inventories.

Chicago: "We estimate that possibly 40 to 60 percent of the decline in borrowings from banks has been due to inventory liquidation, and that the balance of the decrease has been effected through a reduction in receivables, plus about 5 percent obtained from new capital issues."

St. Louis: "In virtually all instances, officials of the banks were of the opinion that there has been a substantial decrease in inventories of all descriptions during the past seven months .... The declines in commercial loans of the banks contacted were for the most part commensurate with the smaller inventories carried by the mercantile and industrial customers."

Minneapolis: "The summary indicates that the decline in commercial loans in this district was largely the result of liquidation of inventories of grain, milling and fuel concerns and that decreases in advances to finance companies were of only slightly less importance. There was also a material reduction in the amount of commercial loans resulting from the liquidation of accounts and notes receivable outstanding on merchants and manufacturers' books last October."

Kansas City: "Inquiry of approximately a dozen large banks in the Tenth District seems to establish quite definitely that the liquidation of inventories since last October has been accompanied by a reduction in bank loans .... Even where loans have not declined, or where a decline has been the result of factors other than inventory changes, banks report that specific loans made to carry stocks of goods have been reduced or eliminated as inventories were liquidated."

Secretary Morgenthau - 4

Dallas: "Most of the banks interviewed reported that there had been some decline in commercial loans which in all probability represented in part the liquidation of business inventories; however, it should be borne in mind that the accumulation of inventories in this district during the fall of 1936 and the early part of 1937 did not take place to the extent that it did in some other parts of the country .... We feel, therefore, that the liquidation of business inventories, other than of a seasonal nature, has had relatively little effect upon the trend of commercial, industrial and agricultural loans at reporting banks in this district."

San Francisco: "A majority of the banks state that a considerable part of the decrease in loans -- perhaps around 50 percent -- reflects liquidation of stocks."

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 12, 1938

TO Secretary Morgenthau

FROM Mr. White

Subject: Proposed Chinese Loan

The advantages to the United States and to world peace that would result from the extension of a substantial loan by the United States to China this Summer are so great that I wonder whether you think it might not be worth while to leave something like the attached with the President before you leave.

(Appended <sup>also</sup> is an opinion by Mr. Oliphant which indicates that either the Export-Import Bank and/or the Commodity Credit Corporation could legally extend a loan without legislation. Whether they would do so or not depends, of course, on the President.)

July 12, 1938

*Suggested draft of Brief memorandum from you to EDR*

The Ambassador of China stated to me this morning that his Government wished informally to request that the unused balance of the 1933 Wheat and Cotton Loan, amounting to \$33 million, be extended to China now.

The General Counsel of the Treasury has informed me that in his opinion the Export-Import Bank and/or the Commodity Credit Corporation have the legal authority to grant such a loan without additional legislation.

I believe that sometime during the Summer will be an opportune moment in which this Administration can make a great contribution towards world peace and towards strengthening the forces of democracy. Such a step would be the granting of substantial financial assistance to China (which I discussed with you last month) for the purchase of our surplus agricultural products.

The reasons why I feel so strongly that a loan to China would be an excellent move are:

On economic grounds

1. It would help business in the United States, raise the level of farm prices and farm income.
2. It would assure to the United States for many years to come a favored market among the 400 million people in China.
3. It would enable a curtailment of military expenditures in future budgets. One of the important reasons for construction of a large Navy is the growing power of Japan. A Japanese victory will greatly increase our expenditures on armaments during the next decade. Anything we can do to help China in its resistance to Japan weakens Japan and thereby strengthens our defenses against possible enemies. \$100 million spent to help the Chinese at this stage in the hostilities is more effective from a military point of view than many times that sum spent on battleships.

- 2 -

On political grounds

1. The loan would have the full support of a great majority of the American people and would help to strengthen this Administration as no other single act of our foreign policy likely to be taken would. This is particularly important before the 1938 elections.

2. It will be the first time since the rapid growth of Fascist power that a democracy has taken a positive step to aid a victim of aggression.

(a) It would raise the American prestige abroad to a higher point than it has ever had since 1918.

(b) It would strengthen the liberal forces in the threatened democracies and would be interpreted as a precedent whereby smaller democracies in danger from aggression can receive real help from the strongest country in the world.

(c) It would be a most important step toward weakening the aggressive military policy of Japan, Germany and Italy that has so far been taken. It would strengthen the liberal forces in Japan and weaken the military clique intent upon continued prosecution of the war in China.

On humanitarian grounds

1. Probably millions of Chinese will die of starvation during the coming year; most of their lives would be spared by a loan for the purpose indicated.

The State Department has objections to the proposal. These objections were told to me when the proposal was discussed a month ago. None of the arguments then presented impressed me as being nearly good enough to outweigh the advantages of the loan.

July 12, 1938.  
10:27 A. M.

George C.  
Maas: Hello, Henry?

H.M.Jr: Hello George.

H: How are you?

H.M.Jr: Fine.

H: Henry, I have decided I will take advantage of your kind offer.

H.M.Jr: Good.

H: Ah - now, ah - of course, I ah - it will be at their - I mean, strictly at their convenience, but I'll just tell you that, ah, either Thursday of this week, or of next week, would be what would be best for me. I don't know whether that suits them at all.

H.M.Jr: That's all right; I can find out.

H: And Thursday, of next week, would be very fine because I have to be in Baltimore on Friday.

H.M.Jr: But this Thursday would do also?

H: Yeah, this Thursday would do also.

H.M.Jr: What?

H: Yes.

H.M.Jr: I think it's .....

H: I want to tell you I enjoyed that Temple address; I think it was fine.

H.M.Jr: Well, I - I enjoyed, ah, ah, kidding with you, too.

H: Thank you.

H.M.Jr: Now, ah, what's your phone number?

H: Bowling Green 9-7060.

- 2 -

H.M.Jr: Bowling Green 9 - what?  
H: 7060.  
H.M.Jr: 7060. 9-7060. Ah, you'll hear from me very shortly.  
H: All right, I'll be here.  
H.M.Jr: I'll call you, George.  
H: Thank you. .  
H.M.Jr: You're welcome.

July 12, 1938.  
10:32 A. M.

H.M.Jr: Hello.

Operator: Mr. Jones. Go ahead.

H.M.Jr: Hello.

Jesse Jones: Hello.

H.M.Jr: Jesse.

J: Will you excuse me from lunch?

H.M.Jr: Yeah. If you're going to eat at the same place I am.

J: Yes.

H.M.Jr: Ah, ah - up to date, with the final returns not in yet, we've got two billion one.

J: Two billion one?

H.M.Jr: Yeah. And, ah, they're quoted at sixteen to eighteen-thirty-seconds. It's just what we figured them on.

J: How's that?

H.M.Jr: They're quoted at from sixteen to eighteen-thirty-seconds premium.

J: Uh huh.

H.M.Jr: See? Which is about a half a point premium.

J: Uh huh.

H.M.Jr: Which is very nice.

J: That's very nice, isn't it?

H.M.Jr: Yeah. Which - ah - the boys say there's ah - they ah, they haven't got all the subscriptions in yet, because they haven't opened the mail.

J: Ah hah. Well thank you very much, and I'll see you at lunch.

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H.M.Jr: Yeah. But, I mean - ah - they're quoted at ah -  
at, at ...

J: I'm glad to know about it.

H.M.Jr: They're bid a half a point premium.

J: I'm - I'm glad to know about that.

H.M.Jr: So we certainly priced it conservatively.

J: Hit it just about right.

H.M.Jr: As near as anybody could.

J: Just about right.

H.M.Jr: Yeah.

J: Well, that's just fine.

H.M.Jr: Fine.

J: Well, we're very happy about it here. I've told  
some of the Directors and - and "Ham" Mulligan,  
and they're very much pleased.

H.M.Jr: Fine.

J: Thanks.

RE INTERNAL REVENUE MATTERS

July 12, 1938.  
10:30 a.m.

Present: Mr. Magill  
Mrs Klotz  
Mr. Hanes  
Mr. Helvering  
Mr. McReynolds

H.M.Jr: Well, the idea of this was a sort of - to get together. I didn't know whether you (Helvering) were going to Europe or not. Are you going?

Helvering: Yes.

H.M.Jr: When are you sailing?

Helvering: A week from tomorrow.

H.M.Jr: Well, I'm a week - half a week ahead, of you. No, three days ahead of you.

Helvering: You leave on the what - 16th?

H.M.Jr: I leave on the 16th - 15th, the boat goes. And I thought this, that you and Hanes ought to spend as much time as you could together before you go, and get acquainted.

Helvering: I wonder, would you (Hanes) like to come over and get a general view of the set-up over there?

Hanes: I'd like to very much. That's what I've been waiting for.

Helvering: Well, supposing we just put that down, then, for tomorrow morning, if you ....

Hanes: Aside from what ....

H.M.Jr: We had tentatively .... I don't know what Mac did, but he was going to bring those men in at 10:30 tomorrow from New York. Then we have a big staff at 11. So that maybe you'll have to put it off until tomorrow afternoon.

Hanes: Could you have lunch with me tomorrow, or if you can't, after lunch?

Helvering: I've got - I'd have to have it Thursday morning, then, or ....

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H.M.Jr: What are you doing this afternoon?

Helvering: Well, I've got two appointments - two hearings.

H.M.Jr: And tomorrow afternoon?

Helvering: Tomorrow afternoon is all taken up.

H.M.Jr: I see.

Helvering: Isn't tomorrow Wednesday?

Hanes: Tomorrow's Wednesday.

H.M.Jr: Well, let it go until Thursday?

Helvering: Thursday, any time Thursday.

Hanes: What about those receivers, too? You remember you ....

H.M.Jr: Well, we can talk some now. I've got plenty of time right now.

Well, you and Hanes will get together Thursday morning.

Helvering: Yes.

Hanes: We have a meeting here Thursday morning, don't we? Ten Thursday?

H.M.Jr: No. Wednesday we're scheduled - bringing those men in who are opening up the New York office, if that's on. Let me just find out from McReynolds.

(On phone) McReynolds, please. - Hello. - Mac, you didn't tell me, are those boys coming down from New York 10:30 tomorrow? What? All right, 10:30 tomorrow. And that's that. And you'll see who else is here. - Yes. - Well, come on in anyway; you ought to be here now. In my office. Please.

Helvering: What's this at 10:30 tomorrow?

H.M.Jr: About the opening up of the New York office. Somebody said I should see these two boys that are going

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to have charge of it.

Helvering: Mooney and ...

H.M.Jr: Yes, and somebody else.

Magill: Hanson.

Helvering: Hanson.

H.M.Jr: Thought it was important enough I see them, take a look at them, give them a little pep talk.

Helvering: Two good fellows.

H.M.Jr: All right.

Helvering: Those are two ...

Magill: They got a big job up there.

H.M.Jr: Somebody, I don't know who, said it. Maybe Mac did.

Magill: I think it was Mac.

(McReynolds comes in)

H.M.Jr: No one else.

Helvering: Hello, Mac.

H.M.Jr: Sit down, Mac.

Helvering: Well, are you - you're just going to meet them, that's the idea.

H.M.Jr: That's all.

Helvering: No discussion of policy or anything like that. That's all been ....

H.M.Jr: No, that's all settled. No, just somebody - I suppose it was McReynolds - said he thought ....

McR: It was Graves' idea the other day, a week ago last Friday. He thought it was a good idea for these

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boys who are going to head up the New York office to get ....

Helvering: Doesn't hurt, Mr. Secretary, for you to tell those boys, "You realize you've got a big job and ...."

H.M.Jr: O.K.

McA: Yes, that was his idea, just to pep them up.

Helvering: Because they like to know the thing's gone all along the line, everybody understands it.

H.M.Jr: O.K.

Helvering: It's a good thing.

H.M.Jr: Now, what else we got here?

Magill: I don't know of anything particular. I think the best thing that can be done is what you have just worked out; that is, for John to get over there and meet some of your chief people over there and know who it is he's got to work with.

H.M.Jr: I'd call them together and give them a little talk and then let John Hanes give them a little talk.

Magill: For instance, you'll be getting a lot of stuff from the Income Tax Unit and the Estate Tax Unit, and less from the others.

McR: Of course, Hanes would have done that last week except for the fact that the Commissioner was away, and he felt that it would be better to do it when the Commissioner was here.

Helvering: Now let me ask just what position Mr. Hanes is going to occupy here in the Treasury?

H.M.Jr: When Mr. Magill goes back to pouring knowledge into ...

Magill: ... empty skulls of prospective lawyers...

H.M.Jr: ... in attendance at Columbia University, Mr. Hanes will be Assistant Secretary with Internal Revenue under him.

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McR: He'll take Magill's ....

H.M.Jr: He'll take over Magill's responsibility.

Helvering: Uh-huh.

H.M.Jr: Does that answer your question?

McR: In respect both to the ordinary contacts with the Bureau and tax legislation.

H.M.Jr: He'll take over Magill's responsibility.

Helvering: Legislation and our contacts.

McR: Legislation and Internal Revenue.

H.M.Jr: And political appointments. You and I will give him those, won't we?

Helvering: He can have those.

H.M.Jr: Magill, you know - Magill's just gotten away with murder. Doesn't know anything about political appointments. When anything's mentioned, you always see his eyes go skyward. But Guy and I and Steve have had ....

Magill: Just to show what a good friend of yours I am, I haven't said a word about this to Hanes, so ...

H.M.Jr: Well, I knew you were my friend.

Helvering: Well, since you've mentioned it, when I got back I found about 40 letters over there just protesting about this, that, and the other - on our recent reduction. But outside of half a dozen, there's not much to it.

H.M.Jr: Well, what about these 40 or 50 men, Mac, while we're on this, that you felt had been in the service 18 or 20 years, who were going?

Helvering: Some bad ones there; that is, what I mean - there's some lamentable situations.

McR: What I had in mind, Guy, was ....

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H.M.Jr: Let's talk about it.

McK: There are quite a number of people who have been in 18, 20 - some of them, more - years, non-Civil Service, straight deputy appointments, who are superannuated, and very largely they are in this group that are being dropped. No retirement privileges. They have worked just the same as any of the clerks who have Civil Service.

I told the boss that I was coming in with a proposal for legislation that would give those people who want to be retired who have been there more than 15 years, which is the minimum age or minimum length of service for retirement - would give them the regular retirement benefits as they're dropped because they become superannuated.

Halvering: Harold discussed that with me a little, and I urged him to get a little more information than he was getting.

McA: Well, we'll need complete information. And there's something that will have to be done. Some difficulty in the legislation. But it seems to me only fair, because you've got a lot of people who have worked for twenty or more years as Deputy Collectors at the regular salary, same as they would have gotten if they had been Civil Service employees, under the same conditions. Of course, there hasn't been any reduction from their pay on account of retirement. But certainly it would be economical from the Government's standpoint to pay them what the retirement pay would be and let them go rather than keep them at the regular salary, and it certainly is inhuman to throw them out to go on relief rolls and become mendicants when they are beyond the point where they can earn anything if we drop them. Now, that's the alternative you have.

H.M.Jr: Well, it's just a question of being - difference between being a machine and being a human. And what I'd like to do very much before I leave, if I'm not pushing you fellows too hard - but if it's possible to take care of these special cases, the kind that Mac has described, I'd like very much to do it.

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- McR: Of course, you can't take care of them without legislation.
- H.M.Jr: But you can keep them on the payroll.
- McR: I think Helvering would be in agreement to keep them on the payroll. When this gives us a good chance, if we put up that kind of legislation, to cover the men as Civil Service people from that point on, and pick up the people that you're dropping and throw them on to retirement rolls.
- Helvering: Why isn't that - this is a good point to start our real Civil Service in the Collectors' offices.
- McR: That's just the hole you need.
- Magill: Certainly use it that way.
- Helvering: We'd be in a whole lot better shape.
- H.M.Jr: I'm back of you a thousand percent. Put those fellows under Civil Service, be a great thing.
- McR: The benefits to the group themselves are going to be so apparent ....
- Helvering: Well, every time a new - one case down in Florida; just as well mention it - here come two new Senators in at once, on account of the death of the two Senators down there - occurred within a few months. Well, we just had one "H" of a time to keep them from upsetting the whole ....
- H.M.Jr: Well now, Guy, would it be crowding you too much to come in at 10:30 tomorrow - to have an answer on this thing?
- McR: I don't think he can have an answer.
- Helvering: Well, I'm going to have it the 15th.
- H.M.Jr: Well, I don't want to - I mean ....
- Helvering: You see, I've got to make a survey, Mr. Secretary, of all these 840 we dropped. Now, there's a great many of those - majority of them haven't served 15 years, but there's a certain portion of them that's

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served - oh, up to - one case, 22 years.

H.M.Jr: Well, how will we leave it so that I can sleep on it - I mean I won't be worrying about it? I mean ....

Helvering: Well, the ...

H.M.Jr: I mean - well, let's see, are you ....

Helvering: Of course, cutting right down, without any humanity in it - here's a lady, for instance - I know of one case in New York, a lady who is supporting an insane sister or a niece, I forget which, and she's 60-some years old, and she's been there 20 years. Of course ...

H.M.Jr: Why don't the four of you get together, and I'm tremendously interested in this thing - that this thing be reviewed. Will you do that?

Magill: Surely, surely, we'll do that.

Helvering: We'll have a full tabulation made.

H.M.Jr: Why don't the four of you follow it through, because there's some tremendously heart-to-heart cases there. How many people are we laying off, 800?

Helvering: 843.

H.M.Jr: There's 40 or 50 ....

McR: Of course, that's regular deputies too. That doesn't include the reduction that was made on these temporary appointments on Social Security. It was all done before that. These are 843 who have been on the regular roll.

Helvering: Of course, those previous ....

McR: They knew they were going to get canned.

Helvering: Yes.

McR: Of course, no question about that. We're not raising that point.

H.M.Jr: Will the four of you go into that for me, see if you can't have it ready by the time I go, huh?

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- Helvering: Well, we can do this right now, as far as I'm concerned. I could say that we'll advise these Collectors where these cases are that, pending further advice, we're going to keep these people on.
- McR: Who have had 15 or more years and where there's no moral delinquency. And if you've got a discipline case and they have to fire them, why, ... But 15 years is the minimum at which they can benefit from retirement.
- H.M.Jr: All right. Pending ....
- McR: But you've got to have legislation before you can dispose of it. I think the thing to do is for Guy to tell his boys to take out the 15 and more year cases and keep them on the roll until we can have a chance to cure it by legislation.
- H.M.Jr: All right? Everybody?
- Helvering: Uh-huh.
- McR: And we'll have the thing drafted.
- Magill: The thing is a natural, because you've got not only the chance to do a little something human, but you've also got a chance to cure this Deputy Collector situation, which is really serious.
- McR: Same legislation.
- H.M.Jr: And that should bring that under Civil Service.
- Magill: We very badly need it.
- McR: All the rest of the people outside of Civil Service are being taken in by this Executive Order. These people can't be taken in because they are specifically exempted by law, and it will take a law to do it. I don't think there will be any objection to it. I know Guy has been in entire sympathy. We've been talking it over for the last couple years. He's been in entire sympathy with the idea, and I think nine out of ten of your Collectors are in favor of that.
- H.M.Jr: Well, that's enough on that. We're all in agreement on that. What else?

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- Helvering: I just wanted to mention, there's one or two cases where certain Senators are going to ask for retirement letters for some of the best fellows in the service, and I don't know whether it's going to proceed any further, but an illustration is out in Indiana, where Smith out there, I think, is - he's one of the best Collectors we've got.
- McR: Got that in Customs as well as Revenue.
- H.M.Jr: Well, I can't ....
- Helvering: I just want to discourage that as much as possible, where we could.
- H.M.Jr: well, here's the point. They - they - in Los Angeles we had a Collector of Customs who did a swell job. The White House sends over an order: "Please have a commission made out in an hour for a new man." Fellow had an excellent record. Port of Los Angeles was run beautifully. Took a great interest. He was our coordinator for law enforcement for the district. He leaned over backwards about not earning any money on the side through writing; he's a writer, and ...
- Helvering: Yes, I know.
- H.M.Jr: Al Cohn. The minute he left us he got a job as a columnist on a newspaper. Then 20th Century Fox took him on right away; he's a writer of plays.
- And I don't know - all I can say is, resist it all you can. But when we get into that business and the President of the United States says, "Send over a commission within an hour for a new man," I can't do anything about it.
- McR: Well, under the present legal set-up there isn't anything you can do about it. It's presidential patronage.
- Helvering: Senator Minton was in to see me, and insists on this man Smith. I said to him, "Now, Senator, if through the Treasury the President asks me, 'What about Smith?' I'm going to have to say he's one of the best Collectors we've got."

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- H.M.Jr: I don't know what attitude Mr. Hanes wants to take - probably doesn't know himself yet - but as far as I'm concerned - Hanes can talk for himself after he's been here on that sort of stuff - if you and Steve Gibbons will handle it with the White House - I mean as far as I'm concerned, I much prefer to be left out of it. But my policy still holds good that when you're in hot water I'll back you up. I mean I haven't let you down yet and I won't; but if you get into trouble I'm always here.
- Helvering: Some of these fellows, they're all thumbs; I don't care how quick we get rid of them. But when we've got an extra good man ....
- H.M.Jr: Well, they've been around talking about the Collector of Customs up at Baltimore - he's supposed to be a Tydings man - want to get rid of him. So I said, "Well, I just don't get in on that kind of stuff, and as far as I know he's doing his job, and if the President of the United States doesn't want to reappoint him, I can't - I don't want to do anything about it." As I say, I don't know - Hanes can make up his own mind what he wants to do.
- Helvering: That particular situation, I believe they're barking up the wrong tree. About Dailey?
- H.M.Jr: Yes.
- Helvering: Being a Tydings man - I don't know whether he is or not.
- H.M.Jr: I'll show you how much I know; I had to ask for his name.
- McR: Well, Dailey is a pretty good name.
- H.M.Jr: I'm glad you mentioned this particular thing. As we go along and you (Hanes) get the feel of it, you can make up your mind whether you want to do what Magill has done, and do nothing about it, or whether you want to get in on it and take part of the responsibility.
- What I'll do is - I'm always here, I'll always go in the front line trenches when there's trouble, but unless there's trouble, why - I mean I won't appoint a man that isn't fit to be appointed for anybody; I haven't; but when it comes to changing these people ....

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I mean if a man's record isn't clean, I just won't appoint him, and I haven't. Nobody we've appointed hasn't had a clean record. But when it comes to swapping people around because they want to do political housecleaning, there's nothing much I can do about it, as long as they give me a fellow with a clean record to take his place.

McR: Of course, situations differ with respect to Collectors of Internal Revenue and Customs. Customs has a definite four-year appointment; Revenue has an indefinite appointment; they're good until replaced.

H.M.Jr: Well, you take the case - you take Senator George, for instance, of Georgia. I go up before the Appropriations Committee in the Senate and every single Senator there said, "How do you do" to me and shook hands with me, except Senator George, and he cut me dead. Why? Because the President wouldn't reappoint his Collector of Internal Revenue. So Senator George, when I go up there, cuts me dead. And I had no more to do with it than Hanes did. But every man in the room shook hands and said hello except George, and he turns his head up. I had absolutely nothing to do with it.

What else?

Helvering: I think the man we're going to appoint down there is a good man, will do it all right.

H.M.Jr: What else?

Helvering: I don't know ...

H.M.Jr: Well, I'd like if you - have you got anything?

Hanes: What?

H.M.Jr: Anything you want to bring up?

Hanes: No.

H.M.Jr: You (Magill)?

Magill: Well, yes, I would.

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H.M.Jr: Go ahead.

Magill: What I'd like to do would be to spend - as I said to you earlier this morning, spend some time discussing tax legislation, what we ought to be doing about it.

H.M.Jr: Well, I'd like to unburden. Take me about four minutes. Who would you like to have here to listen? I want to do a little philosophizing on tax revenue, budget, and all that stuff.

Magill: Blough and Shoup, I should think.

H.M.Jr: You (Hanes) want anybody else?

Hanes: Tarleau?

Magill: Might have Tarleau too.

McR: Better have Tarleau.

H.M.Jr: (On phone) Hello. Would you have in Mr. McReynolds' office - I mean in Mr. Kieley's office, as near 11 o'clock as possible - let them assemble there - Tarleau, Blough, Shoup, Haas, and White.

Anybody else?

Magill: No, I don't think so.

H.M.Jr: Oh, you (Hanes) did want to talk about this receivership thing.

Hanes: Yes, I wanted to hear about it.

H.M.Jr: How do we handle receiverships of businesses that we put in receivership on account of delinquency in taxes?

Helvering: That's handled directly under the General Counsel's office through a special set-up there under Mr. Thurman Hill.

McR: Reorganization Section.

H.M.Jr: Thurman Hill?

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McR: Thurman Hill.

Helvering: Reorganization and Bankruptcy Section in General Counsel's office.

H.M.Jr: In General Counsel's office. Well, who is Thurman Hill responsible to?

Magill: Wenchel and then Oliphant.

Helvering: Of course, the cases don't come through Wenchel's office; they come directly through Oliphant. You remember Thurman Hill. He's the man I brought in - tall, dark-complected fellow - you appointed him at my suggestion three or four years ago.

H.M.Jr: Kansas?

Helvering: Yes.

H.M.Jr: Well now, how big a business is that, Guy?

Helvering: They have some big cases.

H.M.Jr: They do?

McR: Quite a section.

H.M.Jr: But he's in the General Counsel's office.

Helvering: Uh-huh.

H.M.Jr: I'll tell you what let's do. This thing won't take very long tomorrow, Mac, at 10:30. Tell Oliphant that tomorrow morning - oh - patting these boys on the back won't take more than five minutes.

McR: In five minutes you can do that.

H.M.Jr: Well, that's 10:30. At 10:35 let's have Oliphant, if he wants to come, and Mr. Hill in here, and tell them that I want them to give me a thumbnail sketch of what work he's doing, just how he does it, number of companies, kind of companies, so forth. I've never had a report from them. I want a report.

Helvering: Mr. Hill today is in New York on a case.

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H.M.Jr: Well, let him come on down. This is important.

Helvering: I'll get in touch with him. He may be on his way back.

H.M.Jr: Unless he's got to be in court.

July 12, 1938.  
10:59 A. M.

H.M.Jr: Hello.

Operator: Secretary Woodring is in New York and Mr. Johnson is out of the city too. She said it depends on what you want to talk about who could help you.

H.M.Jr: Well, is ah - who's Acting Secretary of War?

Operator: I'll find out.

- - - - -  
11:00 A. M.

H.M.Jr: Hello.

Colonel Somers: Good morning, Mr. Secretary, this is Colonel Somers.

H.M.Jr: How are you?

S: Very well, sir.

H.M.Jr: Ah, Colonel, ah, I understand the General is Acting Secretary of War today?

S: Yes sir, he is. Mr. Woodring is up north, and Mr. Johnson is out on the Pacific Coast.

H.M.Jr: Good. (Laughs) <sup>Maybe ...</sup> ~~that~~ isn't the thing to say.

S: (Laughs.)

H.M.Jr: Ah, I have a cousin by the name of George C. Haas, H-a-a-s.

S: George C. Haas.

H.M.Jr: H-double a - s.

S: Yes sir.

H.M.Jr: Who up until five years ago was a Colonel in the Reserve Corps, and ah, I believe, at the invitation

- 2 -

of the Army, he took his examination twice, now, and he passed it twice. Ah - to be reinstated. And he told me the story, and I'd like it if General Craig would listen to it. It - ah - I don't just quite understand, ah, why he hasn't gotten the status which he seems to have been recommended for, see?

S: Yes sir.

H.M.Jr: You think that it would be possible for him to see him?

S: Ah - you mean for the General to see, ah, ...

H.M.Jr: Colonel Haas.

S: Colonel Haas?

H.M.Jr: Yes.

S: Why, if he - if it isn't possible to see the General, I tell you who we can talk to, is, ah, either General Thompson, or General Hartshorne, who are at the head of the Reserves. Let us look into this case for you, Mr. Secretary.

H.M.Jr: Supposing you look into it. I understand he's been recommended - ah, what do you call it - ah - for the list, ah.

S: Oh, the Brigadier-General eligible list.

H.M.Jr: Yes.

S: Yes. Well you see, they don't appoint any Reserve Brigadier-Generals; they take this examination and they are put on this list.

H.M.Jr: No. No, I don't think - no. He wants just to be reinstated as a - as a Colonel.

S: As a Colonel.

H.M.Jr: No, this other thing - not the Brigadier-General's list. He wants - as I understand it, you're out five years you have to take the examination to get in. Is that right?

S: I think that's true.

H.M.Jr: He was out five years and three months. No, he doesn't want that; he just wants his reinstatement.

S: All right, sir.

H.M.Jr: He passed all the <sup>second</sup> all of his examinations - twice, I believe.

S: You know how old he is, Mr. Secretary?

H.M.Jr: He's fifty.

S: Fifty?

H.M.Jr: Yeah.

S: He's young enough, all right.

H.M.Jr: What?

S: I say he's young enough.

H.M.Jr: Yes. There's something I don't know - I listened to it, and I thought that, ah, ah, under the circumstances, that ah, - that ah, somebody ought to really listen to it, because, ah, ah - what he says - and he's a - very truthful, very honorable gentleman, has excellent war record, ....

S: Yes sir.

H.M.Jr: It looks to me as though there's some misunderstanding somewhere.

S: Well, could ah - could Colonel Haas drop in here tomorrow sometime?

H.M.Jr: Well, he said he could come down Thursday.

S: Thursday?

H.M.Jr: Yeah.

S: Well, I tell you, sir; if you'll have him come to my office Thursday morning, ah Room 223 Staten Building, ah, I'll make arrangements for him to see General Craig if he's here; if not, General Harts-horne will take care of him.

- 4 -

H.M.Jr: Yeah. Well, if possible, I'd like, ah, if it isn't asking too much, / General Craig see him himself. to have

S: Yes sir. Ah, if the General is here, Mr. Secretary, I'll promise you he'll see him.

H.M.Jr: Well.

S: And in the meanwhile, we'll get the case out and check up on it and see just exactly what's wrong.

H.M.Jr: Good. And if, if - if you find that, after looking at it, that it - ah, ah, ah, - he shouldn't come down, don't hesitate to call me.

S: All right, sir.

H.M.Jr: And, and, and tell the General it's something - I just want to bring it to his attention, and it goes without saying, whatever action he takes is, of course, up to him, but all I'm doing is just to bring it to his attention.

S: Yes sir.

H.M.Jr: I make no recommendation of any kind.

S: Yes sir.

H.M.Jr: You understand?

S: Yes, Mr. Secretary, and I'll - say, ten o'clock Thursday morning?

H.M.Jr: Ten o'clock Thursday - and what's the room number?

S: 223.

H.M.Jr: 2 - 2 - 3.

S: Yes, Mr. Secretary.

H.M.Jr: Thank you so much.

S: That's the Secretary of War's office.

- 5 -

H.M.Jr: Ah, Room 223, Colonel Somers.

S: Yes sir.

H.M.Jr: And if you'll - and - and all I want is to get him a hearing; that's all.

S: Yes sir, and that is George C. ....

H.M.Jr: Haas.

S: H - a - a - s.

H.M.Jr: Of New York.

S: Of New York.

H.M.Jr: Yes.

S: He's formerly a Colonel of the Reserves.

H.M.Jr: That's right.

S: Very well, sir.

H.M.Jr: Thank you.

S: Goodbye, sir.

RE CHINESE SILVER

July 12, 1938.  
11:40 a.m.

Present: Mr. C. T. Wang  
Mr. Taylor  
Mr. White  
Mr. Lochhead

H.M.Jr: This is just the same, only he does it that way instead of by pencil.

Wang: Well, Mr. Secretary, I was just going to remark that I understand that the arrangement made for during the last five installments will be up by the middle of this month, and I got word from Dr. Kung, who says that he desires to sell another lot to you beginning from the end of this month.

H.M.Jr: Beginning when?

Wang: The end of this month.

H.M.Jr: Yes.

Wang: I think the last one ends July 15, so the next one will begin July 30.

H.M.Jr: July 30.

What do you call a lot?

Wang: Oh, a lot means 50 million ounces. We've been sending that amount.

H.M.Jr: Well, how much silver has the Chinese Government got left?

Wang: I doubt - after this lot there may be another lot of 50, but I doubt whether there will be any more, excepting that there's lots of silver in the country not quite gathered together yet, according to the wire we received from Dr. Kung.

H.M.Jr: Well then, must you tell me - you say that you have about a hundred million ounces left?

Wang: I think so.

H.M.Jr: Is that about right?

-2-

Lochhead: That's in London, I presume. A hundred million ounces in London.

Wang: London and Hongkong. But anyhow, this is easily transportable. That has been gathered already and can be transported. But in the country I would imagine there must be about a hundred million more yet. We have lost some in North China, or it's held up, rather - perhaps 70 million.

H.M.Jr: How much?

Wang: 70 million.

H.M.Jr: That you lost?

Wang: Well, I think more or less it can be considered as lost, or has to be written off; at least, taken over by - by our enemies through the puppets. You see, that's the silver that has been lying in the vaults of the different banks in North China.

Lochhead: I was wondering whether the Ambassador could get us some figures in regard to just where this is held. It would help us in making arrangements. For instance, if you could tell us how much silver is available for sale, how much is in London and how much in Hongkong.

Wang: I'm sorry, I'm not in a position to give you exact figures.

Lochhead: I was just wondering whether you could obtain the figures for us at some time.

Wang: Oh yes.

Lochhead: We'd also like to know how much is in coin and how much in bars; really be very helpful to have that information in making these arrangements.

Wang: Yes, I'd be glad to wire at once. But I know there's approximately over a hundred million between Hongkong and London and on the way, you see, because we're shipping over by different boats; but I can't say definitely at this moment how much silver is already in London, how much still in Hongkong, how much on

-3-

the way.

- H.M.Jr: Well, before you came in we talked this matter over and in behalf of the United States Treasury I'm ready to say we'll buy another 50 million ounces of silver, beginning the 30th of July, and that we will take ten million ounces on the 30th and then ten million ounces ....
- Wang: ... every two weeks.
- H.M.Jr: Every ...
- Wang: ... 15th and 30th.
- H.M.Jr: 15th and 30th. And on exactly the same conditions that we have before.
- Wang: Yes.
- H.M.Jr: But we'll - you'll advise your government. I don't know - do we have to draw up papers on that, Wayne? What?
- Taylor: (Nods no)
- Lochhead: We make specific bids every two weeks.
- Wang: Just as we did before.

Dr. Kung wants me to again express his appreciation for your help in meeting our exchange through this sale of silver.

he  
While/has not given me any specific instruction, I wonder, Mr. Secretary, if I could bring up to you informally perhaps, thinking out aloud, my thoughts that before very long I feel that a sale of silver will be exhausted, and I have to look ahead, and one day is coming on - with the vast areas of ruined cities and towns and people having lost all their homes and their possessions, I can see that the sufferings for this coming winter will not only be very severe, but will be very widespread. So I've been thinking and I've been looking over the record of the wheat and cotton loan - cotton-wheat loan. I think China only used up something like 18 million

-4-

instead of over 50, and it has paid about one-third of it. I think we're still owing the Export-Import Bank over 12 million, maybe 13 million. I wonder whether it's possible now for us to renew our request for the use of the balance. Of course, we have agreed to discard it, to stop it about a little over two years ago. Of course, I just take this up informally.

H.M.Jr: I understand.

Wang: And would like to get your best thoughts on it.

H.M.Jr: Well, I'd have to think that over.

Wang: Let you ... Yes, yes.

H.M.Jr: ... think that over.

Wang: It will be such a help, as I can see it, because most of the territories ruined by the Japanese are of people who eat wheat. There's a small section, part of Kansu and part of Szechwan, where the population eat rice, but in Shansi and Hopel, Shantung, Shensi, Anhwei, they're all wheat-eating people. And I saw in the papers the crop here is very good.

H.M.Jr: Very good.

Wang: I thought it would be extra ....

H.M.Jr: How much was the loan originally?

Wang: Originally it was for 50 million.

White: But the rest was written off officially, so nothing is ...

H.M.Jr: Well, my associates and I will talk it over. I'm leaving Friday and I doubt if I'd have an answer for you before that, but Mr. Taylor will be here.

Wang: Yes. I don't think ....

H.M.Jr: He's the - a director of the Export-Import Bank.

Wang: Yes. I mean a word from you would be very helpful - would be very helpful in dealing with the Export-Import Bank.

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H.M.Jr: Well, possibly, but there's lots of questions involved, as you appreciate.

Wang: Yes.

H.M.Jr: And - but we'll give it friendly consideration.

Wang: Yes, thank you very much.

H.M.Jr: Was there anything else you had?

Wang: No, I don't think I have anything else.

**TREASURY DEPARTMENT****INTER OFFICE COMMUNICATION**

DATE July 12, 1938

TO Secretary Morgenthau  
FROM Herman Oliphant

The executive members of the Monopoly Committee met today with Senator O'Mahoney and numerous administrative details were considered and disposed of. Each executive member is to have working with him one congressional member, and O'Mahoney assigned Hatton Sumners to work with the Treasury.

After the administrative matters were disposed of, Senator O'Mahoney left and the executive members proceeded to discuss what part each was prepared to go to work on at once and a common agreement was reached, including approval of the topics for the Treasury mentioned in the memorandum which I sent with my last report to you. Funds for the first month of work have been allocated to each of the Departments. \$7500 to the Treasury.

*Herman Oliphant*



OFFICE OF THE DIRECTOR

## TREASURY DEPARTMENT

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PROCUREMENT DIVISION

WASHINGTON July 12, 1938

## MEMORANDUM:

Re: Meeting of Executive Representatives  
of Anti-monopoly Committee

A confidential meeting of the Executive Representatives was held in the Hearing Room of the Federal Trade Commission at 2:15 P.M. today, adjourning at 4:40 P.M.

## Present:

Chairman:	J. C. O'Mahoney
Justice	Thurman W. Arnold; Wendell Berge, and John Abt
Commerce	R. C. Patterson; T. C. Blaisdell, Jr., and R. Nathan
Labor	I. Lubin and A. Ford Hinrichs
Federal Trade	E. L. Davis
Treasury	H. Oliphant, and C. J. Peoples
SEC	W. O. Douglas, and J. N. Frank

Executive Secretary - Leon Henderson

The Chairman announced that in accordance with the resolutions of the last meeting the following Congressional members will be associated with the Executive Members as indicated:

Congressional Associations

Senator O'Mahoney with SEC  
 Senator King )  
 Senator Borah) with Justice and Federal Trade Commission

Cong. Eicher with Labor  
 Cong. Reece with Commerce  
 Cong. Sumners with Treasury

Executive Committee

The Chairman further announced the appointment of the following Executive Committee

Sen. J. C. O'Mahoney; Cong. H. W. Sumners, Thurman W. Arnold, I. Lubin,  
 R. C. Patterson

Administrative Assistant to  
Executive Secretary

Mr. Daniel Bertrand and Mr. Wm. Leary were appointed to aid the Executive Secretary  
 Arthur R. Himbert as assistant to the Chairman.

July 12, 1938

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Agenda

There was considerable discussion on the various subjects to be first taken in hand. It appeared to be the consensus that Justice and Federal Trade with aid from Commerce would take up:

Patent law  
Steel  
Oil

Rubber  
Agricultural machinery  
milk and bread

By Commerce  
" Labor

Trade Associations

History of employment in industry; wage rates; dividends vs. wage policy; rigidity of market prices with respect to Labor

- " Treasury (a) Identical bids and other monopolistic prices encountered in government procurement; government specifications in relation to patents and other phases of monopoly control; timing of government purchases in relation to fixed and excessive prices; cost studies in cases of excessive prices on government purchases as one method of control of such prices.
- (b) Supplementation of general prohibition of anti-trust laws by the addition of specific prohibition, and
- (c) Re-examination of the procedural aspects of anti-trust laws.

The Executive Secretary remarked that of the agenda submitted there appeared to be the least duplication on the part of the Treasury. He was to further simplify the matter through correlation and coordination of effort.

*J. H. Hooper*  
Director of Procurement

July 12, 1938

Dear Mr. McIntyre:

I have your note of July 7th referring  
"without comment" the personal telegram to  
you from A. P. Giannini, dated July 5th.

Thank you for letting me see this wire.  
I am returning it, also without comment.

Sincerely yours,

(Signed) *H. Morgenthau, Jr.*

Secretary of the Treasury

Honorable Marvin H. McIntyre,  
Secretary to the President,  
The White House.

Enclosure

CBU:pm

*lyon*

July 12, 1938

Mrs. Klotz:

(1) I think the Secretary ought to see this wire.

(2) Attached is a suggested reply to Mr. McIntyre.

(3) Before it is returned, I should like to photostat the telegram.

Upm

Please give us  
copies for our  
files  
IRK

THE WHITE HOUSE  
WASHINGTON

July 7, 1938

MEMORANDUM FOR SECRETARY MORGENTHAU

Referred without comment.

*M & M*

M. H. McINTYRE  
Secretary to the President

Enclosure

TELEGRAM

The White House  
Washington

1170A, 222 N.L.

Los Angeles, Calif., July 5 1938

M.R. McIntyre,

(Personal)

The Bank of America has applications pending in the comptroller office for branches at Gonzales, Pinole, Galt, Crockett, Rodeo Holtville, McFarlane Marchfield, Campbell and Watts all in California. The Gonzales and Pinole applications were granted by comptroller O'Connor on Jan., third subject to opening during January. Within the month we requested additional time to equip banking quarters and understood this would be allowed and proceeded in good faith. Although Gonzales Banking room has been ready for months we have not been able to get the permit renewed. The Galt applications is take over an existing bank where owner is desirous of closing the transaction. Most of these applications have been pending since last year. Without criticizing anyone I am wiring to ask that you talk with Secretary Morgenthau and convey to him my request that he give these applications personal consideration at the earliest consistent time. I wish you would also inform the President and Secretary Morgenthau or rather confirm what they probably already know from McDonald that the bank of America has given the FHA its utmost cooperation and that our joint efforts have gone along way toward sustaining and increasing business in California. Furthermore we are giving the RFC our corrial cooperation on Industrial loans. California looking forward to greeting the President. Cordial reagrds

A.P. Giannini

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2042

THE WHITE HOUSE  
WASHINGTON

July 7, 1938

MEMORANDUM FOR SECRETARY MORGENTHAU

Referred without comment.

*M + M*

M. H. McINTYRE  
Secretary to the President

Enclosure

TELEGRAM

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11WUA, 222 N.L.

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A.P. Giannini

RE TAX LEGISLATION AND IMPROVEMENT

July 12, 1938.  
11:00 a.m.

- Present: Mr. Magill  
 Mr. Hanes  
 Mr. Helvering  
 Mr. White  
 Mr. Haas  
 Mr. Tarleau  
 Mr. Blough  
 Mr. Shoup  
 Mr. McReynolds

H.W.Jr: I just wanted to talk a little bit, do a little philosophizing, on this question of revenue and taxes. And I think if during the summer - and as I say, I haven't had a chance - and these people here, the rest of you, be thinking about it, come back and see me before I go if you want to.

Now, we can forecast for the next two or three years about what the Government expenditures are going to be, without any great difficulty, and I'd like to see a program worked out, say, over a three-year basis, because we'll send up a budget in - we have to make a budget up in the fall of '38, fall of '39, and the fall of '40, so there's three years; and re-examine all of our present sources of revenue, explore new sources of revenue, with the possibility of furnishing enough revenue to run the Government somewhere on a seven billion dollar basis. Use that as a mean, anyway. I think that would be a good mean, anyway. If business gets better, we hope to retire some of this debt, and I personally would very much like to see the taxes on consumer goods reduced. I think it's what, about 60 percent, Shoup, now?

Magill: 57.

Shoup: Depends on how you count payroll taxes. It gets rather complicated. It's a large percentage.

H.W.Jr: I'm just talking for myself - I mean my own feeling. I think I'd like to see - I mean I'm throwing it out, I'm not telling you - but this tax on consumption certainly oughtn't to be over half. I think we've got to look towards the inheritance and estate tax for more money.

-2-

I personally doubt whether politically we can get this thing through called broadening the tax base, meaning that the fellow with a thousand dollars or less will pay anything. And I think before we do that we've got to get the fellows in my class, and that's the fellows in that big middle group.

I don't know whether it's possible - I'm just shooting from the hip, but I just want to give you something of the way I feel - I don't know whether it's possible, but if we could have a tax which would be the same for corporations and partnerships and individuals and all that, and - with no exceptions, with no exceptions, and - so that if we needed a 20 or 25 or 30 percent tax, all we'd have to do would be just to change the rate and either raise it or lower it.

And then the most important thing - not the most important thing - but that we'd establish this tax basis on the known income rather than gambling on income eighteen months hence, and that would be the last thing that Congress does rather than do it the way we do it now. I mean I think when you get into that, Hanes, you'll be amazed - I mean we sit here in December and try to forecast what business is going to be 18 months hence, then we announce that we're going to raise so much revenue. Whether the thing - I don't know whether it's you (Magill) or Shoup developed that if in June we decided that Congress had passed so much legislation, which would cost so much, and we'd establish a tax based on the previous year's business. Isn't that the idea?

Shoup: Roughly what it comes to. Or current year's business.

H.M.Jr: We'd know exactly - we'd be doing it on a known fact rather than trying to do it on a completely unknown fact. We'd face this thing and simply say, "All right, our expenses are seven billion dollars and now over a three-year period there's going to be 21 billion dollars." And then a certain elasticity so that when business isn't so good he ought to spend a little bit more and if business is better he ought to spend a little bit less; and having this Public Works thing on an elastic basis, so we wouldn't be committed, so the President could stop it, which he can now, and start it. I said yesterday I think the main thing is we start to spend too slow and we stop spending too

-3-

slowly, we're not sufficiently flexible. We got it under way too slowly and when things pick up we stop too slowly.

But I think the whole thing is entirely too complicated, and the answer is this: 40,000 accountants and tax experts registered when there should only be four thousand.

But I think if we could take a look at this thing on a three-year basis rather than just on a one-year basis.

And then any taxes we figure - I think we ought to very much have in mind the states and the municipalities, and if we're going to do something new don't let's put on something which is necessarily going to take it away from somebody else.

I also think - I'm just shooting this stuff off to you fellows, to think about it and come back at me again Thursday afternoon if you want to - I think we ought - I'm just throwing this out, this question of our collecting - instead of making the Texas and Standard Oil and any of these people file all of these separate things in the states and municipalities at great expense, there's no reason why the Federal Government shouldn't collect all the gasoline tax, then if the state wants us to collect so many cents, we'd collect it and rebate it, so the oil company would only have to make out a Federal blank, not have to file it in every single state. Isn't that what they do now?

Shoup: They have to file with each state.

Magill: Worse than that.

H.M.Jr: What?

Magill: Worse than that.

H.M.Jr: There's no reason why we shouldn't collect from the Texas or Standard, so they'd have to give only one blank, and if the State of Florida wants to collect whatever it is - I mean the states would just have to say, "Please collect so much for us at the source," and we would. And I think the same would be true -

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let's see, the states collect on inheritance, don't they?

Shoup: Yes, or estate - all but one state has it.

H.M.Jr: What I'm talking about is if we could, for the states, collect for them, the savings to the individual, the corporation, would be enormous, wouldn't it?

Shoup: Yes, it would. In the income tax field that is particularly possible.

H.M.Jr: In the income tax.

Shoup: The savings that are possible.

H.M.Jr: And after all, I think we should think of the expense to the business man or corporation of paying his tax. I mean it's enormous, entirely out of proportion.

And I'm just throwing out some of the things I have accumulated over a time, and I'm not thinking of laying any of these things down - some of them may be very impractical - but I've absorbed these things now over four years and so - and I don't know who was worrying about what we were going to do over this summer, but I just wanted to give you some of the things that I had in my mind. And as I say, I'm not attempting to say that this is what I want, but these are some of the things that I'd like to leave behind in the way of milestones.

But it would be very nice just to take the oil companies, for instance, and figure how much we would save them in bookkeeping if they only - if we collected from Mr. X oil company all the gasoline taxes and then rebated them, what would it mean in the way of savings to one of these corporations? It would be enormous. Would that be possible, Shoup or Blough, to figure that? I mean what it costs these companies to file and all the rest of that.

Shoup: If we could get access to one of the companies' books, if they'd cooperate with us.

McA: Be glad to tell you.

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Magill: They'd tell you.

H.M.Jr: I'd be interested in just what it means on their dividends. I'll bet you it's an amazing figure - the cost of the paper work.

Wex: Be more difficult for them to bootleg this stuff without taxes over state lines, too.

H.M.Jr: I know, but I was just thinking in terms of the cost to them.

Shoup: Of course, as long as there is a difference in the rates among states, even Federal collection would necessitate considerable record keeping of shipments, you see, as to where they're going and they're to be consumed. If there were a uniform rate over all the country, then collection at the refinery could simply replace all other gasoline taxes.

H.M.Jr: But it would be all on Federal blanks instead of 48 different blanks. I mean I'm encouraged - we did what is seemingly the impossible - after all, we got three Federal bank examination agencies plus 48 states to agree on a number of very complicated rules and regulations on bank examinations. Now, if that can be done on a purely voluntary basis, with nothing but just moral persuasion to get that done. - I think we could go much further with the states, I mean.

Magill: You've really got three different matters that you've mentioned, and as a matter of fact we have been working at all three of them along much the lines you've outlined them. We had the Shoup-Blough report of last summer, with a recommendation of an ideal Federal tax system on the basis of seven billion dollars receipts, and Shoup is working on a restatement of that at the present time.

The budget - matter of making the budget at a different time and different way, you remember, we took up last spring, and we're going to bring that up to date.

And the last business of Federal-state cooperation, in my judgment, is the most important single thing that we have to do, and I have long felt, as I think

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you have, that it - there's been plenty of talk about it and we know what we'd like to do and so on, but the thing now is to adopt some type of procedure which will actually get it into action. And I think that all of us here are agreed on the proposition that the only way we can see to do that effectively with the 48 states, and so forth, is for the President to designate a commission of very high grade men of national standing, say about a five-man group, empowered to go into this situation and make a report, conduct the necessary research and so forth, with a view to making recommendations which would be accepted in the end by the Federal Government and by the states as a solution of this problem. You are obviously not going to get a solution unless the group which suggests it is a group which carries weight both with the states and with the Federal Government, and that is why I think you come to the idea of a presidential commission of the sort that I have indicated.

It clearly must not be political, in the ordinary sense. I think it clearly ought not to have representatives of the states and Federal Government, in the ordinary sense, but should have men of the highest standing to ....

H.M. Jr:

But Ros, I think - I agree with you - but I think we ought to know enough about it, that if, for instance, we had the figures on the tax cases and the cost - Hanes expects to go in the field - and if we agreed on this program, say, "Now, this is costing so much and this thing is just perfectly silly; we're going to ask for legislation to have this thing changed, because there's no reason why the corporations of America should be spending so much for bookkeeping." I have never seen the figures, but I suppose they're available. Of course, the railroads, I know, have all those figures available. And as I say, we could - and that would go for income tax, go for inheritance and estate taxes.

Magill:

Yes, that's true. Of course, what you have - the question is what you can get the states to accept, and there's going to be a lot of difficulty. You see, you take a state like New York, in which you're getting over a hundred million dollars from individual income taxes; it's not going to be in any hurry to give

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that up, no matter what ...

H.A.Jr: No, I don't mean that they'll give it up, but I'm just thinking in terms of collection.

Magill: Well, that's just what they wouldn't want.

McR: They've got their own organization. They don't want to break it down.

Magill: Got their own organization, got their own control, and you'll get a terrific barrage to the effect that if the states let the Federal Government collect the gasoline tax and the income tax, that they're giving up their life-blood, just becoming counties of the Federal Government. So that there's an awful lot of spade work has to be done on it.

H.W.Jr: I agree with you, but we went all through that - I went all through that in New York state with Governor Roosevelt on the question of land tax and school tax and road tax, and when he'd go into a county we had a book fixed up for him showing how much the county contributed and how much the state contributed, and everything else; he just went out and sold it.

But don't forget that even in the State of New York the Federal Government must be returning to the state - I don't know what the figures are - far in excess of what they contribute to us.

Magill: (Nods no) Other way around.

H.A.Jr: Are you sure of that?

Shoup: Yes, that's right.

Magill: Very certain of it.

Shoup: On an economic basis, certainly New York is contributing more than it's getting; must by the nature of the case, being the richest state.

H.W.Jr: What? Then we'll take another state. We'll also not take North Carolina.

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- Shoup: That's all right, because the so-called taxes North Carolina pays are chiefly paid by everybody else in the country who smoke the cigarettes.
- H.M.Jr: Well, all I was trying to do is - I realize what I'm saying is difficult, but I - do you question that it's the direction in which we should try to move?
- Magill: All I'm trying to do is to sell you on the idea of this commission, because I think ....
- H.M.Jr: All right.
- Magill: I think we've been thinking of this - Shoup and Haig at Columbia, one or two others - Blough - for some years, and we've all come to the conclusion that you're not actually going to get anywhere unless you take that step.
- White: Ros, is there a preliminary report, and if not, why might not one be prepared within the Treasury exploring that avenue and ending up with the recommendation showing the necessity for that, in which a great deal of the spade work would be done?
- Magill: Well, I think we've done - pretty well done the spade work, as far as that's concerned.
- H.M.Jr: Well, all I wanted to do is - you men are going to be here this summer - is "What's Morgenthau thinking about, now does he feel about it?" Now I've unbosomed myself. These ideas are things I've collected. You know about how I feel, and that's all I'm trying to attempt to do. You see just what's going through my head. I'm talking - didn't prepare for this. Just the things which have been running through my head, and this idea of thinking of the budget in terms of three years rather than one year, I think, is new certainly for me, would be new for the President. Certainly right after Labor Day the President is going to call for something, he'll want something; I think we ought to have something for him.

And it's just like Mrs. Roosevelt - some Englishman came over to see her and gave her a lot of talk about Government credit and all that, and I think there is a job to be done if we do it over a three-year basis. I mean I don't - my thinking hasn't cleared. I'd like

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to know how much revenue ought to be raised and how much taxes ought to be raised for the balance of the President's administration, and I think if we can set that up and first clear it in our own minds and then try to clear it in the President's, then take it to the country, why, maybe there would be less worrying about Government credit. You see, the fellows - the big institutions aren't afraid. Our long-term Government bond market is the strongest it's ever been right today, but - so they're not worried. But the fellow on the street, the small fellow - he's worried, he doesn't understand it. The reason is we've never gone out with a program to sell; we haven't had a program. Let's be frank; we haven't got a program.

But I thought with all this talent maybe this summer you fellows would work it out.

Have you (Shoup) any date in your mind - I mean are you going to stay on with us for some time now?

Shoup: I had planned to stay on according to an agreement we had had originally until the end of the summer, then going back to Columbia for the fall term, of course, because my leave has expired and I must go back there first or middle of September.

H.M.Jr: Is that the understanding?

Shoup: That was the understanding.

H.M.Jr: All the more reason we should squeeze his brain dry. That's what I wanted to find out. It's up to them to get all we can. Maybe we can have you come back another term.

Woh: I tried to argue Shoup into staying, you understand, but he decided he wanted to be a schoolmaster, so we get Blough in his place. Whatever we can get out of Shoup in the meantime, we're just that much ahead.

H.M.Jr: August, September - we've got two months yet with Shoup here, so that's quite a long time.

Thank you for letting me talk at you.

July 12, 1938

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My dear Mr. President:

I thought you would be amused  
by the inclosed article which appeared,  
this afternoon, in the Washington Times.

From your neighbor who has  
switched from squash to strawberries,

Sincerely yours,

The President,

En Route.

## A GENTLEMAN FARMER LOOKS OVER HIS CROPS



Homestead Farms comprises 1,500 acres in the fertile Hudson River Valley near Fishkill, N. Y. The tanned man on the left is busy chatting with his hands

as they harvest this year's berry crop. The boss—Henry Morgenthau, Jr., secretary of the Treasury—has a deep love of the soil. He understands farming.

# Morgenthau Reveals He's Farmer at Heart

Treasury Head Tells How Appeal to Wallace  
Saved Hudson Valley Strawberry Crops

By JOHNSTON D. KERKHOFF.

FISHKILL, N. Y., July 11.—It took the combined forces of the Secretary of the Treasury and the Secretary of Agriculture, but they did it. They saved the strawberry industry in the Hudson River Valley, and now they hope to save the raspberry industry.

This little story of an unofficial New Deal project in a Republican stronghold was told by the man who is the guardian of Uncle Sam's Treasury, Henry Morgenthau, Jr., but whose real love is his 1,500-acre farm, nestled in the Fishkill Mountains.

## FLIES IN WEEK-ENDS.

Each week-end a plane flies him from sweltering Washington to Homestead Farms, three miles from here; to the lovely, cool white Colonial house; to a tennis court, rose gardens, a swimming pool.

Here are peace and pleasure, and you will find these, also, in the apple orchard, or the new cherry orchard, in the strawberry fields or in the red and green avenues where grow the raspberries.

"Something is happening to the raspberry bushes," the secretary says sadly, pointing to withering leaves. "We'll have to get after this."

## VALLEY FACED RUIN.

He did something about this since 1914. To the Homestead strawberries a while back. This Farm he brought his bride, Mrs. Flourishing industry sickened three years ago; in no time it was dead. Henry 3d and Robert, and his daughter, Joan, have been raised in the Valley. The strawberry plant with a love for the soil. Their simple would not survive. Brought up from the South, transplanted, they withered away, and no one could discover the cause.

Secretary Morgenthau appealed to Secretary of Agriculture Wallace, telling of the plight of the Valley people, including, of course, President Roosevelt, whose strawberry beds are only 20 miles from Secretary Morgenthau's.

## TRACED CAUSE.

Official Washington swung into action.

"Agents of the Department of

Agriculture came to the Valley," the Secretary related. "They failed to find any plant disease. Then they traced the plants back to the South, and the reason for a ruined industry was found."

It was simply this: The Southern growers were shipping plants that had been frozen or prepared for shipping after blossoming, which is tough on any strawberry. Now they are placed in a mulch in cold storage, and the industry is booming again.

## HAD 22,000 QUANTS.

"We had 22,000 quarts of strawberries this year," the Secretary said. He added proudly, as though he didn't handle the country's millions. "Our gross was \$3,500 from 1 1/2-10th acres."

"The raspberries are dying now, so I'm going to Secretary Wallace again. The Valley is the market basket of New York, and we won't intend to see it die out."

The secretary has been a farmer since 1914. To the Homestead Farms he brought his bride, Mrs. Elinor Morgenthau; here his sons, Henry 3d and Robert, and his daughter, Joan, have been raised with a love for the soil. Their front yard consists of a 250-acre apple orchard, 80 acres of small fruits, a vineyard, rolling meadows and majestic woods.

## FAVORS MILK CONTROL.

There are 100 head of Holsteins and Jerseys, and the dairy pays for one-half of the county taxes and one-half of the insurance. Even so, Secretary Morgenthau shakes his head over the dairy business. There is much difference between the price to the farmer and the price to the consumer, he believes.

"I favor some system of con-



**H. MORGENTHAU, Jr.**  
*Studying New Apples*

trol whereby the milk industry will be treated as a public utility," he said.

He likes to talk farming, reeling off the names of the apples: MacIntosh, Northern Spy, Baldwin, Cortland (a new one, a cross between Ben Davis and MacIntosh) and Delicious.

He is experimenting by planting raspberry bushes in rows 11 feet apart so that a tractor can be used for cultivation; he likes to walk down these lanes and talk shop with the berry pickers, men and women, all of them from smaller neighboring farms.

**NOT HIT BY DEPRESSION.**

"The depression didn't touch us up here," he says. Most of us had a little put away; the soil gave us our food, and we went right on—until that strawberry trouble gave us pause."

The Morgenthau's sail Friday for a month's vacation in Europe, but the Secretary is looking forward to 1940. He will have been by then 12 years with Roosevelt as Governor and President, but his ambitions do not lie in Washington.

"No sir," he said. "You'll find me right here seven days a week."

July 12, 1938

Questions that you might consider securing information on from the Chinese Ambassador:

1. How much silver does his Government now have in London or enroute to London?
2. How much is pledged as collateral? How long does his Government intend to maintain that silver as collateral?
3. How much silver is there now available in the hands of the Chinese Government in China? In Hong Kong?
4. How much more silver does the Chinese Government expect to collect from circulation, from hoards and native banks?
5. Is the Chinese Government obtaining any substantial credits from foreign countries? (especially England and France)
6. Does China now have adequate transportation facilities for the importation of large quantities of foodstuffs into refugee areas?

H. White

The French Situation NowConclusion

1. The French economic situation is still bad. Index of industrial production continues to fall. It is now 10 percent less than last year. Unemployment is at high levels and production of coal, iron and steel are at substantially lower levels than last year, even though last year France was suffering from a recession.

2. Though the political situation in France is more quiet than it has been in a long time some acute commentators believe that it is merely a lull before the storm to come in the fall. The rising cost of living will give impetus to political activities of the parties of the left and may lead to a renewal of strike waves throughout France. The Government adjourned parliament in June, refusing to permit discussion of two major issues, first, increases in wages for government employees to compensate for the rising cost of living and second, the French foreign policy in Spain which is the most important of domestic problems at the present time.

3. The franc is not stable. The factors which brought about previous depreciations are still present in an equally acute form. The successive depreciations of the franc have not solved her problems. They have been real "shots in the arm" which served to see France through critical periods but left basic problems untouched. Nor will another depreciation of the franc help towards the solution any more than have the past ones. In fact another devaluation -- it would be the 4th in three years -- might even be the preliminary step toward uncontrolled depreciation. The basic problems which have not been solved and which must be solved before the franc is stabilized are:

- (1) large budget deficits
- (2) large adverse trade balances
- (3) high interest rates in the capital market
- (4) lack of confidence in the franc
- (5) political instability in domestic and foreign affairs

Those who claim that France's monetary difficulties are inevitable so long as she does not correct her fundamental maladjustments are partly right, but they are, we feel, wholly wrong in expecting that these maladjustments can be corrected within the near future. Large budget, large adverse trade balances and lack of confidence

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In the franc are conditions which realistically will not and cannot be remedied through the coming months.

The last devaluation (May 5) did improve the French situation somewhat.

(a) There was a repatriation of French capital of over \$400 million.

(b) French international competitive position was improved and the unfavorable balance of trade in terms of gold (not francs) will be cut probably about one-third.

(c) France has added to its gold reserves in terms of francs about 6 billion francs profit from the higher value of its gold holdings.

Unfortunately all three of these effects are transitory. There has been no basic improvement in the French situation to prevent the dissipation of these gains. Her budgetary position is no better; her unfavorable balance of payments, though slightly improved, remains dangerously high; and the small intermittent flows of gold can easily grow into a heavy stream with another "flight of capital" which will accompany, as it has in the past, the next political crisis.

4. There is, we are convinced now, as we were convinced last year and the year before last, only one practical approach to the solution of France's currency difficulties, namely, the imposition of effective exchange controls over non-commercial transactions.

Exchange control will not solve her currency problem but it will be the first step toward that solution. Exchange control by itself will at best only check the flight from the franc. But in addition to exchange control it will also be necessary to ensure repatriation of some French capital by the imposition of appropriate penalties on failure to bring back capital within a reasonable specified time.

Obviously these measures are drastic and unpleasant but these alternatives which are politically possible, are worse.

5. France will be quiet when you arrive but you may see the fireworks before you leave Europe.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 12, 1938, 9 a.m.

NO.: 1094

FROM COCHRAN.

This morning I returned from Basel where over the weekend the BIS directors held their meeting.

On Sunday at an informal meeting, Governor Fournier explained the French open market system. Niemeyer discussed Hungarian banking changes.

Mostly routine material taken up at meeting on Monday.

In private discussions the main topics of conversation were the American <sup>business</sup> (??)/situation, outlook for European political situation, finances of the French and German debt arrangements.

In a talk with Niemeyer, he told me that he regretted two unfortunate factors in the Anglo-German debt agreement - first, a separate agreement had been made, at German instance, which broke the united front of the creditors of Austria and the Reich; second, Germany accepted the agreement only after original repudiation of Austrian debt solved much difficult negotiation and with Germany faced by a threatened British clearing, all of which led to doubt as to the sincerity with which the present promises made by Germany will be carried out. Niemeyer himself thinks the terms of the agreement are as good as could be expected, and even better than was anticipated by most

of

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of his countrymen. He said he does not look for Italy to cause any new trouble over Spain, or for international complications to spread from the Spanish situation.

Toward fall Trip expects negotiations on a debt and trade arrangement between the Germans and the Dutch. He expressed regret that the British had made a separate agreement after group meeting of the (?) creditors had been convened in London, and without plans for an arrangement being made known to other foreign groups. He said he liked the British agreement's amortization features, and hoped that equally favorable treatment would be given to the Dutch.

As for conditions in the Netherlands, Trip said they remain about the same. His country is suffering from general world depression, the consequent unemployment, and the worrisome Treasury situation, although the latter is not dangerous. Trip said he is happy that he as Central Bank president can still say what he thinks, and that he was able to point out the needs for monetary stability and sound national economy as he did in his last annual report on the Bank. He is sorry that many of his central bank colleagues either cannot do what he can, or they do not share his common sense.

Governor Rooth told me he believes there will be Swedish debt negotiations with Germany by September. He would be satisfied for Sweden to get the same treatment as Great Britain, provided the Kreuger loan - already re-

duced

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duced from 6 to 4 1/2 percent, -is given special consideration. Germany has repurchased around \$40,000,000 of this loan; the original amount was \$125,000,000.

Governor Rooth would not permit the sale in Sweden of new two percent bills of the French National Railways with maturity in September. The issuance of such short term paper worried him, as he was afraid the French anticipated further monetary depreciation. He plans to keep on shipping fortnightly lots of gold of around three million dollars each from England via Sweden, until he has a total of fifty million in New York.

Governor Fournier of the Bank of France thought that a more favorable agreement should ~~have been~~ be given to the French by the Germans than was given to the British since the franc is depreciated more than sterling, and the Germans could thus afford, after violating the gold clause, at least to pay more interest than they will pay on the sterling bonds. At Basel the general impression was that the Daladier Government has been a disappointment in that the decrees it has issued have been of a timidly ineffective character; none of the country's basic difficulties have been solved, in spite of the fact that the labor situation is fairly calm; and, by autumn, the Treasury will have had to borrow from the Bank of France, which  
will

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will weaken the franc, and further depreciation of the currency may again have to be faced - which is not warranted by the comparative price level - or exchange control may have to be instituted - which no one believes would be successfully effective. Some Basel observers fear that the French situation might get serious enough again to encourage Germany to further marauding.

Generally it was believed that the Austrian experience has somewhat cooled Henlein's ardor for an anschluss between Germany and Czechoslovakia, and that an early aggression of a violent sort against Czechoslovakia is not to be expected. Hitler may have to operate next against Danzig, Memel or even Liechtenstein in order to keep his mill of mischief grinding and to keep the Goering group satisfied.

I had a talk with Schacht, who said that the general world situation worried him more than it did last month. I asked Schacht whether rebuilding of Berlin and Munich was destined to serve as the outlet for labor which is at present working on armaments; he said it was not. It had always been his hope that this labor might be diverted to the heavy export industries. This hope is waning, however, especially since his exports in June were even below the unfavorable figure for May. I asked him whether he was afraid that there would be new British economic penetration

in

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in the Danubian and Near Eastern countries; he replied that he did not seriously fear this. He realized that these areas would like to have some outlets other than Germany so that their free exchange receipts could be increased, but he laid emphasis on the degree to which Germany was the natural purchaser of so many products of these countries which could not be absorbed by the British. Therefore he looks for certain British investments in these countries from which profits may be gained, but does not think there will be serious displacement of German trade.

All of Schacht's plans regarding the British had been based on the knowledge that England would always be held back in countermoves by her ties with her dominions, he said, because the dominions so importantly look to Germany as the main foreign buyer of their wool, hides, and so on.

Schacht told me again of his resentment over what he considers official American efforts to block his trade in Brazil and other countries which, he said, cuts down the foreign exchange which he may have or care to spend for goods from the United States.

According to Janssen, the monetary situation in Belgium is better than it was a month ago. He said his  
bank

- 6 -

bank had recovered a fair amount of gold and there was a let-up in the pressure on the belga. There was an improvement in the position of the Treasury, but it was not yet easy. He did not anticipate any early difficulties. The brother of ex-Premier Paul Van Zeeland, Marcel Van Zeeland, believed that the Belgian political situation was unsound. The opposition to Spaak's Government is not strong enough to threaten it now, he said, but it was still effective enough to prevent the Government from taking any constructive measures needed to pull the country out of its present position. Marcel Van Zeeland said his brother Paul was looking forward with much interest to his visit and lectures in the United States in October.

Genuine pessimism was expressed by Galopin, the Belgian industrialist director. There had been a small pick-up in steel and textiles in Belgium in the past two weeks, he said, but otherwise the economic situation was bad. The European problem concerns him, as well as the failure of the United States to regain its self-confidence. Galopin does not think that it is enough for the United States to cooperate with Europe through reciprocal trade agreements and moral lectures; he is convinced that both Berlin and Rome would alter their policies if the United States definitely let the axis states understand that in their aggressions they had gone as far as the civilized

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civilized world would permit them to go.

If the United States will not do this, Galopin expects continuation of the armament race, with ultimate disaster for all of us. He knows, as head of the concern which is Europe's biggest copper distributor, that the copper which he is selling is going into armaments and is not being used for anything else.

In Belgium the steel industry is working at 40%, and at full capacity in Germany. However, there has been no increase in the exports from Germany. Galopin expects that as European ability to finance rearmament diminishes, there will be a decrease in European purchases of American commodities, and increase in unemployment in America. He does not have much faith in the recent gains on the American stock market. He thinks when earnings of companies for the second quarter are disclosed, there will be a setback. There has been a move in copper and other non-ferrous metals from stocks to manufacturers but no further, he said, and therefore general business is not augmented to the extent that might be suggested by such sales.

I talked with Reusch, German industrialist director, who said that after having been in business for fifty years he could not enthuse over a speculative stock market in

New

- 8 -

New York.

The extent to which the rest of the world depends on the United States to take the lead in economic recovery was stressed by Jacobsson. In his opinion the burden of British arming will far offset immediate benefits to employment, manufacturing, and so on. He expects that the five-year upward move in the sterling area will return downward as export trade is neglected, as taxes increase, and as purchasing power is reduced, unless a revitalization in world economy was really advanced by the United States by means of the following - increasing purchases abroad by the United States; assisting in raising the prices of raw commodities, which will enable other countries to take European manufactured goods as well as American; sending tourists abroad; having prosperous American stock exchanges, which will be encouraging examples for markets in foreign countries. Jacobsson was in London recently; following this visit he said he believed that Chamberlain's policy of liquidating British commitments, political and otherwise, is gaining support and there is a good chance for success of this policy.

The Bank of England Governor, Norman, is recovering from his illness but could not come to Basel; Cobbold, his alternate, told me that in a few weeks the Governor expects to resume his duties; he denied rumors that Norman is thinking of retiring. Cobbold does not believe that

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further franc devaluation is necessary. He said he believed it would be a severe test for the Tripartite if there is any new move in that direction. He thought that if there is considerable recovery in world economics in the next few months a serious franc crisis might be avoided.

The Bank of Japan representative, Yanagita, asked to see me. By September, and before Hankow is entered, he said, a period of vital decisions is coming in the Sino-Japanese conflict. In his opinion, the opposition of the non-military element in Japan to the risks of further advances in China is becoming so strong as the strain on his country is realized that there is approaching a real opportunity for intervention leading to an armistice and arbitration of the Chinese-Japanese problem in a manner that both parties could honorably accept. Such an intervention could be <sup>successfully</sup> made/by one person, he believes, and that would be President Roosevelt, through offering his good offices in a personal letter to the Emperor and to the Chinese.

The Far East was cited by Galopin as an example of what would happen to Western Europe if there is no change in policies. If the Soong family leadership of China is destroyed, he said, Japan will not have the resources to build up the territory conquered and there will be a setback of fifty years in foreign trade with China.

The

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The President of the Swiss National Bank, Bachmann, said that his Bank was not losing much more gold through withdrawals of foreign funds from his country, but was filling an increasing demand for gold coins for hoarding in Switzerland as well as other countries of Europe. In Switzerland the tourist trade is rather good, the most numerous visitors being British and Dutch.

October 10 has been set as the date for the next meeting of the BIS.

END MESSAGE.

BULLITT.

EA:LWW

RECEIVED  
JUL 29 1954  
TREASURY DEPARTMENT  
U. S. DEPARTMENT OF THE TREASURY  
WASHINGTON, D. C.

JR

GRAY

London

Dated July 12, 1938

Rec'd 9:30 a.m.

Secretary of State,  
Washington.

RUSH.

624, July 12, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

The Secretary of State's remarks at yesterday's regular press conference were grossly misquoted by the Washington correspondent of the co-owned DAILY TELEGRAPH and MORNING POST and FINANCIAL TIMES who began his story as follows:

"Mr. Cordell Hull today indicated that discussions of Anglo-American monetary problems were being carried on between the British and United States Treasuries parallel with the trade pact negotiations."

In view of the extent to which the dollar has been affected by recent rumors, arrangements were made to have the exact text of the Secretary of State's remarks, as reported in the radio bulletin, made available to the press and it was also reproduced on the ticker

-2- #624, July 12, 1 p.m., from London.

ticker. Acting at the same time but independently the Bank of England let it be known informally in the foreign exchange market that no arrangement looking to the immediate reestablishment of fixed parities at the old level was being considered.

This had the effect of strengthening sterling which opened at \$4.92-5/8 to \$4.93-1/8; later it eased to \$4.92-11/16.

KENNEDY

HPD

01113372  
JUL 12 1952  
COMMUNICATIONS SECTION  
U.S. DEPARTMENT OF STATE  
WASHINGTON, D.C.

FEDERAL RESERVE BANK  
OF NEW YORK

112

July 18, 1938

OFFICE CORRESPONDENCE  
CONFIDENTIAL FILES

DATE

TELEPHONE CONVERSATION WITH

TO  
J. W. McKeon

SUBJECT:  
BANK OF ENGLAND

FROM

Mr. Hawker of the Bank of England called me on the telephone at 10:30 am today. He said that they were having a hectic time in the foreign exchange market due to continued rumors of stabilization of the pound and the dollar at around 4.87. He had sold about \$1,000,000 this morning at around 4.92 3/8 after which the pound firmed up to 4.92 7/8. There was a general demand for the dollar all over the continent. Gold continued to be firm with the demand coming from all quarters of the world, mostly Europe. American dollar eagles and British sovereigns were quoted at a premium of around 2 1/2% with the demand rising.

Francs were very weak again, Hawker stated, and he understood that Cariguel had lost between 2 1/2 and 3 million pounds in the last few days. He said that although it was very difficult to place a finger on the real reason for this sudden turn with France, he had been told that the French people were becoming very pessimistic about their internal situation.

"Have you any idea about how much gold has been purchased for hoarding purposes during the past month" I asked Hawker. He said that it was very difficult to say, but he guessed between 10 and 15 million pounds. I told him that exchanges had been very dull and idle here during the past week and that I believed we would continue to have a rather quiet market for the next few weeks.

Gold was fixed in London at 141-2 1/2; later in the morning it sold at 141-4; 90-day future gold contracts were quoted 5 to 7 pence premium.

## TELEGRAM SENT

JR

GRAY

July 12, 1938

1 p.m.

AMEMBASSY

LONDON (ENGLAND)

342.

FOR BUTTERWORTH FROM THE SECRETARY OF THE TREASURY.

Have rearranged plans and will now be in Paris until the evening of the twenty-sixth. Therefore do not believe it necessary for you to join me on the twenty-fourth, but rather come over on Monday, the twenty-fifth.

HULL  
(HF)

EA:HF:LWW

REB

GRAY

London

Dated July 12, 1938

Rec'd 1:45 p. m.

Secretary of State,  
Washington.

626, July 12, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

Speculative demand for dollars ceased in the afternoon but the steady and persistent commercial demand continued. Likewise gold dealings were negligible in the afternoon although 432 bars were dealt in at fixing and there were substantial dealings immediately thereafter. On the other hand the pressure on the franc continued throughout the day with the French authorities making a decided stand towards the close.

Reuter sent out the following report late this afternoon. "The foreign exchange market is quieter. This is attributed in some quarters to the reassuring messages from responsible British and American quarters regarding sterling-dollar rumors. Though the immediate market reaction to these messages was only momentary, it is thought that their implication has now spread

further

REB

2-#626, From London, July 12, 6 p.m

further afield and helped to allay uneasiness on this score."

KENNEDY

KLP

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 12, 1938, 5 p.m.

NO.: 1096

FROM COCHRAN.

At 12 noon today I called at the Bank of France. The French control at that time had lost 600,000 pounds. The rate had moved from 178.55 to .70, at which point an effort was being made to break the attack on the franc. London was given instructions to try to move the rate back from around .70 toward .50 during the noon hour if it would not be too expensive to do so. Evidently this effort failed, and the rate was still .68 at 4 p.m. here. Both here and in London, intervention was made in behalf of three months franc. The discount narrowed from 3.50 to 3. The French control lost about 1 1/2 million pounds on the London market yesterday, and about 30,000,000 francs/sterling on the London market on Saturday.

My contact remarked about this sudden turn in the franc that started last Thursday, and about the pessimistic sentiment that is still evident. He puts blame on Rist for taking just the time the decree law powers are expiring to publish an article in a foreign magazine leading to the conclusion that the decrees which were issued were not adequate, and that drastic new measures to right the budgetary situation and to prevent further flight from

- 3 -

the franc must be taken. My friend is also cognizant that worries have come to the exchange market from weekend speeches in Italy and Germany, and from unfavorable reports about the situation in Czechoslovakia, and so on. The renewed rush for gold is interpreted by my friend as evidence that faith in any currency is diminishing.

Today at a luncheon of French and American bankers the officer of Societe General who is in charge of foreign business told me that the worries of the French are mainly due to the fact that this year the Government's receipts are only fifty billion francs, while it is spending over one hundred billion francs. The head of Credit National, Baumgartner, said that the Credit would not issue a public loan until September, and then one billion francs would probably be the limit.

Market contacts state Belgian National Bank gained more gold today and Dutch control was selling florins through Bank of England in view of strength of Dutch currency. General impression this evening is that sentiment is a little better than yesterday. According to one source, autonomous national defense office will tomorrow open issue of 3 1/2 percent 18 months bonds in unfixed amount, to be subscribed to only in currency. Rate on two-year national bonds will be raised tomorrow from 3 to 3 1/2 percent. END MESSAGE.

BULLITT.

REB

TELEGRAM SENT

GRAY

July 12, 1938.

6 p. m.

AMEMBASSY

PARIS (FRANCE)

458

FOR BULLITT FROM THE SECRETARY OF THE TREASURY.

Confirming my telephone conversation of today,  
I will arrive in Paris on the night of July 23 and  
will stay until the evening of July 26.

HULL  
(FL)

EA:LWW

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: AMERICAN EMBASSY, Paris, France

DATE: July 13, 1937, 11 a.m.

NO.: 964

FROM COCHRAN

This morning I returned from Basel where on Sunday and Monday the BIS directors met.

The French financial and monetary developments, the gold question, and international politics held the center of discussion.

The Netherlands Bank President, Trip, expressed displeasure that the French had failed to give the Dutch some warning of their plans - just as they had failed to warn them last September. He did not think that the present French Government would succeed in restoring confidence sufficiently to bring capital back to the country; therefore in a few months he looks for further franc difficulties. It is quite certain that the franc will not be followed by the florin. The central bank directors were informed by Trip of the communique issued to the press on June 17 by the Netherlands Bank to the effect that his bank had been authorized by the Ministry of Finance to announce that in the present circumstances the bank was disposed to grant without restriction exemptions from the embargo

- 3 -

embargo upon gold coins and bars which the decree of September 26, 1936, embodied. The Netherlands Bank President told me that while the policy was to give permission for all transactions that might arise, until conditions are more settled they did not desire to abrogate the existing decree since new legislation to re-control gold exports would be required. Another step recently taken, Trip said, was toward being more generous in approving foreign lending from their country. Those whose securities are already quoted on Dutch markets are the first borrowers to be favored. He said that there will continue to be supervision of foreign lending, that is, not leaving the market free to any transactions which Dutch bankers might want to undertake.

I was questioned by President Bachmann of the Swiss National Bank as to whether the Secretary of our Treasury had made any response to his two communications on Swiss gold policy and operations on the market in the United States. (Reference is made to my telegram No. 819 of June 19, 10 a.m., and telegram No. 885 of June 30, noon.) I was told by Bachmann that after our talk last month he had stopped shipping gold to New York and that he had not been converting into dollars any more of the gold which the Federal Reserve Bank of New York held in earmark for him. Recently the Swiss National Bank has  
been

- 3 -

been acquiring very little gold since there has been a considerable let-up in Swiss dehoarding and furthermore, the Swiss banks are complying with his request that instead of disposing of dehoarded gold through the central bank they dispose of it directly on the London market. In London there had been no opposition to this, as most of the gold privately hoarded by the Swiss has actually been held there for safe keeping.

END SECTION TWO.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION THREE, ETC., OF TELEGRAM NO. 964  
of July 13, 1937, from the American Embassy, Paris.

However, Bachmann wants to ship the remainder, some  
70 million <sup>Swiss francs</sup> ~~(?)~~ ~~(?)~~ of the gold of which he still holds  
considerably more in his equalization fund to New York  
for earmarking with the Federal Reserve, and which he  
possibly will eventually convert into dollars. It is  
not his intention to increase or <sup>diminish the amount of</sup> ~~(?)~~ ~~(?)~~ ~~or~~ gold which  
the bank holds which appears in its statements.

It is my feeling that in meeting our wishes Bachmann  
has shown a good spirit. I am of course not familiar with  
all of the factors influencing the Treasury Department;  
however, may I venture the recommendation that I be author-  
ized to indicate to Bachmann our appreciation of the course  
recently taken by him, and let him know that the United  
States has no objection to his shipping the balance above-  
mentioned to New York and of converting it on our market  
when and as his bank thinks it is to its best interests  
to do so. In my opinion the tripartite arrangements have  
suffered too severe a blow through the recent move of the  
French to permit us to risk a disagreement with the Swiss  
over such a small amount, especially since during the  
more nervous period they complied with our wishes. It seems  
that Bachmann now understands more clearly our desire to  
be consulted or at least advised regarding his operations  
on the American market.

The tourist trade in Switzerland is good. Switzerland

- 2 -

has lost very little capital to France since the thirtieth of June. As to the French outlook Bachmann is by no means optimistic. He told me that the recent Swiss conversion loan went over well and he only regrets that 15 years is the time limit on it.

Governor Norman of the Bank of England favored a stricter attitude towards the French than was adopted by the United States with regard to their deviation from the original conception of the Tripartite Agreement. [Norman, incidentally, was the author of the most pointed remarks in Simon's letter to Bonnet dated June 30.] France's partners in the Agreement should have been consulted, Norman thinks, rather than merely informed at the last minute as to what was going to be done with the franc. He also said they should have been given some other assurances regarding the French program and the currency's future than have so far been given. I said that it seemed possible that by November the new credit to the State by the Bank of France would be exhausted if the French must repay the British banking credit in addition to meeting their other obligations. The Bank of England Governor insisted that France should stop thinking about and depending upon foreign credits since no good was accomplished by the recent ones and no new ones are warranted by the present set-up.

At Basel the general opinion was that under the present

- 3 -

regime France is not going to witness a recovery of gold anything like the extent that it did under Poincaré's government - one reason is that Poincaré is not there. Another reason was that a domestic social problem did not face Poincaré. A third reason was that under Poincaré France was a stronger power in European politics and arms than it is at present, and finally, France's calm is seriously threatened by the Spanish situation.

The hope was expressed by Quesnay and some others at Basel that France might gradually recover under the present government. It is their opinion that The United States was correct in its attitude toward France and that the retention of the Tripartite Agreement will help sustain France in the problems she is facing. They do not think that the international realization that France is weakening should be permitted now, as the alternative will rally France's foreign friends to her support and will arouse a patriotic sense of responsibility on the part of the French people. These observers are convinced that the measures so far taken by Bonnet were necessary - perhaps with one exception, that of punishing speculators in gold and exchange, which is a continuation of Auriol's policies - and that he has shown real courage to date. They said that they hoped there may gradually come a better repatriation of capital and an improvement in Government securities which in the  
late

- 4 -

late autumn would permit a conversion operation and thus the heavy debt carrying burden could be greatly reduced.

It is Jacobsson's belief that the rate of 130 francs to the pound will not give France competitive advantages. He feels that the United States was entirely correct in its attitude under the Tripartite Agreement. France, he thinks, should try to hold de facto stability at around 130, but no definite level should be pledged or indicated since the speculators would then have too much ground for operations. Jacobsson looks for an orderly recovery of France within the Tripartite Agreement should the above-mentioned hopes of Quesnay and others be met. If by autumn substantial recovery has not taken place, he conceives a move toward say 150 or 160 francs to the pound and complete departure of France from the Tripartite Agreement with a nationalist government, undertaking drastic action, coming in. However, this could only take place after the French situation has deteriorated alarmingly from what it is now.

Quesnay mentioned an idea which he understood was in the minds of some officials in France of not utilizing much more gold out of the reduced reserves of the Bank of France to hold the rate of the franc. In other words, they would spend on the franc only such amounts as might come to the stabilization fund through repatriation of

- 5 -

capital. This idea has not come to me from any other source. Recently everything coming to me from official sources has led me to believe that France will use boldly and consistently the technical resources now available in order to maintain a steady rate. However it should not be lost sight of ~~xxxx~~ that with growing apprehension over international wars, the conservative and military elements in France may become quite alarmed if they see much further decline in the Bank of France gold which they have always considered their war chest. According to Quesnay, Labeyrie will not voluntarily resign from his position as Governor of the Bank of France. Quesnay mentioned rumors that labor leader Jouhaux might leave the Bank's Board and thus cause trouble if Labeyrie were forced out to make way for a banker. No offer has been made to Quesnay of either the governorship or under-governorship but I am sure if given the chance he would accept either one. The directors of the BIS were given copies of the agreement between the Ministry of Finance and the Bank of France and of recent French monetary legislation.

Memoranda on the gold question have been prepared by Quesnay and by Jacobsson. These were confidentially circulated to those members of the board who are Governors of central banks. I am sending copies of these memoranda by mail. There was a general impression at

- 6 -

Basel that international politics will so completely occupy public attention this summer that for a while at least the gold question will quiet down. Jacobsson, Norman, Rooth, and some others still think, however, that present methods, as for example sterilization, must give way to a more carefully thought out treatment of the whole gold question. A few BIS observers who were at the meeting in Berlin of the International Chamber of Commerce (the resolutions of which were considered at Basel) feel that there is a growing world desire for a return to some sort of modified gold standard. They stressed the need for close joint study of possible plans toward this end by the two leading monetary powers, the United States and Great Britain.

I was informed by Governor Rooth that the Swedish situation is not such as to require any immediate action along monetary lines. It is his opinion that some time in autumn the question will again come to the fore. It seems that central bankers and economists of Scandinavia are the ones most seriously considering the desirability of changing the price of gold.

The National Bank of Belgium Governor, Franck, told me of Eccles' reply to him in which Eccles had advanced the idea that the problem facing us was that of maldistribution

- 7 -

bution of gold resulting importantly from the degrees of confidence inspired in capital by certain countries. The Belgian Bank Governor told me that recently he had discussed the question of control of gold production with officials from South Africa. Governor Franck was ~~(?)~~ *not* surprised to find that both production control and a change in gold price were opposed by the South Africans. However, he believes that the public discussion of the gold question has perhaps <sup>been</sup> ~~(?)~~ useful in bringing gold producers to a realization that gold should not be produced extravagantly lest their business be restricted by governmental action. The Soviet authorities have also been contacted by Franck, <sup>with regard to control of production,</sup> but so far his advances have received no response. The directors of the BIS were given the text of the Belgian law of the fourteenth of June establishing a special and exceptional tax on profits from certain speculative transactions in the monetary field.

I had talks with Reusoh, Vocke and Schroeder of the German Delegation. They said that there were no significant developments in the situation in Germany. They were pleased over the improvement in the export trade and said a fair number of tourists were coming to Germany. This past week-end Schacht spent most of his time in Zurich, where Swiss-German commercial negotiations were being carried on.

The Bank

- 8 -

The Bank of Italy Governor, Azzolini, is coming to Paris from (?) (Basel?) to visit the Governor of the Bank of France.

The Governor of the Bulgarian Central Bank, Montchiloff, is in Basel studying with officials of the BIS his plan for financing of purchases of raw materials in such countries as his own.

There will be no meeting of the Board of Directors before the eleventh of October unless the chairman may find it necessary to call a special meeting. The BIS President, Beyen, hopes to visit the United States the latter part of October of this year.

END MESSAGE.

BULLITT.

EA:LWW

REB

GRAY

London

Dated July 13, 1938

Rec'd 3:06 p. m.

Secretary of State,  
Washington.

628, July 13, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

The dollar-sterling rumors seem to have been quashed at least for the time being and conditions in the foreign exchange market have now assumed more normal proportions today. Although there was a good commercial demand for dollars it was more than offset by the undoing of positions particularly from Paris prior to the holiday. However, the belief is current and firmly held that the dollar will continue to strengthen in terms of sterling unless it is arbitrarily held.

The demand for gold from the Continent continues, 493 bars were dealt in at fixing and substantial (deal?) dealt occurred thereafter. London bullion brokers state that the European political situation is now the basic stimulant of this movement.

The

REB

2-#628, From London, July 13, 6 p.m.

The French fund pushed the franc to 178.33 during the morning but inasmuch as Paris was closed this afternoon it lost but little sterling.

KENNEDY

HPD

07715011

JUL 14 1966

RECEIVED

U.S. DEPARTMENT OF STATE

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 13, 1938, 4 p.m.

NO.: 1105

FROM COCHRAN.

In a banquet speech yesterday Prime Minister Daladier insisted upon the Government's determination to reestablish order in public finances and to hold its currency. He said this policy was being facilitated through tourist influx and improvement in the trade balance and through avoiding useless expenditures. Minister of Finance Marchandeu in announcing the new three one-half per cent issue of 18 months bonds explained to the press that proceeds would be used exclusively for armament purposes.

At noon I talked with the Bank of France. This afternoon all Paris banks are closed, as well as tomorrow. My contact told me that the speech made by Daladier had not helped the franc, although after it the control had today made an attempt to break the attack on the franc and the rate had been brought down to 178.33. However, confidentially I was told that it had been quite costly during the morning to get the rate back to this point and keep it there, as today's pressure was as heavy as it was yesterday.

Today I had luncheon with Professor Rist. I asked him what had been the cause of the latest franc weakness. Rist

told

- 2 -

told me that one or two of his friends in the Bank of France and the Treasury had been inclined to criticise his article in Foreign Affairs as too "timely" and consequently one of the contributing causes of the weakness, but, he added, when disagreeable the truth is always untimely. He said that economists as well as doctors usually discovered that when their clients did not follow professional advice soon enough they suffered. He gave the following as the immediate factors responsible for the present flurry: it was believed that in May the question of Czechoslovakia had not really been settled, and that it might soon cause (?) Germany; the dollar-sterling readjustment rumors; there is gossip that by October another financial crisis will be faced by France.

Rist regretted that Daladier is ignorant of financial matters, and that he was so weak as to take quack advice like he did on the open market matter. Desterilization of gold by the United States was approved by Rist. He criticized the British authorities for "hoarding" so much, and said that it is sound and logical for the Swiss National Bank to coin and distribute gold coins for the purpose of hoarding privately; the latter he said was further evidence in support of his theory that we must all get back to a gold basis for our currencies, and the more general utilization of gold.

Rist mentioned, incidentally, that Trieste had lost

- 3 -

one-third of its shipping since Austria was taken over by Germany and the Austrian timber previously exported through Trieste was diverted to German uses. In his opinion, the first fifteen years of Italian occupation of Ethiopia will yield little return.

French Treasury statement as of May 31 shows treasury loaned stabilization fund four billion three hundred million francs after issuance of enabling decree on May 17. This took place immediately after re-(?) of capital to France which caused stabilization fund to require more francs to purchase gold than its normal endowment permitted.

The control has confidentially told me that most of this amount has been repaid - which means that the gold losses of the control since the loan was made shortly after the seventeenth of May have set off something like this amount.

British financial press today reports "the banking group headed by Mendelssohn and Company has granted the French Government the 3% loan totaling 75,000,000 florins. Of this total 35,000,000 florins is on Dutch account. The balance of 40,000,000 florins will be placed in France. The credit is in the form of Treasury bills repayable in one and a half years. The Netherlands Bank will re-discount the bills. Transactions in the new loan took place today

on

- 4 -

on the basis of the interest of 3%.

I had a talk with Rueff and asked him about the preceding. Rueff said that the amount mentioned was too much, and that the story is premature. However, he said an arrangement is actually being made whereby the French state, by authority of a decree issued in July 1937, will take over the florin debt acquired by the French Railways in November 1937. As soon as details are available I will transmit them.

This afternoon the representative of the Bank of Italy, Pennachio, expressed to me the opinion that theoretical such as those mentioned hereinabove reasons/cannot be given for the sudden current weakness of the franc; he said that the general public has not been responsible for the operations against the franc, but that they have been made by a few professional operators whom he suspects of having some practical inside information which is unfavorable.

END MESSAGE.

BULLITT.

EA: LWW

## GROUP MEETING

July 13, 1938.  
9:30 A. M.

Present: Mr. Magill  
Mr. Oliphant  
Mr. Gaston  
Mr. Taylor  
Mr. Haas  
Mr. Upham  
Mr. White  
Mr. Hanes  
Mr. Lochhead  
Mr. Gibbons  
Mr. Bell  
Mr. McReynolds  
Mrs. Klotz

H.M.Jr: Wayne, here's this letter from Sumner Welles, which you, White, and Archie can read, then return for my files. You might tell Sumner that I had a chance to talk to Mr. Hull about it this morning; that Mr. Hull and I agree, pending the return of the President of the United States; we didn't wish to begin a conversation with the British.

Taylor: Pending the return of the President.

H.M.Jr: Pending the return, at which time Mr. Hull and I will take it up with the President. Check?

Taylor: Uh huh.

H.M.Jr: Huh? Hull feels very strongly about it. In other words he doesn't want to mix it - very emphatic. He doesn't want to start anything at this time.

Mr. Magill.

Magill: Nothing new, sir.

H.M.Jr: That's too bad. We're not coasting, are we?

Magill: Business goes on as usual.

--2--

H.M.Jr: We're not coasting, are we?

Magill: Well, so Mr. Bell tells us.

H.M.Jr: We're just floating on a four million dollar deficit.

Taylor: A gradual curve.

Bell: A pretty sharp upturn, I thought.

H.M.Jr: Was there anything in there about not paying for the deficit, - devaluation, or something. Some commentator used it on the radio this morning.

Bell: I think he used the five million dollars, which included the desterilized gold.

H.M.Jr: (Aside to Mrs. Klotz.)  
Herman?

Oliphant: The New York Times recalled this morning that when Mr. DuPont and Mr. Raskob charged that the cases brought against them were for political purposes, that you said you would answer that one by proving the case in court, and that happened, as you probably noticed, yesterday.

H.M.Jr: That's a result of Mr. Hanes coming into the Treasury, - prove the DuPont-Raskob case.

Hanes: I accept that.

Oliphant: Except they decided it about two weeks ago and didn't tell us. When I recall that the case was tried by our man, Mr. Leming, alone, and he had against him, the highest priced legal talent in New York, I think the case .....

H.M.Jr: You want Gaston to do a little gloating for us?

Oliphant: Well, I think so.

Gaston: The newspapers gloated pretty well, this morning

Magill: I think you have all the gloating you need at the present moment.

- 3 -

Gaston: We might tell them this is a result of the principles established in the Mellon case.

H.M.Jr: I personally thought the publicity was excellent.

Magill: I did too.

H.M.Jr: Well, shall we let it ride?

Magill: Yes, I think so.

Oliphant: I wish it were understood that jobs that are done like that are by ordinary career men.

Gaston: I'll take care of that; I'll have somebody run a feature story on Leming, with a picture of him.

Oliphant: He's a very modest, nice man - slow .....

Magill: (Laughs.)

Oliphant: Now, Ros ....

Magill: I was laughing at Cy; Cy opposes the picture.

Oliphant: Leming is like the mills of the gods; he grinds slowly, but he grinds exceedingly small.

Magill: That's a very exact picture.

H.M.Jr: Read that (Bell), and see what you think of it.

Bell: (Reads letter.) Very good.

H.M.Jr: What?

Bell: It has my hearty approval.

H.M.Jr: What?

Bell: Hearty approval.

Gibbons: I think the whole point to this case, aside from the political point of view, it was started not from this administration. There was an examination before we came in here.

H.M.Jr: I thought you were going to say, "You see, this is what happened to Raskob and DuPont; if you boys will come across and make a handsome contribution, you won't get this."

- 4 -

Gibbons: It wasn't my angle, but my point.

H.M.Jr: Don't you ....

Gibbons: Incidentally, did you know Mrs. Roberts' father died?

H.M.Jr: (Nods "Yes.") You people are all too noble, around here.

Gibbons: But that's the thing that was played up - that this administration had started this case against Raskob. That's the idea that is left with the people. Isn't it a fact, Herman, that the examination really started before?

Oliphant: I'll have to verify that.

Gaston: They started a small one against him, and he appealed on that and they came back and slapped one about twice as good on him.

H.M.Jr: It was a good case, and I think if Mr. Leming can get a little publicity, it will be fine.

Oliphant: All of which will embarrass him a little - he's that kind of a fellow.

H.M.Jr: Shall I write any congratulatory letters to anybody?

Oliphant: I should not. I'll have the Munitions matter ready today.

H.M.Jr: I want to sort of leave that behind me.

Oliphant: Or I can have it a little later; that is, I've got other work.

H.M.Jr: I think we'll let it come up just for guidance while I am gone.

Oliphant: It's routine.

H.M.Jr: Yeah.

Oliphant: Well, that wouldn't hurt us.

H.M.Jr: What else?

Oliphant: That's all; except that meeting yesterday that Peoples and I attended. There's no change in the things we worked out.

H.M.Jr: Herbert.

Gaston: The boys are interested in Chinese silver, and whether we've made any new agreement.

H.M.Jr: I'll call them tomorrow.

Gaston: And R. F. C. financing. I suppose we'll have a clean-up on that tomorrow or Friday.

H.M.Jr: Give me something to say tomorrow morning at ten thirty, will you.

Bell: Friday morning - is that a closed date? We won't get the final reports until late Thursday evening, and we're supposed to announce it Friday morning.

Gaston: There's no reason why the Secretary shouldn't tell the approximate amount of over subscription tomorrow - there wouldn't be any harm.

Bell: Well, it will be about two billion six. I shall recommend about eight per cent - that will be two hundred ten million - maybe go to twelve.

H.M.Jr: (Nods to Mr. Lochhead.)

Lochhead: They are having quite a job going over this time; I spoke to Harris this morning; they have found cases where one man put in for sixteen, and things like that - it will be difficult to get the final, exact figures. They'll have to do a lot of weeding out.

H.M.Jr: Archie, talk, sometimes, to Hanes, about putting the bond market on the curb - making the curb the bond market. Isn't that what you have in mind?

Hanes: That's what they've been talking about, Mr. Secretary. It hasn't gotten very far yet, but that's the plan.

- 6 -

- H.M.Jr: Talk to Archie sometime about the plan. We're pretty big in the bond market; our throwing our business one way or another will be an important factor.
- Gaston: There's some interest in whether there's going to be any other agency financing in the near future.
- H.M.Jr: No. Nothing other than the regular bonds that Jones is offering - the five - six million he took.
- Anything else?
- Gaston: That's all.
- H.M.Jr: Wayne.
- Taylor: Did you get a chance to talk to Secretary Hull about the things that are coming up?
- H.M.Jr: I mentioned it; he wasn't interested, and didn't seem to be familiar with it. I mentioned it and he didn't seem to be familiar with it. Before I go I'll get together with you and White on it. He just didn't seem to be - didn't seem interested. I don't think it's been brought to his attention. Anything else?
- Taylor: No, that was the only thing I was curious about.
- Gaston: By the way, Secretary Hull did correct that statement yesterday at a press conference.
- H.M.Jr: Oh, did he?
- Gaston: Yes.
- H.M.Jr: Well, he was awfully nice about it this morning. I didn't bring it up, but he did - he felt very badly about it.
- Gaston: He corrected it - plenty. He said, "We have not been carrying on any monetary negotiations and as far as I know, there have been none anywhere."
- H.M.Jr: How do you know he did this?

Gaston: I have his text. It was telephoned over - Frank King took it over the telephone. I'll send a memorandum in for you.

H.M.Jr: Anything else?

Gaston: (Nods "No.")

H.M.Jr: George.

Haas: I haven't anything, Mr. Secretary. There are some new figures that have come in.

H.M.Jr: Give them verbally.

Haas: The significant part of it is, it's the first time residential contracts are above a year ago.

H.M.Jr: For how long a period?

Haas: Just a short period - it's a seven day period.

H.M.Jr: And how is the total?

Haas: The total is not there yet. The total is governed so much by the government contracts coming in, that it is fluctuating.

H.M.Jr: How does it look?

Haas: Looks up, but not above a year ago.

H.M.Jr: But residential is.

Haas: Yes.

H.M.Jr: What else?

Haas: That's all.

H.M.Jr: Have you circularized this thing on commercial loans that came in?

Haas: No, you have the only copy.

H.M.Jr: Ask whoever is interested in it - see that they get a copy. We sent out a questionnaire to the twelve Federal Reserve Banks, and they - a hundred and fifty commercial loans in connection with

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inventories. If anybody's interested, ask Haas. I think it lays to rest, this inventory thing.

Oliphant: Does this look like a good predictor?

H.M.Jr: Oh yes. Commercial loans and inventories go up together. Whether they rise together, I don't know. These banks all say inventories are pretty well liquidated. There is a big cross-section - about a hundred and fifty commercial banks.

White: Wouldn't want to give it any publicity?

H.M.Jr: No.

White: Very bullish.

H.M.Jr: Harry!

White: You need every possible help, you know.

H.M.Jr: You want to squeeze the raindrops out.

White: Want to send a few more birds over.

Klotz: Did you hear what he said?

H.M.Jr: Yes.

Haas: You know, Mr. Secretary, that comment from the Dallas Bank - that really checks with those other figures - how well they've been doing all this period. Better than the others in the country.

H.M.Jr: Upham.

Upham: (Nods "Nothing.")

H.M.Jr: Harry.

White: You might be interested in the request from the B. I. S. that was answered - are you familiar with that?

H.M.Jr: No.

White: Well, the request was to get our reaction to the signing of a treaty arrangement which would make their fund here inviolable, so that we would have no control over them - B. I. S. gold or assets.

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We talked it over and turned them down flat, in the letter. If you are further interested in the letter.....

- H.M.Jr: Professor Riefler sent me a telegram that he had returned from Geneva. He had nothing particular, but I could reach him on the phone. I wrote him back and said if there was nothing particular, I was leaving in a couple days. I would have thought he'd have come to town to report to the State Department. I don't know whether he did. Has anybody heard from Riefler?
- Taylor: I can check up and find out if he's had anything over there. Isn't he - didn't he get an office up there, or did he change his mind?
- H.M.Jr: He went as alternate to Jeff Coolidge to Geneva.
- Taylor: My impression was that he was stopping that too.
- H.M.Jr: He wrote me he was not going to go; then changed his mind and went. He wrote me he was not going to Geneva; that he severed that connection too, but he didn't - he went.
- Anything else, Harry?
- White: No.
- H.M.Jr: John?
- Hanes: No.
- H.M.Jr: Archie?
- Lochhead: The rumors on the sterling dollar rate are dying slowly, but not altogether, and a great many people seem to fear there will be a rate, accompanied by the devaluation all the way around. That's the reason why there is such a demand for gold in London, which has continued steadily. The franc is rising a little bit. The stock market this morning is opening strongly; the Government bonds are inclined to be off. I didn't know whether it would be on the Budget summation - New York says no. New York claims the market - New York claims that the easiness in the Government bonds is not due to the Budget figures that come out, but the fact that more people are getting

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interested in the stock market. Interest is swelling over that way. They are only off two thirty-seconds.

H.M.Jr: (Points to Mr. Gibbons.)

Gibbons: The allotments .....

Lochhead: Both England and Switzerland were on the selling side of the stock market yesterday - both fairly heavily.

H.M.Jr: Well, don't forget to coach me before I leave in what I should say about sterling, Archie, when I get over there.

Lochhead: All right. Silence will be a good thing to say.

H.M.Jr: I accept.

Gibbons: The allotments made for the Coast Guard - it looks like that three million six hundred thousand will have to be released because of the grounds.

H.M.Jr: Good! Public Health.

Bell: (Laughs.)

H.M.Jr: Come on now! Come on, big boy.

Bell: That's terrible.

Gibbons: Here's one, for instance. The ground is six hundred eighteen dollars, you know, but yet they haven't - they have never acquired this thing - they haven't acquired the ground in over twenty years - they've worked on it, from time to time.

H.M.Jr: Well, get after them. Harold Ickes is having lunch with me at one o'clock. Three million, how much, did you say?

Gibbons: Three million six hundred eleven thousand. They won't be able to search a title.

Bell: That's terrible. Haven't even put in the ....

H.M.Jr: Come on, let's finish Bethesda and move the people out there; let's finish Bethesda up. The President would like that.

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Gibbons: It's awfully stupid on the part of the Coast Guard.

H.M.Jr: I'm not worrying; the Coast Guard has more than they are entitled to anyway. I'd like to finish Bethesda up.

Gibbons: There's three million dollars we won't be able to use.

H.M.Jr: What do you say, Bell?

Klotz: He says "Yes."

Bell: I don't talk here as Director of the Budget.

H.M.Jr: We've got to do it, anyway. The land is there.

Bell: That would be a long-time program.

H.M.Jr: Why not let's finish Bethesda?

Klotz: Have you seen that condition over there?

Bell: I don't dare look at it.

H.M.Jr: Take him over to see it.

Bell: Any other good news like that, Steve?

Bell: Poor Coast Guard.

Gibbons: They admitted it to me. That's all. I'll see you at three thirty.

Bell: We gave the Coast Guard two ice boats - at least we recommended them.

H.M.Jr: Built of wood.

Gibbons: No steel.

H.M.Jr: Dan?

Bell: I have nothing.

H.M.Jr: Were you through?

Gibbons: Yeah.

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- H.M.Jr: (Points to Mr. McReynolds.)
- McReynolds: You asked Harry about cement stuff.
- H.M.Jr: Yes.
- McReynolds: The letter from the War Department, Peoples has, and he wants to come over and talk to you about it today.
- H.M.Jr: I picked that up from Mrs. Forbush in a weekly review - that was a fresh letter from the War Department. I want to make - I hope we can give the War Department a good answer on cement.
- McReynolds: Well, the answer they got was if they don't get service on buying cement, it's their own fault, because they've got clearance to buy it.
- H.M.Jr: Will you please write the letter to the Secretary? Can't we also say we are saving them money?
- McReynolds: I know we can on the West Coast.
- H.M.Jr: The War Department has put in a release - if it's right, I'd like to investigate it.
- McReynolds: I told before he sent the letter over he telephoned me - I said, "If you fellows are being delayed in your program of buying cement it's nobody's fault but your own, because you have a clearance to buy until some future agreement is reached, that hasn't yet been arrived at; you've got a clearance to buy your own cement." Peoples is working the thing up, and he was over yesterday afternoon.
- H.M.Jr: But don't tell Peoples - don't let the Army put that over on the Navy.
- McReynolds: I did it personally, before the letter was sent over; I reminded them, and they admitted they had that.
- H.M.Jr: Let's do it all in writing - very formally. Have you the cement information for me?
- McReynolds: One little interesting item I thought you ought to know. Dan brought down to me yesterday - he

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and Harry Collins, and representatives of some banks who had been extending credit to small contractors, working for W. P. A. who, during the last three years, have been getting their checks through the banks. The banks financing the contractors and keeps them going, using the basis of their contracts for security. Ten days ago the Comptroller issued a ruling to Procurement that no checks were to be sent in care of the banks. See, the way the banks had gotten hold of it, was the checks were sent to them - to the contractor in care of the bank. The contractor came in, took care of the debts, and got the balance. The Comptroller ruled they couldn't send them to the bank.

Oliphant: Did the bank endorse for the contractor?

McReynolds: No. Oh no. And they'd stopped doing it, and the bankers were in. The boys came down and in about thirty minutes we had that ruling reversed. They were to go on and send the checks in care of the banks, as they had been.

H.M.Jr: That was one of the days you had a sore throat.

McReynolds: I called Harry Collins in New York - he's mostly in New York. He got ahold of the New York people and cleared it immediately there, and they wired it from here.

H.M.Jr: I ordered Irey to stay away until after Labor Day.

McReynolds: Did you go out and see him?

H.M.Jr: Yes, I did. He's fine - cheerful. Mrs. Irey is just delighted.

Seriously, if you two men - if it wouldn't rush you too much - if I could have a little memo to take up with Harold at one o'clock, how much would it cost, etc., to finish Bethesda? Just a memo.

Bell: I think the figures are in that memorandum - a million and a half, as I recall it.

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- McReynolds: Practically a million and a half - something between a million five and a million eight.
- H.M.Jr: Give me something I can give him.  
What else?
- McReynolds: Nothing.
- Bell: He ought to initial the letter we'd send along. We made an arrangement, while he was away, the Budget would handle all Federal projects.
- H.M.Jr: When are you leaving town, tomorrow morning?
- Bell: Yes, tomorrow morning.
- H.M.Jr: May I suggest this, when you handle this: "The Coast Guard is cancelling three million dollars, and you'd like to put it into Public Health, and could you get his initials on it?"
- Gibbons: You're sure, aren't you, Mac, they won't be able to clear those sites?
- McReynolds: One of Herman's men came in to me yesterday to make a synthetic commitment of those funds, but I told him we wouldn't do it that way.
- H.M.Jr: Where could the Public Health use the other million and a half. Three million six - ...
- Gibbons: Three million six, and two million from that ....
- McReynolds: There are only ....
- H.M.Jr: Have they got another hospital ready?
- Bell: There are several hospitals.
- H.M.Jr: Is there any other place they need one?
- Klotz: Yes, I've got a memo on my desk ....
- Bell: They really ought to get their money out of the Public Building Funds.
- H.M.Jr: If they are ready. They didn't get anything out of this two hundred million.

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Bell: They didn't deserve anything.

H.M.Jr: They deserve it as much as the Army and Navy.

Bell: The Army and Navy didn't get anything.

H.M.Jr: Look what they got out of Congress.

Bell: This is part of what they got out of the Congress for the building program. That's the reason Army and Navy didn't get anything.

H.M.Jr: How much are they going to get out of the Public Building Fund?

Bell: Five million dollars.

H.M.Jr: Any of it for Bethesda?

Bell: Peoples' letter said five million dollars of the Public Building Funds had been allotted to Public Health for hospitals.

McReynolds: That's right, I think, except for Bethesda. In the Public Building Fund we are having difficulty getting money for Bethesda. You don't have so much difficulty getting it away from Washington, and if we can make that kind of trade and get what is difficult to get for Public Buildings .....

H.M.Jr: We release three million six, and all we ask is a million and a half.

Gibbons: Ickes will probably want to know right away if the Senator running over there in Maryland will get credit for this.

H.M.Jr: No.

Bell: Why do you talk them out?

H.M.Jr: I personally - one I was particularly interested in was to clean up with Bethesda.

Bell: Why not say Coast Guard is releasing three million six and we want to release some Public Health projects, particularly Bethesda, and clean that up.

H.M.Jr: Thank you; I'll do that.

Bell: We can use the other that comes along.

H.M.Jr: We'll do it just that way. Thanks very much.

**M E M O R A N D U M**

Conference held in Secretary's Office

July 13, 1938 - 10:30 a.m.

**Present: Secretary Morgenthau**

**Mr. McGill**  
**Mr. Eames**  
**Mr. Graves**  
**Commissioner Helvering**  
**Mr. Marrs**  
**Mr. Mooney**  
**Mr. Hansen**  
**Mr. Kobaynolds**

The Secretary discussed the forthcoming establishment of the Settlement Unit in New York. He explained to Mr. Mooney and Mr. Hansen, who will be in charge of that Unit, his attitude and interest in the success of the decentralization plan; assured them of the assistance and support of the Department, and promised to see that they were furnished all the equipment and help they will require on the job.

\* \* \* \* \*

MEMORANDUM

Conference held in Secretary's Office  
July 13, 1938 - 10:40 a.m.

Present: Secretary Morgenthau  
Mr. Magill  
Mr. Hanes  
Mr. Oliphant  
Mr. McReynolds  
Commissioner Helvering  
Mr. Ryan - Internal Revenue  
Mr. Crossley - Internal Revenue.

The Secretary asked for a brief explanation of the work of the Reorganization, Bankruptcy and Receivership Section of the Office of the Chief Counsel for the Bureau of Internal Revenue. This statement was given by the Assistant Chief Counsel for the Bureau of Internal Revenue and was supplemented by explanations from Mr. Crossley of the Reorganization Section.

The Secretary thereupon commented that although it appeared that it has not been the policy or practice of the Government to force taxpayers into bankruptcy or receivership as a means of forcing collection of taxes, nevertheless it likewise appeared that the Government has not heretofore taken any affirmative action in these distress situations to help in the formulation or execution of plans looking toward the rehabilitation of the financially distressed taxpayer and his continuance in business. He also stated that there was now a splendid opportunity for the Government to aid "sick" business enterprises by so handling the reorganization, bankruptcy and receivership activities of the Bureau of Internal Revenue as to aid in the cure rather than to be the agency for delivering the blow which will terminate their existence. Such attitudes of affirmative helpfulness will not only maintain these business units' existence and reduce unemployment but will benefit the Government directly by the creation of goodwill and placing such businesses once more on an income-producing basis, thereby eventually increasing the tax revenues.

The Secretary emphasized that Assistant Secretary Hanes was particularly well qualified to direct such activity on the part of the Treasury and the Bureau of Internal Revenue, in view of his

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broad experience and particularly his recent experience with the Securities and Exchange Commission. Specifically, the Secretary directed the following steps be taken in order to initiate this program:

1. The General Counsel of the Treasury will take steps to insure that Assistant Secretary Hanes be advised in detail as to the work of the Reorganization, Bankruptcy and Receivership Section of the Chief Counsel's Office and to see that he receives the fullest cooperation in any procedures which he may formulate.
2. That contact be made with the Comptroller of the Currency and the Federal Deposit Insurance Corporation, such contact to be made by the Administrative Assistant to the Secretary, or, if necessary, by the Secretary himself, to determine how these agencies may cooperate in the furtherance of this plan.

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Meeting in the Secretary's Office  
Wednesday, July 13, 1938, at 11:00 A.M.

Dist of an oral report made by Raymond Leslie Buell, Foreign Policy Association, to the Secretary, at Mr. Buell's request. Mr. White was present.

Mr. Buell had just returned from a two month's tour of Europe and wished to report to the Secretary his views on the European situation.

He stated that he felt pessimistic about the general European situation. Most countries on the Continent were, he believed, going rapidly toward totalitarianism. The French situation was bad and showed no immediate prospect of progression toward a solution of any of the basic problems which confronted it. He reported that the only country that seemed to be very hopeful was Germany, where unemployment was virtually absent and where the United States recession was regarded as proof of the inevitable weakness of democracies. He stated that he expected trouble in Czechoslovakia when the present negotiations with the Sudeten Germans came to an impasse. The Czechs would not, he believed, grant the degree of autonomy the Germans would insist upon. He feared trouble would start within a month or so.

He said that in the recent Czechoslovakian incident Russia had warned Poland that her armies would march on Poland if she attempted to take any part of Czechoslovakia. And Rumania also informed Hungary that any attack by Hungary on Czechoslovakia would bring Rumania actively on the side of Czechoslovakia. Germany, he felt, had in no way abandoned her plan of attacking Russia via Czechoslovakia and Poland.

Mr. Buell thought that the people in Spain felt that the conflict would last at least another six months, and that he expected the present British-Spanish negotiations to eventually break down because Mussolini badly needed a victory in Spain.

He also expressed the view that Russia was going to withdraw more and more from the European scene, though he said that there were some who believed that Russia would sooner or later tie up with Germany. However, he felt this was impossible until Stalin passed out of the picture.

He felt that the only help for European difficulties was for the United States to take an active part, first through the exercise of "force" and secondly by inducements to Germany to help wean her away from her present role or aggressive expansion. He specifically recommended that the United States repeal the Neutrality Act as a first step, thus indicating to Germany and Italy that the United States meant business. He said that Germany and England had already "written off"

- 2 -

United States as a factor in the European situation and that, as a consequence, Germany was more aggressive, and England was driven more and more to seek some arrangement with the aggressors, Italy and Germany.

He likewise expressed the view that the United States ought to make an arrangement with the other Tripartite countries guaranteeing for the next few years fixed exchange rates and asked the Secretary what he thought of that step. The Secretary replied that he had considerable doubt as to the wisdom of any such action and that the United States at the moment had nothing to gain by committing itself to a program of that kind. He said that he deemed it essential that the United States should keep the power to devalue further as a club to defend it against possible unwanted adverse movements and that the power should not be used as a "needle" (i.e., to attempt to inject new vigor in the recovery) to secure advantages.

Mr. Buell stated that in Europe he found people favorably disposed toward Mr. Hull's and Mr. Morgenthau's policies but that they felt much less satisfied with the President's program.

He stated that Europeans were confident that the United States would experience prosperity again.

July 13, 1938

My dear Mr. President:

After the California primaries are over, I would like to recommend for your consideration Mr. Preston Delano as Comptroller of the Currency.

Yours sincerely,

The President,

En Route.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 13, 1938

TO Secretary Morgenthau  
FROM Mr. Haas *HA*

Mr. Dan Bell has just turned over to me the estimated monthly expenditure data which you asked him to obtain from the various governmental agencies.

It is my understanding that you wanted these data set up in a master chart along with some additional sub-charts in such a manner as to provide you with a statistical control of performance.

More specifically, as I interpreted your request:

- (1) It calls for an estimate of expenditures by months from each governmental agency, including Government corporations;
- (2) These data would be put on a master total chart along with some important sub-charts as would be selected;
- (3) Each month as actual expenditure data becomes known, it would be plotted against the estimate to provide a comparison of actual results with estimated results;
- (4) Each spending agency would confirm or revise their estimates each month.

This outline is in conformity with similar controls which you have set up in the past, and seems to me is the minimum necessary to provide you with a current statistical picture of progress and the future program.

Mr. Bell's understanding of your request does not exactly agree with my understanding as outlined above.

In order that this control may be set up and operating upon your return, you may wish to see Mr. Bell and myself before you leave. Mr. Bell asked that I send this message to you. He told me he had planned on leaving tonight.

July 13, 1938

My dear Mr. President:

I am sending you herewith, for your information, the following memoranda:

1. Commercial Loans in relation to inventories - prepared by Mr. Haas *filed 7-12*
2. The Business Situation, week ending July 9, 1938 - prepared by Mr. Haas *7-11*
3. Reorganization of Secret Service under my supervision - prepared by Chief Wilson *7-9*

Faithfully,

(Signed) H. Morgenthau, Jr.

The President,

En Route.

Enclosures.

HSK/NMC/mas

7 JUL 1938

July 13, 1938

Arthur Goldsmith cabled Eddie Greenbaum that the Evian conference is on the rocks. The only way to save it is to send Kennedy to Evian. (Eddie says that Kennedy must have seen the cable before it was sent). When I told Eddie that Sumner Welles said that the conference is a great success, he said "That is why Kennedy wants to go over and cash in on it."

July 13, 1938.  
3:29 p.m.

H.M.Jr: Hello.

Malin  
Craig: Mr. Secretary, this is General Craig.

H.M.Jr: Good afternoon.

C: I have your message of yesterday and I've looked up the case of that Colonel Haas.

H.M.Jr: Yes.

C: Here is the situation, Mr. Secretary.

H.M.Jr: Please.

C: He was in the service; he has a very fine war record, very find record, and about a year ago, for reasons unknown, he took the re-examination and passed it for a commission as Colonel.

H.M.Jr: Yes.

C: There has never been a vacancy and is not yet one to which he's entitled.

H.M.Jr: Yes.

C: Now, there is a vacancy in one field artillery regiment, but there are three qualified in that they have worked for it and gotten their certificates of promotion to Colonel, and one of them will get that vacancy.

H.M.Jr: I see.

C: To put him back again as a Colonel throws out of line all of the Colonels who are working for those same certificates.

H.M.Jr: I see.

C: Of course, he's only concerned with the field artillery.

H.M.Jr: Yes.

C: He's been recommended - he must be a very fine man,

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because he applied for the present vacancy ...

H.M.Jr: Yes.

C: ... and he's been recommended by his - those whom he knows, and Joe McCoy up in the Second Corps Area.

H.M.Jr: Yes.

C: But cases of that sort are - recommendations and requests of that sort are quite common; they run about one in two weeks to one in three weeks - of men who have left the service for their own reasons, then want to come back to get a particular thing.

H.M.Jr: Yes.

C: And I know of no way that it can be done without upsetting the precedents of all the time we've had reserves and being unfair to men who have had continuous service.

H.M.Jr: Well of course I'd be the last one to ask you to do that.

C: Sir?

H.M.Jr: I'd be the last one to ask you to do that.

C: I knew that, and that's why I've explained it to you. But I wondered if Colonel Haas would feel better if he were to talk to me and get the whole picture. He may - he might not know it.

H.M.Jr: I think he would, because quite frankly I explained to Colonel Somers the issue for my cousin.

C: Yes, sir.

H.M.Jr: He's down in Wall Street, which is the hotbed of the anti-Administration people.

C: Yes, sir.

H.M.Jr: He seems to think that he's - well, he just doesn't understand. Hello?

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- C: Yes, sir.
- H.M.Jr: And I simply felt, if it wasn't asking too much, if he could have five minutes.
- C: I'll be glad to give him all the necessary time to show him - to show him that we've had, oh, many similar cases elsewhere and we've never done it where it does injustice to men who have continuously played the game.
- H.M.Jr: Well, he - he is such a good friend of the Army and I - that I felt - he's all upset about it, you see?
- C: Yes, sir.
- H.M.Jr: And he worked terribly hard at getting ready for this.
- C: Yes, sir.
- H.M.Jr: So if you would give him five minutes, I would consider it an accommodation.
- C: Mr. Secretary, I'll give him all the time he wants and do my best to explain it. And from his record - I don't know him - he's the kind of man who will say instantly, ...
- H.M.Jr: Yes.
- C: ... "I understand. You're right."
- H.M.Jr: But I - I don't want to ask you to do the slightest little thing that in any way would be unfair to anybody else.
- C: Well, I thank you. I have spent most of today looking the whole thing up, and the whole case.
- H.M.Jr: Oh, for Heaven's sakes.
- C: And that is the situation, and his application has already been disapproved from here, although he hasn't gotten it yet.
- H.M.Jr: I see.
- C: But I would rather explain to him. I'll be very glad

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to give him all the time he wants and show him the records and let him understand.

H.M.Jr: Thank you so much.  
C: Thank you, Mr. Secretary.  
H.M.Jr: Thank you.

July 13, 1938

Called on Cordell Hull to say good-bye.

He opened the conversation by saying "Could you drop the price of silver about a cent?" I said, "Well, there is no good reason for doing it." I said, "You mean domestically or foreign silver?" He evidently meant foreign silver. I said, "If somebody dumped a lot of silver on us, we would have some excuse to drop the price, but with no excuse I think it would be an upsetting factor at this time."

He said, "Well, we are having lots of trouble in Mexico and" he said "you know the President and Daniels have given the Mexicans the impression that they can go right ahead and flaunt everything in our face." He said, "Daniels is down there taking sides with the Mexican Government and," he said, "I have to deal with these Communists down there and have to carry out international law."

He said, "Couldn't you drop the price of silver?" I said, "I don't think so. I said, "I know I can't." He said, "Well, it is very difficult for me in Mexico."

He said, "You know, these four favorites of the President, Kennedy, Bullitt, Joe Davies and Daniels, are constantly going over my head." He said, "Now, Bill Bullitt takes one of his pets, John Wiley, who is at the bottom of the list and has him made a Minister." I said, "To what country?" "Oh," he said, "some little country; I don't know, but," he said, "I recommended a number one man, but I can't get him appointed. Bullitt goes to the President direct."

I said, "Now, I don't want to go to England." I said, "I can't do anything to help you with your trade treaty and I don't want them to twist anything that I might say or have Kennedy twist anything that I might say that might be proved to be embarrassing to you in your negotiations." I said, "Sumner Welles told me yesterday that I must go and I wish you would see that nothing is started on this side which would put me in the position that I would have to go." Hull was in complete sympathy. He said, "Well, you don't know what

-2-

Kennedy would do with these two high-pressure advertising men that he has with him." He said, "Why, when he was here he doesn't let me know and he comes in one morning and says he has got to see me right away. Then," he said, "when he gets ready to go away, I have a meeting on with twelve people and he sends in word can't I step out and say good-bye to him." He said, "He will claim that he put through the trade treaty and he does not even know the first thing about it."

Hull gave me every indication that he has no more love for Kennedy than I have.

I asked him whether he would not like to see Professor Buck and he said he would.

I told him that Sumner Welles sent me over, at five o'clock last night, a memorandum of the conversation that he had had with the British Ambassador and that Sumner Welles wanted an immediate answer, which I refused to give him. Hull said, "Well, I only saw the memorandum last night myself." I said that my own feeling was that we should give the British no answer on the debt question at this time with his trade treaty negotiations pending and with the President away. Hull agreed with me enthusiastically. He said that the question of debt negotiation rests with the Secretary of the Treasury and "if we ever get down to negotiating," he said, "you have to be Chairman of the Committee that handles it." I allowed that that was correct.

As I was leaving Hull, Norman Davis was waiting to see him. It is interesting that almost every time I have called on Hull I have found either Norman Davis or Barney Baruch waiting to see him.

In my conversation with Hull, he went through the motions of apologizing for having given the wrong impression at his press conference on the dollar-sterling rate in connection with the new trade agreement with Great Britain. (At the 9:30 group meeting this morning Gaston said Hull had made the correction and will dictate a memorandum of Hull's first statement and his correction.)

I found Hull very friendly and much less sarcastic and, for once, less critical of the President. He told me that he had just been examined thoroughly by

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the doctor and that the doctor found him fit. (I don't suppose by any chance this was to let me know that he was well enough to run for President.)

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July 13, 1938.

MEMORANDUM

TO: Secretary Morgenthau  
 FROM: Mr. Gaston

At his regular daily press conference on Monday morning, July 11th, Secretary Hull was questioned on the subject of monetary negotiations in connection with the pending trade agreement with Great Britain. Questions and answers were substantially as follows:

Q. Dispatches from New York today report that the British Pound declined on the money markets as the result of rumors that the trade agreement to be signed between Great Britain and the United States will fix a ratio of about 4.36 or 4.37 to the dollar. Could you comment on that?

A. That is more in line with the Treasury's responsibilities -- the purely monetary phase. My judgment is that if we conclude a satisfactory agreement with Great Britain it will be one of the largest factors in restoring world trade of any progress that we have made in the last year. The matter is developing and I still adhere to my rule not to make any predictions.

\* \* \* \* \*

Q. Would you go so far as to say that a trade agreement will be concluded apart from any monetary arrangement?

A. You may recall that it has been the policy all along to carry on the strictly trade agreement side here in the State Department. Along, parallel with it is the question of exchange stability and more permanent monetary arrangements. You will have to speak to the Treasury about them.

Thomas, who is Mike McDermott's chief assistant in the Division of Current Information of the State Department, almost at once realized that this statement was likely to give trouble, as it seemed to support the view that parallel negotiations for a new monetary arrangement were going on between the British and the Treasury Department and Thomas at once went back to Secretary Hull and got his authorization to clarify the statement. Thomas was authorized to say that what Secretary Hull was attempting to convey

- 2 -

was that the trade agreement itself would result in a freer flow of gold and greater exchange stability. Thomas called all the newspaper men he could reach and gave them this interpretation of Secretary Hull's reply. He failed, however, to reach Dennis Smith of the London Daily Telegraph and Morning Post, who sent the following:

"Mr. Cordell Hull today indicated that discussions of Anglo-American monetary problems were being carried on between the British and United States Treasuries parallel with the trade pact negotiations."

Thomas says he tried to reach me on the phone, but I was out to lunch and he got so busy during the afternoon that he didn't have another chance to call me. However, two or three newspaper men did call me, among them Sidney Olson of the Post, and I told them that I knew of no monetary negotiations with Great Britain; that we already had stability in exchange and a working arrangement under the tri-partite understanding that was producing satisfactory results. I added that I thought it likely Secretary Hull referred to that rather than to any new negotiations.

I mentioned all of this on the phone to you Monday evening and you asked me to get in touch with the State Department. I got Thomas on the phone shortly after I arrived Tuesday morning and he told me what I have recited above and further asked our advice as to whether Secretary Hull should correct his statement at a press conference. I brought this up at the 9:30 group meeting and it was your decision that if an opportunity offered in a regular press conference Hull should undertake to clarify his statement. This decision I reported at once to Thomas. The result was that the following ensued at the Tuesday morning conference:

"Q. Mr. Secretary, could you amplify or clarify your statement of yesterday with regard to the monetary accord possibly being linked up with the British-American trade agreement?"

"A. Mr. Hull: I don't know of anything more to say than Mr. Thomas and I together said yesterday. As soon as I discovered somebody was misinterpreting what I had in mind, I requested Mr. Thomas to say to each one of you gentlemen that there is absolutely nothing new on that subject, so far as we were concerned, in connection with the trade agreement, and nothing new on it anywhere else (Treasury) so far as we know or had heard about, and that is the status of the matter."

Thomas read this to me over the telephone and I had Frank King take it down in shorthand and transcribe it.

## GROUP MEETING

July 14, 1938.  
9:30 A. M.

Present: Mr. Magill  
Mr. Oliphant  
Mr. Gaston  
Mr. Haas  
Mr. Taylor  
Mr. White  
Mr. Hanes  
Mr. Lochhead  
Mr. Gibbons  
Mr. Upham  
Mr. McReynolds  
Mrs. Klotz

H.M.Jr: Magill, good morning.

Magill: Good morning, sir.

H.M.Jr: Anything?

Magill: No, I think not. Have you got any five 'minutesses' during the day?

H.M.Jr: Sure:

Magill: I have two things I'd like to speak to you about - each of which will take two and a half.

H.M.Jr: Three thirty.

Magill: Fine.

H.M.Jr: If I get a break during the day I can switch it earlier.

Magill: All right.

H.M.Jr: White, did you want to see me too?

White: Yes sir.

H.M.Jr: White, three forty. I won't "devalue" you and double up; I'll "revalue."

What else?

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Magill: I haven't anything. Mr. Hanes and I have been conducting seminars for each other's benefit.

H.M.Jr: Good.  
(Nods to Mr. Oliphant.)

Oliphant: Nothing, I think.

H.M.Jr: You know?

Oliphant: Yes, I'm pretty well sure.

H.M.Jr: Herbert.

Gaston: Nothing of any importance, sir. I notice Corrington Gill was around among all the manufacturers of clothing in New York and bought some surplus clothing for the W. P. A., in the morning papers.

H.M.Jr: Good. That's all right. I'd rather he did; we're just their agency.

Haas: I noticed they turned down the dress suits.

H.M.Jr: Also the spangles. The interesting thing - when they got all through, and offered to buy everything in America there was only ten and a half million dollars of surplus clothing. All that was offered - ten and a half million. By the time they rejected the dress suits, they got down to nine and a half million. These are winter clothes, too.

Haas: Oh yes.

H.M.Jr: Herbert, will you have the New York Times start sending to me, beginning with Sunday, please, to the American Embassy, Paris, .....

Gaston: In care of the Embassy?

H.M.Jr: Yeah.

Gaston: Yeah.

H.M.Jr: And, let's see - beginning with that, it goes through until, let's see, - oh well, take it through the fifteenth; that makes it just about

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through the fifteenth of August. Through the fifteenth.

Gaston: Just the Times?

H.M.Jr: I think so. What else?

Gaston: I think nothing else. The boys will probably ask, at the press conference this morning, about Chinese silver and about monetary negotiations with Great Britain, if any.

H.M.Jr: That's all being conducted by Mr. Taylor.

Taylor: I'll be here all summer.

H.M.Jr: All right - that's the answer.

Gaston: Getting out a couple routine releases - one on your marksmanship contest and the other on law enforcement results for the year.

H.M.Jr: Why don't you get me out a release like Nathan Straus got out yesterday - that's a release.

Gaston: I haven't seen it yet.

H.M.Jr: There is a model; that's a release of a release.

Gaston: I'll certainly look at it.

H.M.Jr: Take a look at it.

McReynolds: Maybe he has more time to devote to it.

H.M.Jr: He brought it in and showed it to me, and I didn't want to be sarcastic so I said, "Well, that's very nice." He was tickled. It's a model.

Anything else?

Gaston: Nothing else.

H.M.Jr: George.

Heas: Got a few things here.

H.M.Jr: Say, George, on that book, what I would do - I'm going to take it with me, and then once a week

- 4 -

will be time enough - does your report come out Mondays?

Haas: 8 Which report do you have in mind?

H.M.Jr: The business report.

Haas: On Mondays.

H.M.Jr: Well, that, plus photostatic copies of this - so I can just fit it in once a week.

Haas: I see - send it over to you.

H.M.Jr: (Speaks aside to Mrs. Klotz.)

Well, up to the end of this month Mrs. Klotz will handle all the mail for me, and she goes on her vacation, and then Mr. McReynolds will handle it. All I want, - I mean, I don't want any cables, but I would like to keep this, plus your weekly report.

Haas: I see.

H.M.Jr: Because this does give me your .....

Haas: I'd like to talk to you a little bit - I had planned on discontinuing that.

H.M.Jr: Which, this?

Haas: No, not that - the weekly report, while some of us went on a vacation.

H.M.Jr: That's all right. This is good enough.

Haas: But, I mean, if you need it, we'll stay and work it out.

H.M.Jr: I could not take this on my lap and read this, thinking that you were in Washington sweltering here.

Haas: I was thinking of being gone a month. I thought it better to go as soon as possible in order to get back and get some of the other things you want. That can come through, routine like, once a week.

- 5 -

H.M.Jr: Once a week is enough.

Haas: We can just let it go automatically on the boats. Do the mail boats go Friday or Saturday?

H.M.Jr: Let them accumulate, and let them go through in the pouch. Why not accumulate it once a week and find out when .....

Klotz : I think it would be a very good idea to put everything in a pouch.

H.M.Jr: If I run out of ( ? ) - send it over in the pouch.

McReynolds: Anything the State Department sends is in a pouch.

H.M.Jr: Anything? Including Ry-Crisp?

McReynolds: The State Department people don't send anything less than Ry-Crisp in those pouches.

H.M.Jr: That will come.

Haas: That will come.

H.M.Jr: You say you want to see me?

Haas: No. No.

H.M.Jr: Good.

Haas: What I had in mind was - I wanted to see you, unless you've seen Danny Bell, I want to see you.

H.M.Jr: Oh, let me do this right after this meeting. Let me do this right after this meeting.

Wayne?

Taylor: I talked to Sumner Welles yesterday, and gave him your message, and he says that's fine with him, and he agrees completely.

H.M.Jr: Fine.

Taylor: And this is that business about B. I. S. not agreeing to that.

H.M.Jr: Well, now, are you and Archie and White clear on how to answer this business of these paragraphs in the trade treaties, or should I talk to you before I go?

White: I think we're in agreement.

Taylor: Yes, we're in agreement on it; we'd like to talk about it so that ....

H.M.Jr: Well, it will be about seven - about, around eleven thirty. I'll call you, though, so you won't be waiting outside. It will be about - I'll phone you.

Oliphant: Don't forget the rush act again on this British agreement. No time to look it over?

H.M.Jr: I'm sure there won't.

White: Oh no. No, no.

H.M.Jr: I'd like you to sit in on this thing, Herbert (meaning Herman), and know about it.

Oliphant: Eleven thirty?

H.M.Jr: Who will be on that gold thing while you're gone - Bernstein?

Oliphant: Yes.

H.M.Jr: Then he'd better listen too.

Oliphant: I'll bring him in.

H.M.Jr: Anything else, Wayne?

Taylor: (Nods "No.")

H.M.Jr: What I am trying to do is build up in the Government Life a twenty-five million dollar fund - two per cent note, which you can use at your discretion while I'm gone, to buy long-term Governments when the market is soft. When you run out of that send "Papa" a telegram. There's

- 7 -

twenty-five million dollars at your disposal, if the Government bond market turns soft later, and if you need another twenty-five million send me a cable. Is that enough leeway?

Taylor: I think so.

H.M.Jr: Is that enough, or do you want fifty?

Taylor: I think twenty-five is all right. If we use that we'll be yelling for help.

H.M.Jr: If twenty-five - if - when she has soft spots, I'd do it in long-term Governments. That fund is up to twenty-three now.

Lochhead: It's up to twenty-four; it was twenty-three, and we added a million dollars, and they have orders up stairs to automatically increase it to twenty-five.

Taylor: I'll do the same - I'll work with the Board, the way we did it before.

H.M.Jr: Try to get them to do it first.

Taylor: We didn't have to use the fifty before.

H.M.Jr: Eccles is coming in at three. I'd like to have you in and talk about it, Cy - Eccles.

Uphan: (Nods "Yes.")

H.M.Jr: So we can see how sharp Eccles teaches, and take his blood pressure. Your thought is to keep - go fifty-fifty?

Taylor: No.

H.M.Jr: Let them go first?

Taylor: Yes.

H.M.Jr: You've got twenty-five anyway, and that's enough.

Taylor: And I'd just as soon not let Marriner know I've got the twenty-five.

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H.M.Jr: I said something to him about that.

McReynolds: Wayne evidently wants a file for Marriner's teeth.

Taylor: No, not at all. It worked all right before, when we had the fifty, and didn't have to use the fifty. But it's better than the fifty-fifty arrangement, if you haven't got many chips, but it may not work this time.

Lockhead: Their rating power has run down very materially, though. It's run down to about thirty-two million from around forty million.

H.M.Jr: O. K.?

Taylor: We'll listen to Marriner and I think it's - I don't think I'd let him know that we had the twenty-five, and so on, but that we'll cooperate as in the past.

H.M.Jr: Harry?

White: Nothing - unless you'd like to know the status of the British Trade Agreement. I just checked up on it.

H.M.Jr: Why don't you do that for me at eleven thirty?

White: Yes sir. It will only take a minute - I can tell you then.

M.M.Jr: That's what we're going to talk about. I told Mr. Hull I knew none of the details; didn't want to know any of the details after I left.

White: I'll just tell you the general status.

H.M.Jr: When I get over there, what I'm going to say is, I don't know anything about it. And that's pretty near the truth.

White: Well they don't know a lot more yet.

H.M.Jr: And, if, while I'm gone, any bright fellow has an idea that Mr. Morgenthau should go to England, or anybody approaches anybody with the idea I should go to England, discourage it very much, because I don't want to go to England - not this summer.

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Anything else, Harry?

White: No.

H.M.Jr: (Nods to Mr. Hanes.)

Hanes: Nothing.

H.M.Jr: Would you like me to say anything - this will be at the press conference at ten thirty - that I've asked you to look into the bankruptcy thing?

Hanes: Unless you wish.

H.M.Jr: Oh no. Only if you wish. Too young?

Hanes: No.

H.M.Jr: Too young?

Hanes: Yes.

H.M.Jr: You're not ready for it?

Hanes: No.

H.M.Jr: Anything else? You're going to go away the end of August, aren't you?

Hanes: I had planned to - the fifteenth.

H.M.Jr: (Nods to Mr. Gibbons.)

Gibbons: Nothing.

H.M.Jr: (Nods to Mr. Lockheed.)

Lockhead: Over the holiday everything was very low on the exchange.

H.M.Jr: Run it up or down?

Lockhead: I think they should run it up.

H.M.Jr: Very good for us. I read on the front page - Mr. Bullitt called on Mr. Bonnet to arrange for my visit to Paris. That's all right - just off the gold, and he does this.

- 10 -

- Lochhead: You didn't think he wouldn't do that, did you?
- H.M.Jr: He's all right. The best offer I've had, one of the well known brands of champagne - the American agency wrote me that all their Paris representatives would be very glad to look after me while I am in Paris. Inasmuch as he didn't get down to brass tacks and didn't mention how many cases would be sent over here for me to sample, I turned him down cold.
- Gaston: Wine salesmen know more than just wine.
- H.M.Jr: I thought it was a pretty good gesture.
- White: Are they always putting on a show for the boys?
- H.M.Jr: No, not that I know of, but believe me - what's the name of this man over here that's a star?
- Klotz: Chevalier.
- H.M.Jr: Chevalier is the fellow I'm crazy about.
- Gibbons: We had a great Customs case against him one time. (Laughter!)
- H.M.Jr: Listen, if every time I look around the dinner table when I go out, as to the people the Treasury has cases against, half the people - either I or the rest of the people would have to leave the table. Somebody would have to leave the table.
- Gibbons: We got Mabel Walker Willdebrand fixed up.
- H.M.Jr: I knew she was a smart girl.
- Cy?
- Upham: Nothing.
- Klotz: (Whispers to H.M.Jr.)
- H.M.Jr: Yeah. We'll fix up that, too.
- Klotz: Huh? You didn't hear that.

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H.S.Jr: When are you going over to see Harold Ickes about an allotment?

McReynolds: I've got - Ickes is going to telephone me the time. He told me at nine o'clock this morning.

H.S.Jr: You come back, will you - check with me at two o'clock about where this dispensary is going to be.

McReynolds: I'll tell you now.

H.S.Jr: Where is it going to be?

McReynolds: In the new Social Security building; they've got all the plans for it. The plans are in process now. It will be a year before the building is completed. We haven't got any money to fix that place over there. We've used all the funds to fix that building. They can't occupy ordinary office space; they've got to have equipment for it, and we haven't got any money to buy the equipment.

H.S.Jr: What's the matter with the present?

McReynolds: Of course, you could move them in. They'd be worse off there now than they are, unless you had their equipment built in and space for it.

H.S.Jr: Well, my god; I've been over there. All the equipment they've got - after all the machinery goes with it, but the rest of it - partitions - is just a matter of curtains.

McReynolds: They are building a space for it in the Social Security building.

H.S.Jr: All right! I'll tell you what we'll do - two forty-five, McReynolds, Parran, Peoples, and Hall. See? Let them know what it's about. It's going to be on the ground floor of that building.

That's where she's going.

McReynolds: All right - you're the boss.

H.S.Jr: I know it. And it's going to go there.

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McReynolds: Hall isn't here.

H.M.Jr: Well then, whoever is in charge of that building. It's going to go there, pending the .....

McReynolds: You wouldn't want it in Hall's end of the floor. We'd want to put it at the other end of the building. It would have to be in the office end of the building. Hall's office isn't the place for it.

H.M.Jr: Pending the completion of the Social Security building, and then it will go there.

Smile, Mac!

McReynolds: I am perfectly willing to smile, but you will run into a lot of difficulties about the set up.

H.M.Jr: That's all right. It's just a test for organization; see how good you are.

McReynolds: I have the fellows this morning working on it.

H.M.Jr: Two forty-five on the ground floor.

McReynolds: We'll be ready to go.

H.M.Jr: Let them come in here. I'm not going over there. I won't go over there - bring the floor plans in here with them - and whoever is necessary to make the decision, but let them have a little preliminary hearing to make it easy for me.

McReynolds: I wouldn't deliberately try to make it hard for you.

H.M.Jr: If it's a nice day tomorrow, and the sun's shining between here and New York, I'll come in; if it's not a nice day, I'll take the ten o'clock train. I'll see you all at lunch anyhow. You've all got your vacations, haven't you? If it's a nice day, I go up by airplane; if it's a rainy day, I go by train.

If anybody's got any bright ideas, and wants to see me, if they'll get in touch with Mrs. Klotz - right after three fifty.

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Oliphant: Three fifty?  
H.M.Jr: You want it?  
Oliphant: (Nods "Yes.")  
H.M.Jr: Sold.  
Oliphant: For one minute.  
H.M.Jr: Thank you all.

July 14, 1938.  
10:51 a.m.

H.M.Jr: Hello.

Operator: Jones. Go ahead.

H.M.Jr: Hello.

Jesse  
Jones: Hello.

H.M.Jr: Jesse.

J: Yes.

H.M.Jr: I thought you'd like to know ...

J: Yes.

H.M.Jr: ... that your notes are oversubscribed thirteen times.

J: Thirteen.

H.M.Jr: And we allotted on a basis of 8 percent.

J: Eight?

H.M.Jr: Eight.

J: I see.

H.M.Jr: Which will give you about 210; it may vary a couple million under or a couple million over.

J: All right, that's fine.

H.M.Jr: That'll be right around 210.

J: What time you getting away, Henry?

H.M.Jr: Oh - ah - I ....

J: This afternoon?

H.M.Jr: Yes - I mean I'm leaving early tomorrow morning.

J: Huh?

-2-

H.M.Jr: I'm leaving early tomorrow morning.

J: You're leaving here early tomorrow morning?

H.M.Jr: Yes.

J: Uh-huh. Sailing tomorrow afternoon?

H.M.Jr: Sailing tomorrow afternoon.

J: Uh-huh. Well, I thought I might drop by some time during the afternoon and shake your hand and ...

H.M.Jr: I'd be delighted. How's four o'clock for you?

J: I think all right. I'm - I'm going to have lunch with Ickes, try to straighten out some of these conflicts between our lending.

H.M.Jr: Yes.

J: And then if four suits you, I'll try to make it at that time.

H.M.Jr: Well, if I don't hear from you, I'll expect you at four o'clock.

J: All right, fine.

H.M.Jr: Thank you.

J: Bye.

July 14, 1938.  
11:44 a.m.

H.M.Jr: Hello.

Operator: General Craig.

H.M.Jr: Yes. Hello.

Malin  
Craig: How do you do, Mr. Secretary. General Craig.

H.M.Jr: General, I just wanted to thank you for your courtesy and kindness to George Haas.

C: Well, I met one of the most delightful gentlemen I've seen for a long time, Mr. Secretary, and he's - he's - he's a good soldier, that fellow.

H.M.Jr: I think so, and he left here all for you.

C: (Laughs)

H.M.Jr: And he said he'd never been treated better and he said he didn't know that he was as good as he was, and he understands perfectly, and he went back more than happy.

C: Well, the trouble was that things were misrepresented to him and he confessed that to me. I told him I could only surmise that.

H.M.Jr: Yes.

C: And he - he told me about it.

H.M.Jr: Well, I - I - I do appreciate all the time and trouble you took.

C: Why, not at all, Mr. Secretary. By golly, I - I wish to the devil I could know you better.

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

C: Huh?

H.M.Jr: That's mutual.

C: All right. And I see you're going away and hope you get some rest and have a good time.

-2-

H.M.Jr: Fine. Thank you.

C: It won't all be rest, but some of it.

H.M.Jr: Some of it will be.

C: All right, sir.

H.M.Jr: Right.

C: Well, good luck to you and thank you for calling,  
Mr. Secretary.

H.M.Jr: Goodbye.



DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
EA 123 Kennedy, Joseph P./90

July 14, 1938

My dear Mr. Secretary:

I enclose herewith, in accordance with your request, a copy of the speech which Ambassador Kennedy delivered on July 4, 1938, before the American Society in London.

Sincerely yours,

Frederick Livesey,  
Acting Adviser on International  
Economic Affairs.

Enclosure:

Despatch of July 5, 1938,  
from London, and en-  
closure.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

**Department of State**

BU  
DIVISION

**EA**

**ENCLOSURE**

TO

Letter drafted

ADDRESSED TO

**TREASURY**

LONDON, July 5, 1938.

**SUBJECT: Transmission of text of Ambassador's  
address before the American Society,  
London, on July 4, 1938.**

**The Honorable**

**The Secretary of State,  
Washington, D. C.**

**Sir:**

1/ I have the honor to forward herewith, for the Department's records, five copies of the address which I made before the American Society last night, at the Dorchester Hotel in London.

**Respectfully yours,**

**For the Ambassador:**

**Herschel V. Johnson  
Counselor of Embassy**

**Enclosures:**

1. Five copies of text of Ambassador Kennedy's address.

**NDR/HEJ**



American Embassy

July 4, 1938.

Confidential - For release after 10:30 p.m., GMT, July 4, 1938.

Address of Ambassador Kennedy before the American Society  
at its Independence Day dinner held at the Dor-  
chester Hotel July 4, 1938.

One of the first things I saw this morning at Southampton as I looked over the side of my ship, was the American flag flying from the tender that had come out to take us off. Later, as my boat train pulled into London, I saw the Stars and Stripes floating from many a flagstaff, and the sight cheered me.

It was a further manifestation that this celebration which Americans all over the world join in making today comes under the most cordial auspices in England - a further proof that the differences which divided us more than a century and a half ago have faded in our memories.

It is usual enough, of course, for American envoys in foreign countries to join with their compatriots in celebrating the Fourth of July. I imagine it is unusual, however, for an ambassador to come to a patriotic dinner of this kind so fresh from our native country, the touch of whose soil - as the earth to the wrestler in Greek mythology - always gives us new strength and hope.

Our country, I am happy to report to you, is reviving from its economic difficulties, but only the future course of the world can determine whether that revival will be of a permanent nature. In the United States, at any rate, the psychological elements which held us so strongly in their depressing grip last winter are tending to disappear.

Every American, of course, feels a special thrill on the Fourth of July, but when he is away from his own country, his own people and his own surroundings, his sentiment is apt to be sharpened by pleasureable pangs of homesickness. If you are experiencing this sensation, as I have today, I hope you will interpret it as a good sign - a healthy symptom.

For a man can never really forget his native land or cease to long for it, at least occasionally, no matter how many years he stays away from it. That is, he cannot do so if he is the kind of good citizen, loyal friend and thorough American I know you all to be.

Most of you are obliged to live abroad for reasons which are good and sufficient. You are, for the greater part, engaged in the promotion of trade and other forms of exchange

between our country and Great Britain, and your contribution to the relations of the two and to stability of the world is a good and great one.

For we are finding, more and more, that nations cannot live to themselves with any more happiness or comfort than can individuals. Leaving aside political considerations, the economic developments of the past several years have borne in on us all how interwoven are the strands of world economy these days. We cannot be prosperous in the United States if the rest of the world is suffering, nor can the rest of the world climb the economic and industrial grade if we in America are poor.

Congress has adjourned and its members have taken to the stump. That alone seems to cause people to breathe more easily, although I have always held the view that the business community's traditional fear of legislation passed by Congress ought to be an exploded myth. I have never known a clearer illustration of this point than the steady upward march of the stock market and other indices for the thirteen months between March, 1935 and April, 1936. During that period, Congress passed the Wagner Labor Relations Act, The Public Utilities Holding Company Act, the Social Security Act and increased all sorts of taxes, in addition to passing many other laws which would ordinarily frighten business out of its wits, but there was confidence abroad in the country and things kept on going right ahead. I think that we are victims of our own fears, in times of psychological business depression, and that we are inclined to blame on Congress our own apprehensions of the unknown.

There is more than usual interest in the Congressional and other elections to be held next fall, which is natural enough under the uncertain circumstances of the day. I have been asked so much for my own opinion of the outcome of those elections that I ask your leave to digress here a moment to give some sort of an answer. It appears to me that, with business picking up and the stock market quotations rising almost daily, my Republican friends have very little basis for the extravagant hopes I hear them sometimes express.

What is most heartening to those of us who believe that the American system, pretty well as we have always known it, is the best way for us to live, is the total absence at home of any demands for a radical change. We still think in terms of Democrats versus Republicans. If we don't like one set of governing officials we can turn them out in favor of a new set - but we want to make the change in the orderly and lawful manner to which we have always been accustomed.

Elsewhere in the world, this is not true. One has only to cast his eyes about the map to see where people, embittered by injustice and impoverished by lack of opportunity, have turned despairingly to new roads. They may or may not believe themselves to be better off. With that, we can have

little

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little concern, but we can and should watch our own citizens closely for any indications of a similar psychological development. We must never cause them to lose hope that they can pull themselves out of their own troubles and that the machinery of their government is available to them for the purpose.

For my own part, I am returning to London considerably heartened as a result of my visit to Washington, New York and Boston. Limited as was my time, I saw a great many people of different stations in life. I talked with Government officials, including our President, with bankers and industrialists, with former classmates at Harvard, with the young men who are friends of my sons, and with old friends in many walks of life. They did not appear to be in great fear for the future of our country, viewed over the long term. Quite naturally, like the rest of us, they had their own immediate and vexing problems. But they still have faith that their difficulties will be overcome and that their country will be a good place for their children and grandchildren to inherit.

It would be in bad taste, of course, for us to imitate the Pharisees and congratulate ourselves on being better than the rest of the world. I do not mean to do that. But I do think it is legitimate for us to thank God for the blessings our own country holds for us and for the opportunities it will offer to our children. And there could be no more appropriate occasion on which to indulge in a few reflections of this kind than at this Fourth of July dinner.

I come back to my post burdened with good wishes for Great Britain from all kinds of people. They want Great Britain to settle its difficulties quickly and successfully and they want Great Britain to keep on living comfortably in the family of nations along with a friendly and happy United States of America. They want me, and those of us who live here, to help all we can toward that end. I know that the American Society will continue to do its own large share of that work.

As Honorary Chairman of this Society, I want to thank all of our distinguished guests for joining us tonight in this American festival. To our own members, I wish success in the lives they have made for themselves here.

And when those of us who will happily find ourselves together on this most venerated day in our history to celebrate its glorious tradition, may we always find our country and this one in which we live at peace and laboring in the same spirit of good will for all the world.

.....

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 14, 1938

TO Secretary Morgenthau  
FROM Mr. Haas *MA*

Attached is Miss Lonigan's report of her recent trip to Cleveland.

July 13, 1938

To: The Secretary  
From: Miss Lonigan *et*

Two things stand out in the Cleveland situation, one good and one disheartening. The distribution of surplus commodities is rapidly being transferred to indoor stores. Money for relief is still not available. The legislature voted new funds but there is a question of their legality.

There are flickers of reviving employment. The atmosphere is definitely more cheerful.

#### Distribution of Surplus Commodities

Monday actually was one of the worst examples of the evils of outdoor distribution of commodities. Because of a heavy rainstorm in the morning it was not possible to move the flour in the trucks, or stack it on the ground. The relief clients therefore had to wait two hours or more in the rain until the flour came. There was a near riot at one of the stations.

Fortunately the change to inside stores has been proceeding rapidly. Five stores have been rented and are being remodelled. The first store will be opened, fully equipped, next Monday morning. The stores will be open five days a week, and clients can come in in more orderly fashion and be waited on promptly. Also it will be possible to move staples regularly, without delay in bad weather, and at much lower trucking cost.

The stores will be staffed by people on city work

relief. Five stores will be opened in July. It is hoped that sixteen will be open by Labor Day.

This is a splendid improvement in the situation as it was in June. It was carried out about as fast as possible in view of the shortage of funds in Cleveland.

The Federal Surplus Commodities Corporation has promised to give more commodities as soon as distribution is improved. Cleveland relief will thus have more commodities and far decenter methods of local distribution as a result of the interest of the Federal agencies in the situation.

#### Relief Finances

The last grocery orders issued (for ten days) expired last Saturday. The city had \$5000 for a few emergency orders. No other funds were actually available.

The state legislature passed several additional laws permitting the city to issue bonds against sales and other taxes for next year. There is, however, a possibility that the sales tax might be rescinded at the next election. Also there is some question whether some of the taxes do not go over the charter limits and therefore require a popular vote. As a result the city has not yet been able to arrange for sale of the bonds.

"They're not the kind of bonds bankers want to buy", said Mr. Ramsey, the highly respected director of health and welfare in Cleveland. He sounded tired. These men have a budget crisis every ten days or so, worse than most administrators have once a year.

The relief staff have now been paid through the 15th of June. They have not been paid for the last half of June, and

do not know when they will be.

The city is about three months behind schedule in its payments of rent for quarters. That is one of the reasons why it was difficult to rent space for stores.

In view of the almost hopeless difficulties under which they work, in addition to uncertainty about their own salaries, relief officials and staff deserve the highest praise for the way in which they have carried their responsibilities.

#### Outlook for Relief Financing

There is no possibility that the confusion in relief finances can be settled this coming year. All the solutions offered so far are ways of borrowing money from next year's normal income.

The conflict between the rural communities, representing real estate owners, and with a comparatively light relief problem, and the industrial cities with heavy relief burdens, high average costs, and mostly indirect taxation, is not a matter of local personalities and local politics. It is a deep-seated social conflict, at the surface in Ohio, Indiana, and Illinois, underground in Michigan, New York, and the better managed states.

Meanwhile the extra funds are lacking, out of which a beginning might be made on preventive and curative programs, and the families are barely kept alive without any help in regaining self-support.

Mr. Mock, formerly director of the city Home Relief Division, and now with the Cleveland Welfare Federation, said he thought the first need was for the families to have food enough

to regain their fighting spirit.

The Families

Different relief visitors were seen on this visit. They tell the same story as the earlier relief officials.

Families on direct relief are the old, the tired, the sick and half-sick. They are the ones most easily exploited, and the ones every agency is most eager to be rid of.

When food orders stop, neighbors help, parents give food to children, single men get it from garbage pails. The children are the best off because parents will fight for them if not for themselves. The families with adults only probably go very hungry. The head of the visiting nurses said pellagra is reappearing, whereas a few years ago no one ever saw a pellagra case in Cleveland. This may also be due to too much drink. Sick people are sent to the hospital and doctors report "There's nothing the matter except that they've gone too long without enough food". Or they do not go to the dispensary, and tell the visitor, "I didn't have any car fare, I didn't have anything to eat. I didn't feel like going". All special diets, for the tubercular, the diabetic, for sick babies, are stopped.

Probably no one is starving. "No one gives to the poor like the poor".

Eight or ten visitors have been struck by clients. If relief families hadn't been the less aggressive kind there would have been "riots and everything else".

They have absolute faith that somehow "the President is

going to see them through".

### Relief and WPA

The relief load is falling slightly. It is partly WPA, partly that fewer people apply when the papers say there are no funds, partly that relief officials reject all borderline cases when funds are low.

WPA employment has risen from 67,000 to 74,000.

About one-quarter of the families on relief are "supplementation cases", cases where there is someone employed either in private industry or on WPA. Criticism of the supplementation of WPA cases from local funds is mounting.

The city still has a few work relief projects of its own for building maintenance, office cleaning, doormen and messenger service. They are not doing half as much on work relief as they did before WPA took their best people.

### Housing

The greatest pressure on the family budgets of relief, WPA and irregularly employed families, is the high cost of rents. Rent is the ever pressing necessity that cuts down food purchases. Anything that can be done to expedite low-rent housing in Cleveland will not only create employment but will also create margins to be spent for food.

With the stabilizing of unemployment and the increase in spending, the worst of the acute situation should be over.

The chronic problem will remain for next fall and next winter.

July 14, 1938

My dear Harry:

I am sending you herewith, for your confidential information, a copy of Miss Lenigan's report on the Cleveland situation.

Sincerely yours,

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

July 14, 1938

My dear Mr. Secretary:

I am sending you herewith, for your confidential information, a copy of Miss Lonigan's report on the Cleveland situation.

Sincerely yours,

The Honorable  
The Secretary of Agriculture.

RE POSSIBLE MONETARY ASPECTS OF PENDING July 14, 1938.  
TRADE AGREEMENTS 2:40 p.m.

Present: Mr. Taylor  
Mr. Oliphant  
Mr. Lochhead  
Mr. Bernstein  
Mr. White

(White comes in)

H.M.Jr: We can't have ham omelet without ....

White: well, it's very nice to be "ham" even if ...

H.M.Jr: Just because you said goodbye to me doesn't mean ...

White: That's why I thought ....

H.M.Jr: Well, "Monsieur" Taylor, como si, como este?

Taylor: I think maybe the "ham" had better discuss this, because he's got the text there.

H.M.Jr: All right.

White: The first change is a very simple one, very significant one. That's the paragraph in question.

H.M.Jr: "Nothing in this agreement shall be construed to prevent the adoption of measures prohibiting or restricting the exportation or importation ..." - you want to leave out the word "gold"?

White: The British Treasury has asked that the word "gold" be left out.

H.M.Jr: My respects to the British Treasury and tell them to jump in the Atlantic Ocean.

Oliphant: Enough said.

H.M.Jr: What?

Oliphant: Enough said.

Taylor: Period.

H.M.Jr: Period.

And according to the Washington Post the British

-2-

rule under the sea - is that what they said? Oh, that was while you (Taylor) were away. They had these eleven boats all sunk, and they said "The British Navy rules under the sea."

Lochhead: They waived the rules instead of ruling the waves.

H.M.Jr: All right, that's Number One, except if Bernstein objects on legal grounds.

Bernstein: Don't object on legal grounds or other grounds.

White: This is the paragraph you ....

H.M.Jr: Have you learned how to say, "Hasta le vista"? The answer is "Hasta luego."

Bernstein: Are you going to Spain or France?

H.M.Jr: No, but I learnt it while I was there a little while. You (Oliphant) were down there in New Mexico. Didn't you speak Spanish?

Oliphant: Oh, a long time ago I used to speak the language. Little rusty now.

E.W.Jr: Article XII. "In the event that the rate of exchange between the currencies of the United States of America and the Czechoslovak Republic varies considerably (from the rate obtaining on the day of the signature of this Agreement) ..."

White: Which they would like to eliminate unless there is an informal understanding that the rate would be permitted to vary ten percent from the old par of 4.86.

H.M.Jr: No. No. "In the event that the rate of exchange between the currencies of the United States of America and the Czechoslovak Republic varies considerably (from the rate obtaining on the day of the signature of this Agreement), the Government of either country, if it considers the change in rate so substantial as to prejudice the industry or commerce of the country, shall be free to propose negotiations for the modification of this Agreement or to terminate this Agreement in its entirety on thirty days' written notice." "... if it considers

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the change in rate so substantial ..."

Taylor: I thought they had a change in word for "substantial."

White: They've got another suggestion. This is the British suggestion.

H.M.Jr: "In the event that the rate of exchange between the currencies of the United States of America and the Czechoslovak Republic varies considerably..." - it's all right with me.

White: This is the British suggestion which they want to accompany ....

Oliphant: But only on the understanding that there is a side bet to the effect that it is only to vary ten percent from 4.86.

White: That's the oral understanding that is to accompany their phraseology.

H.M.Jr: Mr. Chamberlain - when we had the tripartite thing up, he wouldn't - that's just the thing he wouldn't do. This is the British suggestion?

White: This is the British suggestion, provided it is accompanied with something that won't appear in the text.

H.M.Jr: "If a wide variation should occur in the rate of exchange between the currencies of the United Kingdom and the United States of America, and if either high contracting party should consider the change in rate to be of such a character as to prejudice the industry or commerce of the territories of that high contracting party, such high contracting party may propose negotiations for the modification of this agreement or may terminate the agreement in its entirety on giving thirty days' notice in writing to that effect."

White: Mr. Oliphant is of the opinion that their phraseology is a satisfactory substitute, providing ....

H.M.Jr: No - excuse me - I don't want a single thing changed. I think that this thing, unless you people can argue with me - this thing - the question - I mean I'd want

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two weeks to study this thing. And then, what have I got a tripartite agreement for? And we've just gone all through it with Mr. Hull three times and denied the thing; I denied it flatly this morning. And if the British Treasury wants to take up the question of the relationship between the dollar and the pound, they should do it through the Treasury, through the tripartite agreement. And I say it has nothing to do with the trade agreement and I would want a month ...

White: They were told that.

H.M.Jr: Pardon me?

White: That's practically what Wayne told ....

H.M.Jr: Now, you've (Taylor) got to stay behind and I want to know whether that's all right with you.

Taylor: Completely. That wording is - unaccompanied by anything else, seems all right to me. It means the same thing ...

Oliphant: That's the point. The two languages, the words we have previously used and the words they suggest mean exactly the same thing. The whole thing is whether or not you're going to have this side bet.

H.M.Jr: Well now, Herman, without mention/<sup>ing</sup>any names, we might do this and somebody in the State Department, I don't know who, might give them a side bet. I don't know - somebody might. And unless Taylor says to me, "Now, I disagree with you heartily; I'd like to have a chance to - I'm going to stay behind to handle this" - but I take it you don't.

Taylor: I certainly don't.

H.M.Jr: You're in complete agreement.

Taylor: Absolutely.

H.M.Jr: Leave it as is. After all, it was very effective with the French, and the State Department never raised any question then. Right?

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- Taylor: Right. And that's been thoroughly explained to the British three times.
- H.S.Jr: And I frankly would hate to have this thing start going over there, because I'd like to be able to say when I'm asked, "Gentlemen, as far as the trade treaty is concerned, I know there are negotiations going on, but I don't know anything about the details. The monetary thing - we have nothing." And I'll look anybody in the eye and tell them so. And I don't believe that Neville Chamberlain will sign a thing ten percent either way on 4.86. Christ! he fought it to a standstill - what was it, three or four years ago?
- Orloment: We're all agreed on that.
- H.S.Jr: But now, if anybody feels strongly, I'll listen.
- Lochnerd: We couldn't feel strongly the other way, taking the background that we have with the tripartite negotiations. These changes do not fit in with the tripartite negotiations.
- Taylor: "No competitive appreciation..."
- A.S.Jr: .. is a nice phrase.
- White: It's already taken care of by the tripartite. There's complete agreement.
- H.S.Jr: What's the particular status of the trade agreement?
- White: I can outline very briefly in just a minute ....
- H.S.Jr: If you please.
- White: The United States has offered a large number of concessions, very substantial concessions, particularly on cotton textiles and a lot of items of manufactured goods, to Great Britain. In exchange, it has requested concessions which include a fairly long list of manufactured articles.
- H.S.Jr: Who's made the concessions?
- White: The United States has offered to give these

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concessions, and the United States has asked for a reduction in the preference which Empire countries have in sending goods to Great Britain and an increase in the quotas of some pork products that come from the United States, and some reduction in duty in a long list of manufactured articles.

H.M.Jr: Anything for apples?

White: Yes.

H.M.Jr: Good.

White: Fruits and vegetables - that's part of the Empire preference.

The British have been very reluctant to give much at all. They've given concession on wheat, they've given apparently some concession on Empire preferences, to a small degree; they've given in very little on any manufactured goods. And they appear to be most reluctant to give any more concessions and - this is the opinion of the negotiating committee - are stalling interminably; that they won't budge an inch from their present position until they hear from Chamberlain, and that what are the factors that's going to make up Chamberlain's mind, or the others, they don't know; but as matters stand now they've gone very little of the way, and there doesn't seem to be any immediate prospect of consummation, but ...

H.M.Jr: No immediate prospect.

White: No immediate. But they said the thing could change over night, the thing could be settled very quickly if they agreed on a rather small group of important conditions, which they have given no indication of conceding at the moment, and appear to be in no hurry whatsoever.

H.M.Jr: Well, Mr. Bewley is coming in at 4:15 - he phoned me - has a message from Sir John Simon. I imagine it's an invitation ...

Taylor: well, the ...

H.M.Jr: He'll be here. Do you know about it?

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Taylor: (Nods no)

H.M.Jr: Will you be here at 4:15?

Taylor: Yes.

H.M.Jr: It might have to do with this. Well, if you'd be here, please.

Taylor: (Nods yes)

H.M.Jr: Everybody happy?

Oliphant: Yes. That's all.

H.M.Jr: I really think, Wayne, where this means so much to Cordell, I would like you to ask for an appointment to see him and explain it to him personally, so he gets it firsthand.

Taylor: All right.

H.M.Jr: I think it's important enough that it doesn't go through to him second-hand or third-hand. So if you'd ask for an appointment to see him and go over ...

Taylor: Yes. Yes.

H.M.Jr: ... because this is the apple of his eye, and I really think if you could ask to see him and explain it - "This is the way we feel" - and I'm sure, in view of what happened this week ... So if you don't mind, I'd call now and ask him whether he could see you at his earliest convenience.

White: I'm sure they will agree, because they have a feeling that (words not clearly understood)... sincere or legitimate request.

H.M.Jr: And then if they had any change - "Well, this is the way we feel." But I think I'd call up and say, could you see him at his earliest convenience, because I've seen the time when some - when things aren't always explained to Cordell entirely the way they happen.

## ARTICLE XII

In the event that the rate of exchange between the currencies of the United States of America and the Czechoslovak Republic varies considerably (from the rate obtaining on the day of the signature of this Agreement), the Government of either country, if it considers the change in rate so substantial as to prejudice the industry or commerce of the country, shall be free to propose negotiations for the modification of this Agreement or to terminate this Agreement in its entirety on thirty days' written notice.

## ARTICLE XV

\*\*\*\*\*

Nothing in this Agreement shall be construed to prevent the adoption of measures prohibiting or restricting the exportation or importation of (gold or) silver, or to prevent the adoption of such measures as either Government may see fit with respect to the control of the export or sale for export of arms, ammunition or implements of war, and in exceptional circumstances, all other military supplies. It is agreed, further, that nothing in this Agreement shall be construed to prevent the adoption or enforcement of measures relating to neutrality.

Paragraph desired by the British to replace the one contained in previous American trade agreements.

If a wide variation should occur in the rate of exchange between the currencies of the United Kingdom and the United States of America, and if either high contracting party should consider the change in rate to be of such a character as to prejudice the industry or commerce of the territories of that high contracting party, such high contracting party may propose negotiations for the modification of this agreement or may terminate the agreement in its entirety on giving thirty days' notice in writing to that effect.

## TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,  
Thursday, July 14, 1933.

Press Service  
No. 13-90

Secretary of the Treasury Morgenthau today announced the subscription figures and the basis of allotment for the offering of \$200,000,000, or thereabouts, of 7/8 percent notes of Series N of the Reconstruction Finance Corporation.

Reports received from the Federal Reserve banks show that subscriptions aggregate \$2,625,000,000. Subscriptions were allotted 8 percent, but not less than \$1,000 on any one subscription.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve banks.

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## RE SPANISH SILVER

July 14, 1938.  
2:55 p.m.

Present: Mr. Taylor  
Mr. Oliphant  
Mr. Bernstein  
Mr. Lochhead  
Mr. White

- H.M.Jr: Would we be normally able to handle one more shipment of silver in August from Spain?
- Lochhead: Well, the way it stands just now, we made the bid on the third shipment - they think it may be loaded about the end of this week. In that case, it would get in somewhere around the 23d or 25th; so therefore, if that got in and was cleared up, they might ask - I mean along with your program you've mentioned, you might give them another bid; that'd be the latter part of July.
- H.M.Jr: Well, I think if we give them a bid about - say, around the first of August?
- Lochhead: Well, I don't think you could clear up this next shipment much before that, even if it came the 23d.
- Oliphant: Well, say the first week in August.
- H.M.Jr: Well, I'd say - let's leave it this way; early in August. How's that? Is that all right, Wayne?
- Taylor: (Nods yes)
- H.M.Jr: What? I mean that doesn't - but I mean I don't think I'd give them another bid in July if they're going to run in two on us here.
- Lochhead: Well, yes, just like to spread them a little bit. And I'd like to get some more silver out of New York before we get any more, because we won't know where to put them.
- White: And the matter of their jurisdiction - push it earlier.
- H.M.Jr: Oh sure, I just ...
- Taylor: All other things being equal, why, make another bid.

-2-

Oliphant: Early in August.

H.M.Jr: I think if we - if it works out that we take ten million a month from them - ten million - after all, we're taking twenty million a month from China. I think if it works out that we take ten million ounces a month from Spain - I think we're doing handsomely.

Lochhead: You'll be interested to know that Siam ...

H.M.Jr: If it works out like that, huh?

Taylor: Work it out on a population basis, huh?

H.M.Jr: Ah - no, on the basis of direct hits by bombs.

Lochhead: You may be interested to know that Siam has approached the National City Bank about handling their silver. The bank called me up.

H.M.Jr: Well, I think if we did Spain - about ten million ounces a month, leaving you fellows a little leeway.

July 14, 1938

At 3:30 p.m. Mr. Morgenthau conferred with Mr. Eccles. Mr. Taylor and Mr. Upham were present.

Mr. Morgenthau told Mr. Eccles that he had nothing special to discuss with him prior to his departure for vacation, but wanted him to know that he was depending on him and Wayne to take care of the Government bond market while he was away. Mr. Eccles expressed the view that the bond market was plenty high and probably shouldn't be permitted to go much, if any, higher. Mr. Morgenthau expressed the view that he wouldn't like to see it have a very pronounced sinking spell, at least while he is away. Mr. Eccles was of the opinion that there was no reason to expect anything in the way of a decline in view of the tremendous volume of excess reserves that are outstanding.

Mr. Taylor expressed the view that banks are selling Governments to some extent and may continue to do so. Mr. Eccles hinted at the possibility of a semi-inflationary boom this fall which might need some control, and which might even require, eventually, additional powers for the Federal Reserve Board.

- 2 -

Mr. Morgenthau asked Mr. Eccles if he had anything he wished to discuss with him before his departure, and Mr. Eccles brought up the matter of uniform bank examination. He said he had just come from a meeting with Crowley, Diggs, Nichols and Folger, and that the details of examination forms and instructions to examiners had not yet been agreed upon. He maintained that Crowley and Diggs are disregarding the agreement, putting market prices in where they had agreed not to and doing a number of things to which he cannot agree. Mr. Morgenthau said that he should think they could get together and carry out the agreement, but suggested that Mr. Taylor and Mr. Upham could serve as arbitrators if they wished.

Upm

July 14, 1938.  
3:16 p.m.

H.M.Jr: Hello.

Operator: Chairman Douglas.

H.M.Jr: Hello.

Wm. O.  
Douglas: This is Bill Douglas.

H.M.Jr: How are you?

D: Fine. You remember you called me up about a man about a week ago or so.

H.M.Jr: Yes. I forgot all about it.

D: I hadn't neglected it. This chap, I think, on the basis of his personal wishes and what not, feels that he has squeezed the particular orange here dry, and if there was something there I think he would like to have it.

H.M.Jr: Uh-huh.

D: Therefore, my policy has been in cases like that not to stand in his way, so if you want him you've got my blessings.

H.M.Jr: Well ....

D: He's a good man, and I hate to lose him, but ...

H.M.Jr: Well, since that's happened, John Hanes has changed his mind.

D: I see.

H.M.Jr: And has postponed making - doing anything until after Labor Day.

D: Yes. Well, you just have my - proceed right, as far as we're concerned, as, if and when you decide to do it.

H.M.Jr: Well, Hanes said that for the time being he thought he'd first better get acquainted with the material here.

-2-

D: Yes.

H.M.Jr: And he's going to let it slide. But I appreciate very much your attitude.

D: O.K.

H.M.Jr: Thank you.

D: Goodbye.

July 14, 1938.  
5:06 p.m.

Operator: Go ahead.

Jesse  
Jones: Hello.

H.M.Jr: Hello?

J: Hello, Henry.

H.M.Jr: Yes, Jesse.

J: You said you wished I'd have a nice summer, didn't you?

H.M.Jr: Yes.

J: Will you tell Mr. Bell to make our interest rate very, very low?

H.M.Jr: I'll - I'll tell him to do what you asked me to do the first time.

J: Begin dating - date it July first.

H.M.Jr: July first, one and a half percent on your net balance.

J: So you'll tell him to do that.

H.M.Jr: I'll - I'll issue the order at once.

J: Thank you very much.

H.M.Jr: Thank you. Goodbye.

July 14, 1938.  
5:07 p.m.

Operator: McReynolds.

H.M.Jr: Mac.

W. H.  
McReynolds: Yes.

H.M.Jr: Will you see that Taylor, whoever's handling it, beginning with July 1 we charge RFC one and a half percent on their net balance.

McR: One and a half percent on their net balance.

H.M.Jr: Beginning July 1.

McR: That's RFC.

H.M.Jr: Jesse Jones just called me.

McR: Yes. July 1 ...

H.M.Jr: July ...

McR: ... net balance, RFC, one and a half percent.

H.M.Jr: Check.

McR: I will.

H.M.Jr: Sold.

McR: Yes, sir.

H.M.Jr: What I can't find out yet is - I've got to face the two of you - whether - who was kidding who. Were you kidding Mrs. Klotz or she you?

McR: No, she was kidding me.

H.M.Jr: Are you sure?

McR: Oh, she was kidding me undoubtedly. That was her intention.

H.M.Jr: Yes, all right. I'll have to face the two of you.

McR: All right.

H.M.Jr: All right, Mac.

REB

GRAY

London

Dated July 14, 1938

Rec'd 3:35 p. m.

Secretary of State,  
Washington.

635, July 14, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

At a meeting of the Tuesday Club last night the German economic and financial situation was discussed. In view of the fact that the group was representative of the city, Treasury, Foreign Office and universities it is interesting that no suggestion that the German system would break down in the near or immediate future was made. On the contrary there was general agreement that should the world settle into a period of depression in the fall Germany would remain comparatively unaffected and consequently the Nazi totalitarian system with its full employment of available labor and capital would shine by comparison with the state of the British and American democracies where the volume of both idle capital and unemployed labor resources would be increasing.

One factual statement of possible interest was made by E. M. H. Lloyd, Assistant Director of the Food Defense plans

REB

2-#635, From London, July 14, 6p.m.

plans Department of the Board of Trade, who said that Germany had used a part of the devisa obtained from Austria to purchase large quantities of grains, meats and other raw materials including rubber. On top of this Germany was going to have such a good harvest year that some German foodstuff contracts had to be canceled because of lack of storage facilities in Germany.

The foreign exchange market was inactive today. However 336 bars of gold were dealt in at fixing but subsequent dealings were very small.

KENNEDY

CSB

REB

GRAY

London

Dated July 14, 1938

Rec'd 3:50 p. m.

Secretary of State,  
Washington.

633, July 14, 6 p. m.

STRICTLY CONFIDENTIAL. FOR TREASURY FROM BUTTERWORTH.

In a conversation at the British Treasury Phillips, who has just returned from a meeting of the Finance Committee of the League at Geneva, said that he had stopped off at Paris to talk to Cariguel who had even harsher things than usual to say about Inspecteurs de Finance and politicians. Cariguel felt strongly that valuable opportunities had been lost and he thought, although he did not say it in so many words, that the French Government would be forced to borrow from the Bank of France by September. Phillips obviously sympathized with Cariguel's viewpoint. He too feels that Daladier has been hesitant, weak and inept in his handling of the French situation particularly in respect of modifying the forty-hour week which Phillips believes is crucial.

Walcy

REB

2-#633, From London, July 14, 6 p.m.

Walcy said that Rowe-Dutton British Financial Attache in Paris reported that the view is current in France as it is here that the next financial crisis is scheduled for October. Rowe-Dutton, however, makes the point that the prevalence of such an opinion has the effect of advancing the date for the crisis and therefore he would not be surprised to find it occurring in September.

From a French diplomat who recently had an interview with Daladier about the international situation I learn under conditions of strictest confidence that Daladier brought up the question of exchange control during the course of the conversation and gave him the impression that while he did not favor such methods he was "playing with the idea". My informant obviously felt that "l'homme du six fevrier" had just that type of hysterical courage which would grasp such an expedient during a crisis after having, through indecision, let other more profitable ones slip through his fingers. My informant also felt that most of the French Cabinet were perplexed and uncertain of their course and that therefore in the end many might acquiesce in any measure which could be represented as inevitable. Paul Reynaud is said to be tempted by a new game having misplayed his hand at the  
time

REB

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time the Daladier Government was formed. He is now considering whether he should try to steal the thunder from the Left by coming out in favor of exchange control (with himself as the controller). Incidentally my informant told me that the American Treasury had expressed that thought during the last French crisis that the imposition of a limited exchange control system might be the more suitable method of dealing with the existing problem and that this fact was having an effect on the present current of thought (see my 420, May 18, 6 p. m.).

My informant was of the opinion that exchange control could not be instituted in France without causing disorganization and disturbance and therefore he feared the immobilizing which this would entail and the opportunity it would afford to Germany.

In view of the above I questioned Phillips as to his view of the trend of events in France and of the desirability or otherwise of the institution of exchange control by France. Phillips said that he saw no signs that a movement towards control was gaining momentum, that it would be part and parcel of a resurgence of a Left political swing and that if anything the trend of political

REB

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political opinion in France according to British sources was towards the Center. Phillips also felt that most of the French Cabinet would not stand for any such measure and that the Senate was now no more prepared to accept such a development than it had been during the second Blum Government.

Phillips again reiterated his profound conviction that for France the institution of exchange control would prove both futile and vicious:

(1) It would not be run <sup>effectively - a</sup> / black market in francs would immediately develop, capital would continue to be exported and the worst of both possible worlds would ensue, namely all the disadvantages of exchange control would be / followed by the disadvantages of a further depreciation of the franc.

(2) Not only would capital continue to seek refuge abroad but French capital now abroad would certainly not return.

(3) Likewise exchange control could not be instituted over night and during a period in which the matter would be publicly debated and legislative power sought enormous

sums

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sums would leave the country. This would accentuate both the fiscal and exchange problems.

(4) While exchange control would hinder to a certain extent French exports it would by no means rectify the balance of trade by reducing sufficiently French imports for the basic armament demands would have to be satisfied.

(5) Furthermore the setting up of a control system would mean an extension of political corruption and coercion inasmuch as the allocation of the available foreign exchange for imports which could not in France be kept out of those realms.

KENNEDY

CSB

July 14, 1938

Mr. Bewley came in to see Mr. Morgenthau today at 4:15. Following is a record of their conversation:

Mr. Bewley: I was rung up on the long distance telephone and I have brought you a message from the Chancellor of the Exchequer, which is as follows:

"The Chancellor of the Exchequer is greatly looking forward to meeting Mr. Morgenthau during his visit to Europe and very much hopes that before sailing for Europe Mr. Morgenthau will be able to fix a date on which he will give the Chancellor the pleasure of seeing him in London. Parliament is likely to continue till Thursday 28th or Friday 29th of July, after which Ministers will be separating in all directions and the August holidays will begin at once. If Mr. Morgenthau could be in London for a day or two in the week 24th to 29th July that would suit arrangements at this end very well."

HM, Jr: I appreciate the message, but here is my difficulty. We were going to spend one day in Paris, but my children had a "sit-down strike" and we had to make it three days in Paris. I have hotel reservations at Antibes, which were very difficult to get. I am anxious to get there and forget that I am Secretary of the Treasury and I do not think, as much as I would like to, that it would be possible to come to London during the week that Sir John Simon asks me to.

Mr. Bewley: I think he will be disappointed.

HM, Jr: I will too. You see, I only arrive in Paris on the night of the 23rd. We have all our plans fixed and, as I said, Mr. Bullitt had great difficulty in getting our reservations at Antibes.

Mr. Bewley: You can get from Paris to London very quickly.

HM, Jr: True, but just as Sir John Simon has

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his holiday fixed, so I have mine. I don't think it would be possible to go to London during the first week that I am over.

Mr. Bewley: Do you mean that there would be a later period that you could come to London?

HM, Jr: Well, depending on how much rest I get would decide what further plans I might want to make, but if everybody will be away I do not think there is much sense in coming over. Perhaps some of them will be on the Mediterranean.

Mr. Bewley: That might be conceivable.

HM, Jr: I certainly appreciate it very much, but if Mrs. Morgenthau knew that I plan to tear around over Europe she would cancel the trip.

Mr. Bewley: Is there any message you would like to send in reply?

HM, Jr: I appreciate his message very much and when I get there I have asked Butterworth to come to Paris to spend a day with me and I will talk to him and possibly he will know at that time what the plans are of your Government and he can take a message back. I am not taking anybody with me. I am not taking any material with me. I am not really prepared for any meeting.

Mr. Bewley: Especially as you are going to Paris the Chancellor will be disappointed in your not coming through to London.

HM, Jr: You will please convey my hearty thanks to him.

oOo-oOo

JR

GRAY

Paris

Dated July 15, 1938

Rec'd 1:34 p.m.

Secretary of State,  
Washington.

1112, July 15, 5 p.m.

FROM COCHRAN.

Effects of denials by American and British officials of monetary negotiations helped quiet exchange market today. French control was, however, obliged to yield sterling steadily to meet a fair demand at 178.30. Bank of France statement as of July 7 showed no important changes with coverage 47.63 versus 47.25. Enthusiasm for sterling dampened slightly by British trade returns for first six months.

BULLITT

KLP

REB

PLAIN

London

Dated July 15, 1938

Rec'd 2:50 p. m.

Secretary of State,  
Washington.

641, July 15, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

The following excerpt from a speech which Sir John Simon made in the House of Commons this afternoon in connection with the winding up of the third reading of the Finance Bill may be of some interest:

"One special word I wish to say about the United States. I do not think it is generally realized how much the falling off in the world consumption of primary commodities which has undoubtedly happened in recent months has been connected with what has happened in the United States. There are special conditions there such, for example, as the growth of stocks in manufacturer's hands during 1937. They have had something to do with producing that situation. But if you exclude the United States--always a very big thing to do--from your figures and look at what is the world consumption of copper, tin  
and

REB

2-#641, From London, July 15, 6 p.m.

and rubber you see that apart from the United States it has shown no special reduction during the first five months of this year. Of course if the falling off in American consumption were to continue it would have an effect throughout the world. But on the other hand if there is recovery there--and we hope that there may be--there is no doubt that this will mean a picking up by the engine and the whole machinery . . . . the latest figures show some tendency to improvement. It is true that this is shown in stock exchange quotations and primary commodity prices more than in actual trade conditions but on the whole my advisers take the view that they do present an added reason for distrusting and discounting gloomy prophecies as to the future."

The foreign exchange market was not very active today. Although about noon the pressure on the franc was strong the French fund held the rate at 178.30. The demand for gold decreased decidedly, only 177 bars being dealt in at fixing at 1423. 2D. which is only 2D. premium.

KENNEDY

KLP

(copy)

July 15, 1938.

Dear Dan:

For your information and that of the Secretary I enclose herewith alternative schedules for the handling of the September issue. I recommend most strongly in favor of the first schedule which would involve announcing the issue on Tuesday morning, September 7. I recommend against any shorter schedule for the following three principal reasons.

1. Safety and accuracy. Our people are handling in this period some \$600,000,000 of new securities and the payment for them. If the schedule is hurried as much as indicated in the second alternative with people working long hours under serious pressure, we cannot be sure of the necessary safety and accuracy. There is always danger of serious errors or loss.

2. Policing of subscriptions. Over a period of years we have gradually established precedents and methods for assuring a fair distribution of subscriptions among subscribers in accordance with their merits. The second schedule would allow us no time for a survey of the subscriptions with this objective. We would have to take practically every subscription offered. It would be unfair to legitimate subscribers and would break down the principles we have been trying to establish in handling the subscriptions.

3. There is a human aspect to this problem. Even with the extended schedule the men and women in whom we repose confidence to handle this work are forced to work long hours and under high pressure. The shortened schedule would further lengthen these hours and further increase the pressure. In view of the responsibility of handling the large sums

involved I do not believe this is either safe or humane.

As I indicated to you it seems to me quite practicable to follow the first schedule and yet give the Secretary an opportunity for adequate consideration of the financing. I propose to return from my holiday early in the week beginning August 22 so that I will have from ten days to two weeks to study market conditions. I would also suggest that you or Wayne Taylor might plan to spend a day or two in New York from September 1 to 3, interviewing various people quietly. I would then be prepared to go to Washington after the close of the market on September 4 so as to spend that evening and as much of Sunday as seems desirable reviewing the issue with the Secretary. We ought to be able to make a recommendation to him at that time sufficiently definite so that a decision could be reached. If anything extraordinary happens on Monday, Labor Day, we could still make a change on that day and announce a changed form of issue for Wednesday morning, though this should only be done in extraordinary circumstances. This seems to me to involve no more danger due to unforeseen circumstances arising than would the second schedule which must involve the lapse of a full business day between the decision and its announcement. In fact, the second schedule is even worse than the first because this business day which elapses is one in which all the markets in this country are open, whereas under the first schedule only a holiday intervenes. We have frequently announced an issue the day after Labor Day without any record of difficulty as far as I remember.

Sincerely yours,

Hon. Daniel W. Bell,  
Assistant to the Secretary,  
United States Treasury,  
Washington, D. C.

WRB:H  
encl.

## GROUP MEETING

July 15, 1938.  
11:00 a.m.

Present: Mr. Magill  
Mr. Taylor  
Mrs Klotz  
Mr. Lochhead  
Mr. Hanes  
Mr. Gaston  
Mr. Haas  
Mr. Gibbons  
Mr. Upham  
Mr. McReynolds  
Mr. Oliphant

(McReynolds shows H.M.Jr a note)

H.M.Jr: Oh, talk to him when I come back, in connection with O'Reilly. You want it - you want to do?

Mac: I don't - I told Mrs. Ross that on these presidential places I had nothing whatever to do with it.

H.M.Jr: Well, when I come back.

Mac: Yes. Joe O'Mahoney came in to see me.

H.M.Jr: I think I'd like to give - let it go. If we can give O'Reilly something, we'll give Ross something. Give them each five hundred.

Mac: You can't give O'Reilly five hundred, because she's within two hundred of the top.

H.M.Jr: Well, give them each two.

Mac: You can't give the chief - they're not two hundred dollar steps.

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

Mac: I'm perfectly willing to let it ....

H.M.Jr: When I come back. Don't you (Klotz) think so?

Klotz: I don't know.

H.M.Jr: All right. You'd give Nellie five hundred?

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Klotz: No, I'd give - if I could, make it the other way around.

McR: Mrs. O'Reilly refuses to take it ...

Klotz: I'd give ....

McR: ... because the other one doesn't get it.

Klotz: That's why you should give it to her.

H.M.Jr: Can you give Nellie 250?

McR: No, only five hundred.

H.M.Jr: 499?

McR: No.

H.M.Jr: Five hundred. All right. She's been here five years.

Klotz: Hundred dollars a year, that's right.

McR: I said that on a presidential appointment I can't ....

H.M.Jr: Call up Chip Roberts and ask his advice.

Don't you think that Hanes ought to have the Bureau of the Mint and Nellie Tayloe Ross?

McR: I'm perfectly willing to give it to him. I think Wayne would be perfectly willing.

Taylor: Fine with me.

H.M.Jr: Mac, you draw up a Treasury order transferring the Bureau of the Mint to Hanes, effective today.

McR: Is Hanes here?

Hanes: What's this?

H.M.Jr: Effective today, we're transferring the Bureau of the Mint and Nellie Tayloe Ross to you.

McR: Don't consent to it.

Hanes: I'll have to think that over.

H.M.Jr: Well now, Wayne's pushing me very hard, and so's ....

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Taylor: No, I wasn't pushing you. I said it was fine with me, but ....

McR: I should think Wayne - he isn't pushing because he never sees her.

Taylor: Oh yes, I do.

McR: I didn't know you ever saw her.

Klotz: You're all very unkind to the lady.

H.M.Jr: Keep O'Mahoney happy. Give her five hundred because she earned it a thousand times, and give Miss O'Reilly the maximum.

Oliphant: Personally I'd like to see Miss O'Reilly leave the service at the maximum.

McR: We can do that very easily. We do that effective the first of July. And we'll give Mrs. Ross one step promotion effective the first of August.

Klotz: Can't Miss O'Reilly get more than 200?

McR: No, because she's at the top - next to the top.

H.M.Jr: O.K.

McR: She goes to the top of the list. That's all she can get.

H.M.Jr: What other good news you got, Mac?

McR: I told Joe yesterday when he mentioned it to me that anything that was done on that goes down on his - was an obligation that he was - he was obligated to you for whatever was done; you were doing a favor for him personally. He says, "All right, I'm glad to have it on that basis." He managed her campaign for Governor.

H.M.Jr: I happen to like Joe O'Mahoney. I've liked him for six years.

McR: I like him.

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H.M.Jr: I think he's a square-shooter.

Gibbons: Perfectly on the level.

H.M.Jr: Always has been with me. Always.

McR: He'll consider this a personal favor.

H.M.Jr: All right. Rub it in.

McR: On that basis.

H.M.Jr: Rub it right in.

McR: I'll tell him it's as a personal favor. He asked me to let him know.

H.M.Jr: Any other important matters?

McR: No, nothing else.

Taylor: Do you ask him to sign receipts for those, Mac?

McR: But Joe is pretty good in recognizing his obligations. He doesn't ...

Taylor: No, I was just ....

H.M.Jr: He does - he'll keep faith.

Gibbons: Nothing.

H.M.Jr: All right. Archie?

Lochhead: We've done our business a few moments ago.

H.M.Jr: We handed over some money to Mr. Del Rios. All right?

McR: I told Wayne that you wanted one and a half rate on net balances to be given Jesse Jones, effective the first of July.

H.M.Jr: Jesse was over here and sat here for half an hour saying nothing, and after having done business with Jesse for five years I said nothing. So then Jesse was - when he starts to go back to the office he

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says, "Oh by the way, Henry, if you really want to make me happy, why don't you give me one and a half for my balances?" I said, "From the first of July?" He's been playing with me for a month, not paying me the interest for the first six months, trying to get it effective the first of January. So I said, "The first of July - will you be happy?" "All right, that's fine." "All right, goodbye."

See, we sat here talking about nothing for 30 minutes, and I just made up my mind I'd make him talk first.

- Taylor: Might interest you to know he asked me whether I thought he was going to do any better than that. I told him no.
- H.M.Jr: Well, he was perfectly happy. He's traded around for a month. Balance is several million dollars.
- Gibbons: You know, they tell - a friend of mine told me a story about Jesse. Insurance man went in and they were all crying to Jesse about doing something for this insurance company. Right after '33, you know, and this concern was going into bankruptcy and Jesse stopped and said, "It reminds me of a story. When I was a kid, two boys were fighting. One had the other one down, punching him. Old man came along, said, 'Let that boy up. Kid looked up at him - 'How much is in it?'" And he said, "What would you do? What would you do? What would you do?" After - that was the end of the conversation, after these fellows talked to him. Boy, he's a trader.
- H.M.Jr: All right.
- Gibbons: I'm all right.
- Hanes: Mr. Secretary, Bill Douglas wants me to go with him to New York on Monday for another meeting of the Stock Exchange committee. Is that all right?
- H.M.Jr: That's O.K., fine. No, what I told Douglas the last time - not the last - he called me again yesterday; stay behind a minute, I'll tell you what he said. I told him - he wanted to set a date; I think I told him - I said, "There is no date. As far as Hanes is concerned - whenever you want Hanes'

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cooperation, as far as I'm concerned, I'm more than pleased to have Hanes give you as much time as he can spare, with no date limit on it." See? He called me on another matter. If you'll stay behind. All right?

Hanes: Fine.

H.M.Jr: And give the New York Stock Exchange my regards and tell them they're doing fine. Tell them, another month and they're going to be popular.

Hanes: (Laughs)

H.M.Jr: Cy, you and Wayne got all those rules and regulations written on the banking thing?

Upham: Well, we've only had an application from one side. I don't know how we can arbitrate very well unless the other side wants to come in and submit their - I think they're going ahead without asking us.

H.M.Jr: I was just worried you fellows wouldn't have anything to do. So I'll leave it in goods hands and not ask any questions. Is that all right?

Taylor: I don't know whether that's all right or not.

H.M.Jr: Well then, we'll leave it in your hands, anyway. If they're not good ... Well, anyway, I'm not going to fuss with it.

Upham: I wouldn't.

Taylor: I wouldn't.

H.M.Jr: Personally, I think that the office of the Secretary of the Treasury has done its job. I think those fellows ought to be able to write their own rules and regulations.

Taylor: They know what the agreement was and they know what the spirit of the agreement was.

H.M.Jr: And I notice that you and Merriner didn't get down to talking turkey on the bond market either, which is all right. You're going to keep that 25 million

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in your key pocket, aren't you?

Taylor: That's a good place for it. You'd like to have it there if possible when you get back, wouldn't you?

H.M.Jr: Yes, I'll be able to use it. It's all right with me. All right.

Oliphant: Well, does that mean in the meantime that loans to local industry and so forth are being sidetracked?

H.M.Jr: Leaves everything where they were. And these are presidential appointees, and I - but I say, and I think I'm right, that the Secretary of the Treasury shouldn't try to write rules and regulations, policy having been decided as to - the philosophy of it having been decided, I shouldn't have to, or shouldn't write the rules and regulations for F.D.I.C. and Comptroller of the Currency and Federal Reserve.

Jesse Jones says, "I got a copy all printed - the rules and regulations." He says, "I don't care whether they agree or not, but my copy goes out Saturday." "Yes," he says, "I've got them all printed."

Oliphant: Well, Jesse will do what you did in bringing them all together - force their hand.

H.M.Jr: He says, "I've got a set all printed. My letter goes out, asking the banks to cooperate, based on this new thing. The letter goes out Saturday. I can't help it if they don't agree to it. I've got them all printed."

McK: That'll kind of put the other boys on the spot.

Oliphant: That will have the effect of your statement to the press.

H.M.Jr: I said, "Good work. Whose are they?" He says, "They're all right, they're good rules."

Wayne?

Taylor: No. I've got a going-away present for you from the Savings Bond boys.

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H.M.Jr: Thank you very much.

Taylor: That's the new booklet.

H.M.Jr: I don't - where's the Savings Bond?

Taylor: You'll find it in there.

H.M.Jr: I can't - \$18.75 - where is it? All right. Suppose you got a ruling from the Counsel General - General Counsel.

Taylor: You're not allowed to speculate in Government securities.

H.M.Jr: All right. Thank you very much. What else?  
George ...

Taylor: Oh, I'm having lunch with Bewley today.

H.M.Jr: Oh, good.

Taylor: He's ....

H.M.Jr: I just want to take the ones as they come. That's too heavy.

Haas: I see. I thought when we'd send them to you, Mr. Secretary, we'd send the complete sheet with the photostat of the chart each time.

H.M.Jr: That's right, and I'll look at it and tear it up.  
You're having lunch with Bewley. And you're going to see Mr. Hull.

Taylor: Not going to see him until I talked to Bewley and found out what was about it, and then I'll follow that up.

H.M.Jr: Fine. You through?

Taylor: (Nods yes)

H.M.Jr: George?

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- Haas: I have nothing this morning. Those figures, you know, which you asked Accounts and Deposits - Dan Bell - to get together on expenditures and employment; we're getting those. I asked them to get the corporation - that's going to give you an exceedingly interesting picture. Won't have it until you get back. We'll have it before; it won't take us that long, but we can't have it before you leave.
- H.M.Jr: But it will be interesting.
- Haas: Going to be very interesting. Gives you a basis for following their estimates of actual performance, which should have been done a long time ago.
- H.M.Jr: Will that be kept up monthly?
- Haas: Yes. And I think after you come back you may decide that you'd like to have each of these agencies make a - revise their estimate each month. I mentioned that to Dan and he said that would involve some staff, and so on. But I think you can let that decision ride until you get back.
- H.M.Jr: Well, Dan's got a hundred thirty thousand dollars from Congress to expand the Budget.
- Haas: This isn't the Budget. It's done up here in Accounts and Deposits.
- H.M.Jr: Well ...
- Haas: But I mean he's glad to do it if you want it. I think you'll decide to do it after you get back.
- H.M.Jr: Anything else?
- Haas: I have nothing else.
- H.M.Jr: Herbert?
- Gaston: Mr. Gregory, of the Herald-Tribune, would like to do a story right away as you were sailing about the difficulties of the French currency and his belief that the great democracies must stand together and

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that eventually the French will have to put in some form of exchange control, and that you're likely to talk to them about that subject. And I said, "Please don't write anything about the French currency until the Secretary has finished his visit to Paris."

H.M.Jr: Tell them it's slim.

Gaston: You check with that.

H.M.Jr: Oh yes.

Gaston: Of course they'll be speculating about what you may talk about there.

H.M.Jr: Sure, I'm speculating myself about what I'm going to talk about.

Gaston: All I can do is just try and discourage them from writing anything on the subject until after you've finished your visit there, because I told them it would probably raise a lot of hopes and probably convey the implication to those people that you had something definite in mind.

H.M.Jr: Purely courtesy calls.

Gaston: Harold Brayman wants to do a story about the tripartite agreement and the stabilization fund and the general problem of international exchange for Fortune. Fortune's coming back to that stabilization fund idea. He asked me to mention that to you, and I told him there was very little chance that you'd consent to any help from the Treasury on such a project at this time.

H.M.Jr: (Nods agreement)

Gaston: Lowell Mellett wants to take - us to take over two of their Press Intelligence people, as we did last year. They suddenly discovered two or three days ago that two of them were not going to be paid for this period until we paid them. I think it is Danny Bell's problem. And we've paid them for the period up until the 15th of the month. People that we were paying all through last year. People that worked in the Bureau of Press Intelligence.

H.M.Jr: Blackburn?

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- Gaston: Under K. C. Blackburn. Two of their people had been on our payroll for more than a year, and we didn't expect to carry them this year, but they suddenly discovered a few days ago that they weren't going to be paid unless we paid them. So Maurice Collins agreed to take them on for this payday. We have no appropriation under which we can pay them without falsifying the records. The only reason I'm speaking about it is that Lowell Mellett made a special plea that I speak to you personally about it. I really think it is something for Danny Bell to work out.
- Klotz: He worked it out last year. Went through the same thing.
- H.M.Jr: If you can help Lowell Mellett, Mac, it will be a nice thing.
- McR: We helped him with two weeks' pay.
- H.M.Jr: He doesn't know his way around.
- Gaston: Mac, didn't we - we had the money last year, but ....
- H.M.Jr: If you could show him through Danny's office a way to do it, it would be very nice.
- McR: He can go to Dan now.
- H.M.Jr: No, but Dan's not here, and Lowell Mellett doesn't know all these miles of red tape, and if you could help him get it some place outside of the Treasury payroll it would be very nice. And K. C. Blackburn is very cooperative with me whenever I want anything.
- McR: I don't know how we can get it any place outside of the Treasury payroll. The money that's being paid for two weeks is on Danny Bell's allotment of emergency relief.
- H.M.Jr: Couldn't you put them on the cafeteria payroll over at the Bureau of Engraving?
- McR: No.
- H.M.Jr: (Laughs) O.K. Mac will find a way.

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Gaston: All right. That takes it off my hands.

Some of the boys wanted to know exactly when you're going to leave here and what field you're going to land at. I told them it would be very difficult to find out. They wanted to send somebody to meet you at the airport.

H.M.Jr: I'm going to land - I don't mind telling them - I'm going to land at Newark.

Gaston: You don't mind telling them.

H.M.Jr: Would you tell?

Gaston: I don't think there is any harm in it. Nothing particularly they can say to you.

H.M.Jr: You don't need to let them know when I'm going to leave, and after you've heard I've left - after I've left you let them know.

Gaston: Right.

And this is a dummy of - and copy of the introduction ....

H.M.Jr: Would you stay behind? I'd like to look at it.

Don't you think this (newspaper clipping) is very ostentatious? (Laughs)

Gaston: (Laughs)

H.M.Jr: Show it to Herman.

Gaston: Very modest, I should say.

H.M.Jr: I think it's entirely out of place. Anything else?

Gaston: That's all.

H.M.Jr: Herman?

Oliphant: I can't think of any good questions; nothing I can think of until after you're gone.

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

Oliphant: I can't think of them.

H.M.Jr: All right, swell. I don't think ...

Oliphant: I'll think of them after you're gone.

H.M.Jr: Ros, did you have a chance to read that letter?

Magill: (Nods yes)

H.M.Jr: Will you stay a minute?

Magill: Mr. Taylor and two or three of his associates who are going to be here during August, and I, arranged to meet periodically and console each other for your absence, and we'll send you a brief epistle ....

H.M.Jr: Don't - no, no.

Magill: We won't send you a brief epistle at any time. We'll send it to Herman.

H.M.Jr: No, I'll tell you exactly ... - to Herman? No, no, let's understand. I don't really - if - if there's something that is really a crisis, use the cable, see? And that gives me a chance to read it and I can either not answer it or I can phone. But if it's something that is terribly important, the method of communication will be through Mrs. Klotz while she's here, and after she leaves, McReynolds, and it goes through Coast Guard. And we have our own code, and then I have a strictly confidential code, only one, between the President and myself, so I can communicate directly. And the Omaha, I find, is only 20 miles from where I am, so I have to use a Navy communication direct; I suppose I can reach him direct on the Omaha if I want. So I have the means. But I don't want to - but if there is something really that you fellows can't decide, send me a cable and I'll have a chance to look at it. But ..

Magill: I don't see what ....

H.M.Jr: I love you all dearly, but I can wait ....

Magill: You really don't want letters.

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McR: You don't want to hear from him.

Oliphant: Does that go both ways?

H.M.Jr: That goes both ways.

Klotz: That's wonderful.

(H.M.Jr and Oliphant shake on it)

Klotz: That's marvelous.

McR: The boss will be surprised about what will happen when he gets out of town.

H.M.Jr: No, I won't.

Taylor: Well, we out-waited him last summer. Remember?

H.M.Jr: One day I called at the wrong time and they said, "Well, if you want the telephone numbers of all the golf links within twenty miles of Washington, we'll get them." This crowd, you know - if they're sure I'm not going to phone, try and find them. Try and find anybody after 12 o'clock.

Klotz: Oh yes, teacher.

Magill: Or Saturday morning.

H.M.Jr: Or Monday morning.

Magill: No, no.

H.M.Jr: Monday all right?

Magill: Monday's all right.

H.M.Jr: Well, you're school teacher while I'm gone, Mr. Magill.

Magill: I'm going to enforce a strict rule, too.

McR: But who's going to be here to enforce it?

H.M.Jr: Well, I hope you'll ....

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Magill: I already cancelled Archie's leave. He's going to stay around here.

H.M.Jr: You're taking some, aren't you, Archie?

Lochhead: Yes, I'm starting today.

Klotz: He's started this morning.

Lochhead: I've already started. This 11 o'clock meeting is disturbing; it set me off stride this morning.

H.M.Jr: I don't know whether I got the story exactly correct, but as far as I can get it, Monsieur Auriol as Minister of Finance got mixed up with Monsieur Auriol as Minister of Justice, and the two of them didn't consult and therefore the Spaniards had their gold trouble. Is that about right?

Lochhead: It's about right.

H.M.Jr: I think it's terribly funny. He was first Minister of Justice, wasn't he - or second? Which was he first - Auriol?

Lochhead: No, Auriol was Minister of Justice first.

H.M.Jr: And as Minister of Justice ...

Lochhead: He told them to bring the suit in a certain way.

H.M.Jr: He got himself tangled up with Mr. Auriol as Minister of Finance.

Well, don't work too hard and I'll guarantee you that my instructions about no letters will be both ways.

July 15, 1938.

My dear Mr. Welles:

Before he left for his vacation the Secretary asked me to acknowledge for him the memorandum you sent with your letter of July 13th. He was very much interested in seeing this and appreciated your thought in bringing it to his attention.

Sincerely yours,

H. S. Klots,  
Private Secretary.

Honorable Sumner Welles,  
The Under Secretary of State,  
Washington, D. C.

GHF/YM

cc to #18  
By hand

ack HSK 247

THE UNDER SECRETARY OF STATE  
WASHINGTON

July 12, 1938.

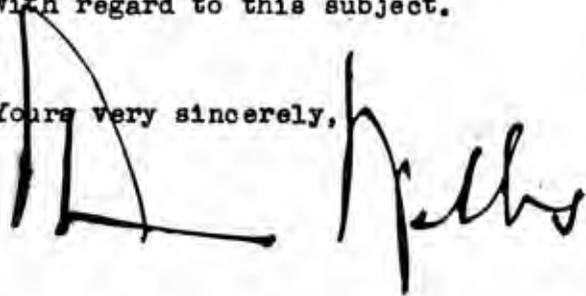
Personal and  
Confidential

Dear Henry:

In accordance with our conversation to-  
day I am sending you a memorandum of my con-  
versation with the British Ambassador on  
July 8. I shall appreciate it if you will  
call me on the telephone and let me know if  
there is anything you would like <sup>me</sup> to say to  
the Ambassador with regard to this subject.

Believe me

Yours very sincerely,



Enc.

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

DEPARTMENT OF STATE

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*Memorandum of Conversation*

DATE: July 8, 1936.

SUBJECT:

STRICTLY CONFIDENTIAL

PARTICIPANTS: The British Ambassador, Sir Ronald Lindsay;  
The Under Secretary.

COPIES TO: S, A-B, PA/D, Eu, EA

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The British Ambassador called to see me at his request this afternoon.

The Ambassador said that he was coming in to see me entirely upon his own initiative and without instructions from his Government. He said he desired to discuss the subject of war debts. The Ambassador said that throughout his term of service as Ambassador to the United States he had consistently felt that an equitable agreement on the subject of the British debt should be reached between the two Governments and that his Government should not have suspended payments on the debt. On the other hand, he said, he saw very little practical

advantage to be gained from the British Government's making a yearly payment of say fifty or one hundred million dollars while at the same time the total amount of the debt was yearly increasing. He said that the debt in his opinion was a legitimate obligation of his Government and must be met, but that at the same time the debt was now reaching "astronomical proportions" and every year that a solution was postponed the more difficult a solution would become. He said that he was fully familiar with public opinion in this country with regard to this question and that he felt it was the one obstacle to a completely cordial and friendly relationship between the two countries; but that, while he thought he estimated correctly public opinion in general as interpreted by the American press, he did not feel that he knew clearly what the opinion of the Congress might be with regard to the question and that this point was all important inasmuch as it was the Congress in the last analysis which would have to decide the matter. The Ambassador said that he had been interested in the reaction of the Congress, as reported in the press, to the Hungarian offer for the settlement of the Hungarian debt, and he wondered if I would let him know, entirely informally and unofficially, what my opinion on this subject might be.

I told the Ambassador that I was sure he would realize that I could not attempt to act as the interpreter of the Congress with regard to so highly controversial and delicate a subject as this. Furthermore, I said, the Treasury Department was as directly concerned in the questions involved as was the Department of State, and I could not undertake to speak for the Secretary of the Treasury. I said, however, that I thought the Ambassador should understand that the Hungarian debt was in a category quite distinct from the British debt. The Hungarian debt had been incurred for the purchase of flour in the United States to be utilized largely for relief purposes within Hungary, and the terms offered by the Hungarian Government were practically identical with the terms offered some years ago by the Austrian Government for a debt of a similar character which had been considered acceptable by the Congress. I said that I could see no objection in giving him as my own personal view the opinion that the reason Congress had not proved more receptive to the suggestion made by the President in transmitting the Hungarian debt proposal was that there existed the very widespread belief that acceptance at the present time of the Hungarian proposal, although, as I had stated, this debt was in a different category, might imply the creation of a precedent for the further adjustment of other intergovernmental debts.

-4-

owing to the United States, including that of Great Britain.

I stated that I had been very glad to hear the Ambassador's own opinion with regard to this proposal, and that I felt very much the way he did in the matter. I said it seemed to me very clear that American public opinion in general - that of the average man and woman in the street - had been profoundly shocked when the British Government had suspended payments on its debt owing to the United States and because the British Government had apparently for some years past assumed the attitude that the debt had been wiped off the books by unilateral decision. There had been a general feeling, I said, in this country that an Englishman's word was as good as his bond, and a very deep and widespread resentment had unquestionably been created by what was so generally construed as the ignoring of a legitimate obligation. There were many other factors involved in this situation, I added, with which the Ambassador and I were both completely familiar and which there was no use of my enumerating, but I believed, as did the Ambassador, that until this far-reaching problem could be settled on a basis which seemed just and fair to the peoples of our two countries, the relationship between Great Britain and the United States could not be what we both desired it to be.

-5-

I said that inasmuch as the Ambassador was returning to England, presumably within the next four or five weeks, he would undoubtedly have the opportunity of discussing this matter with his own Government and that, speaking again individually and without any authority for so doing, I felt that if the British Government reached the determination that it wished to discuss a solution of the problem with this Government, any representations they made would receive the most attentive and expeditious consideration by this Government.

I stated that of course we all of us were hopeful that a satisfactory result might soon be obtained in the trade agreement negotiations and that, after such result had been obtained and the trade agreement had been signed, it might seem a singularly appropriate moment to try and reach independently a satisfactory solution of this other major problem.

Before he left the Ambassador spoke to me of the information he had recently received from his Government with regard to the European situation. His Government seemed to believe that the Czechoslovak Government was now adopting a less intransigent point of view with regard to the German minority question and would propose terms to the Sudeten minority which would be within the bounds of reason. He

-6-

stated that the French and British Governments were cooperating, he thought, very harmoniously in attempting to get the Czechoslovak Government to take a conciliatory attitude. With regard to the Spanish situation, the Ambassador was informed by his Government that they believed the tension had been somewhat lessened as between Italy and Great Britain in view of the recent decisions obtained from the Non-Intervention Committee. The Ambassador said, however, that his Government felt that relations between France and Italy were getting steadily worse, that the French had threatened to withdraw their Chargé d'Affaires from Rome and had only refrained from doing so upon the insistence of the British Government, and that it seemed to be a case of where both Italy and France were doing everything possible to annoy one another about trivial matters, thus accomplishing no real purpose but merely making an atmosphere that was already bad progressively worse.

July 18, 1938.

Mr. William A. Lydgate,  
American Institute of Public Opinion,  
110 East 42nd Street,  
New York, N. Y.

Dear Mr. Lydgate:

I am greatly obliged to you for your kindness in  
gleaning from the returns on your recent poll such comment  
as was available with respect to Secretary Morgenthau.

Very truly yours,

Herbert E. Gaston  
Assistant to the Secretary.

HEG/mah

R. GEORGE GALLUP  
Director  
R. CLAUDE E. ROBINSON  
Associate Director

AMERICAN INSTITUTE OF  
**Public Opinion**

WILLIAM A. LYDGATE  
JOHN TIBBY  
Editors

EDITORIAL OFFICE

110 EAST 42nd STREET, NEW YORK, N. Y.

July 15, 1938

Mr. Herbert E. Gaston  
Treasury Department  
Washington, D. C.

Dear Mr. Gaston:

As I indicated to you in my recent letter, the number of comments and remarks on any one Cabinet member in our survey was few. However, our statistical office has given me a tabulation of such comments as there were on Mr. Morgenthau. I give them to you with the warning that they do not necessarily represent a true cross-section of opinion.

The unfavorable comments were few and less specific than the favorable ones. In general, such criticism as there was centered around the idea "Mellon was a better Secretary." Among poorer voters, there were a handful of comments to the effect that "Morgenthau is against spending."

The favorable comments include the following:

- "He is progressive enough to advance with the times."
- "Morgenthau is a good man but hampered by the administration."
- "From the Republican viewpoint, Morgenthau is the only one any good."
- "Morgenthau and Hull are the best Cabinet members."
- "Morgenthau's banking policies are sound and effective."
- "I think Morgenthau has the hardest job of all."

--2

Mr. Herbert E. Gaston  
July 15, 1938

I am sorry that the survey did not produce a larger harvest of comments. If in the future we gather any further evidence regarding the public's attitude toward the Secretary, I shall be glad to let you know.

Very truly yours,

*William A. Lydgate*  
William A. Lydgate

wal/es

R. GEORGE GALLUP  
Director

R. CLAUDE E. ROBINSON  
Associate Director

AMERICAN INSTITUTE OF  
**Public Opinion**

EDITORIAL OFFICE

110 EAST 42nd STREET, NEW YORK, N. Y.

WILLIAM A. LYDGATE  
JOHN TIBBY  
Editors

WAG 25  
File

July 11, 1938

Mr. Herbert E. Gaston  
Treasury Department  
Washington, D. C.

Dear Mr. Gaston:

I have your letter of the 7th addressed to Dr. Gallup.

I am having our statistical office go through the ballots to tabulate anything they can find regarding Secretary Morgenthau. I do not promise that we will have anything for you, as we did not ask voters to comment specifically on each cabinet member other than to answer yes, no, or no opinion. Thus, any remarks or comments concerning the Secretary would probably not represent a cross-section.

However, if there are enough cases to give a reliable indication, I will send a summary on to you.

Very truly yours,

*William A. Lydgate*

William A. Lydgate

wal/es

J.R. - Kay

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July 7, 1938.

Dr. George Gallup,  
Director, American Institute of Public Opinion,  
110 East 42nd Street, New York, N. Y.

Dear Dr. Gallup:

I was greatly interested in your poll of opinion as to the members of the President's cabinet, published in last Sunday's newspapers. It occurred to me that you might have additional unpublished material indicating opinion as to Secretary Morgenthau, particularly as to phases of his record which are approved and the character of criticisms. If you have available any such information, I should greatly appreciate anything that you can send to me.

Very truly yours,

Herbert E. Gaston  
Assistant to the Secretary.

HEG/mah

Return to R...  
Secretary's File Room

July 18, 1938.

Dear Dr. Kung:

The Secretary was just clearing his desk to leave the office for a summer vacation in Europe when Mr. Neuk arrived, bringing your letter. Mr. Morgenthau was extremely glad that it came before he left, and he read it with a great deal of interest, but was not able to acknowledge it himself. He therefore asked me to do so for him, and to explain that he was leaving the office that afternoon in order to join his family on the boat.

He was much interested in what you said, and appreciated your word of personal greeting and good will.

Sincerely yours,

H. S. Klets,  
Private Secretary.

Dr. H. H. Kung,  
Ministry of Finance,  
Hankow, China.

GEF/abs

cc to H/S

Original filed in Famous  
Signatures folder.

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MINISTRY OF FINANCE

PERSONAL

Hankow, China.  
June 21, 1938.

Dear Mr. Morgenthau:

Since returning to China, I have often thought of you and recalled with appreciation the hospitality which you were good enough to extend to me during my visit in America last summer. Often I think of writing to send you my greetings and remembrance, but unfortunately my multifarious duties leave me hardly any time to myself. As Mr. J. Lossing Buck is soon returning to the States, I take great pleasure in sending you this message which I hope will find you in the best of health and spirit.

I need hardly reassure you that I appreciate the ready co-operation which your Government has, through you, extended to us during the past years towards the realization of our monetary reform. Especially thankful I am for your efforts in making possible further progress in our co-operation through the new arrangements which you and I had the satisfaction to make personally last summer. Your sympathetic interest and friendly assistance towards our financial problems, further evidenced by your continued purchases of silver, have been of considerable help to us at this difficult time, and I want you to know that I remember them.

Japan's invasion came when our progress in economic and financial reconstruction had acquired a momentum that was remaking the country and making it a stronger factor in the world situation. For one thing, the success of our currency reform had brought great benefits not only to our own people but also to others who traded with us. Undoubtedly, the interruption of our progress in self-development by Japan's undeclared war must be considered a great tragedy in history.

Nevertheless, China's finances have stood up well under the strain imposed by the hostilities and we are courageously and resolutely facing the urgent problems that confront us. In spite of the hostilities, we had been able to hold our currency at a stable level for months until recently the Japanese attempted to sabotage our credit structure. By instigating the puppet regime in reiping to establish the so-called "Federated Reserve Bank", issuing notes with a nebulous reserve and not freely convertible into foreign currency, Japan's financial strategists sought to force their yen notes and the worthless puppet notes on the Chinese people in the occupied areas and to take advantage of our source of foreign exchange by exchanging the Chinese legal tender notes for foreign currency. At the same time, they created rumors to disturb our money market and shake our credit. Shanghai, which is infamous for rumor-mongers and speculators, really fell prey to this sinister Japanese scheme. However, with new measures adopted by the Government to prevent speculation and combat the Japanese plot of sabotage, I believe the recent decline of our currency will soon prove a passing phase.

The Hon. Morgenthau, Jr. - page two

At the same time, we are forging ahead with our reconstruction program, notably the relief of agriculture, the development of industries in the interior, the promotion of export trade, and the building of highways and railways. In this connection, I remember you have asked Mr. Buck to inquire whether the Burma road is being built. I am glad to inform you that we are not only building the highway to Burma but are also proceeding with our plans to construct a railway connecting that territory with our Southwest.

While we cannot minimize the urgent problems we have to face in the successful prosecution of this protracted war, we are fully aware of the still greater ones that will arise at the end of the present hostilities. We are accordingly planning ahead, and when that day comes, China's need for foreign capital and technical assistance will yet be greater than ever before.

I am glad to note that the American Government and people have gradually come to appreciate the real menace of Japanese aggression, not only to China's integrity and existence but also to America's vital interests and security in the Pacific and even on the American Continent. Rightly they have become more positive in their condemnation of Japan's lawlessness and militarism and in their faith in China's cause. To-day the victim of Japanese aggression is the Chinese people; to-morrow it will be Japan's next nearest neighbours if her mania for war and destruction is not checked in time. I cannot overemphasize that close co-operation among peace-loving and democratic nations is the only means to preserve world peace and collective security. To enjoy peace we must have the foresight and courage to defend peace. To-day China is taking a courageous stand against the onward march of brutal force and ruthless barbarism. Can the isolationist policy or the Neutrality Law protect America from this common menace? My American friends tell me that 90% of America's people are in sympathy with China's cause. If that is the case, it should give your Government a strong backing with which to strengthen its policy towards the Japanese aggression. China does not ask any nation to fight this war for her. But if sympathetic nations will only take a firmer line of action, I believe even Japan's mad militarists will have to pull in their horns.

May I close by requesting you to convey to your illustrious President my kindest personal greetings and heartfelt gratitude for the many expressions of his sympathy and assistance in our national cause? The same I extend to you together with my best wishes for your continued success and health.

Sincerely yours,

  
H. H. Hsing.

The Honourable Henry Morgenthau, Jr.  
Secretary of Treasury  
Washington, D. C.  
U. S. A.

## TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,  
Monday, July 18, 1938.

Press Service  
No. 14-5

Acting Secretary of the Treasury Magill today announced the final subscription and allotment figures with respect to the current offering of 7/8 percent notes of Series N of the Reconstruction Finance Corporation.

Subscriptions and allotments were divided among the several Federal Reserve districts and the Treasury as follows:

<u>Federal Reserve District</u>	<u>Total Subscriptions Received</u>	<u>Total Subscriptions Allotted</u>
Boston	\$ 147,228,000	\$ 11,835,000
New York	1,438,545,000	115,202,000
Philadelphia	129,060,000	10,355,000
Cleveland	158,236,000	12,754,000
Richmond	77,680,000	6,418,000
Atlanta	64,865,000	5,479,000
Chicago	279,329,000	22,571,000
St. Louis	51,383,000	4,194,000
Minneapolis	18,561,000	1,541,000
Kansas City	39,357,000	3,206,000
Dallas	40,193,000	3,296,000
San Francisco	181,934,000	14,583,000
Treasury	200,000	16,000
TOTAL	\$2,626,571,000	\$211,450,000

—oO—

FEDERAL RESERVE BANK  
OF NEW YORK

204

OFFICE CORRESPONDENCE  
CONFIDENTIAL FILES

July 18, 1938

DATE

SUBJECT: TELEPHONE CONVERSATION WITH

TO: J. W. McKeon

BANK OF ENGLAND

Mr. Hawker of the Bank of England telephoned me at 10:15 am today. Foreign exchanges continued very dull and featureless. There was still a large demand for gold bars in London and Bombay. Likewise the demand for American eagles and British sovereigns continued; quoted at about 3 1/4% premium. 90-day forward gold was quoted at five to seven pence premium. I asked Mr. Hawker about recent shipments of Russian gold, also about Japanese operations in London. He said both had been very quiet. I advised him of two Japanese gold shipments to this country, totaling about \$12,000,000, reported to us last week.

LMS

GRAY

Paris

Dated July 18, 1938

Rec'd 2:10 p. m.

Secretary of State,  
Washington.

1121, July 18, 5 p. m.

FROM COCHRAN.

Paris exchange market has been quiet but control obliged to give some sterling at 178.18. Minister of Finance yesterday gave a fairly optimistic picture of French financial situation when making plea for subscriptions to the eighteen months national defense loan which opens today. He said in part "is it really necessary, after the figures which I have just cited and the assurances which I have just given, that I add the denial of the French Government to the most official declarations, made in the name of the states to which the Tripartite Agreement binds us, to affirm that there is not and cannot be any question of devaluation or monetary manipulation".

The above address was expected to help French Government securities but a weekend speech of labor leader Jouhaux on the other hand added to the fear that trouble may come in October or <sup>November</sup> on his arrival and official intervention

LMS 2-No. 1121, July 18, 5 p. m., from Paris.

intervention was required today to improve quotations on rentes. Money is tight. Government has announced that two-thirds of the two billion two hundred seventy-eight million francs of 1937 one year bonds maturing August 5 have been converted (see my 1008, June 27, 5 p. m.)

. BULLITT

CSB

REB

GRAY

Paris

Dated July 19, 1938

Rec'd 2:08 p. m.

Secretary of State,  
Washington.

1152, July 19, 4 p. m.

FROM COCHRAN.

Paris exchange market quiet with control giving only small amount of sterling at 178.17 to .19. Feature of the day is strength of dollar and demand for gold in London. Paris traders attribute foregoing to renewed nervousness over Czechoslovak problem.

Bank of France yesterday invoiced 31,614 francs of gold bars to Federal Reserve Bank of New York on ILE DE FRANCE for account B. I. S.

BULLITT

KLP

JR

PLAIN

London

Dated July 19, 1938

Rec'd 2:15 p.m.

Secretary of State,  
Washington.

651, July 19, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The dollar has been strongly bid today. The unusually large gold fixing of 605 bars all but 60 of which were supplied by the Bank of England gave support to sterling for a time but in the afternoon the British authorities were in and out at 4.91 7/8-3/4. The demand for dollars is both commercial and speculative see paragraph one my 628, July 13, 6 p.m., and there is still talk of it moving to 4.86.

The bullion market is frankly puzzled by the continuance of the extraordinary demand for both bar gold and coins. It considers that the dominant motive is now fear of international complications. But at the same time it is aware of transactions with other motives, for example, I understand that an order was executed today through the Swiss Banking Corporation (but not necessarily for a Swiss national) for pounds 200,000 of six months gold against six months dollars.

The

-2- #651, July 19, 6 p.m., from London.

The recent fall in the Berlin Bourse is regarded in the city as entirely due to political considerations. More or less the same story filters through from Berlin to the city, namely, that Ribbentrop has been losing favor rapidly and that therefore he may think it desirable to push for some coup. His position is likened to a commission agent rather than a salaried employee.

KENNEDY

HPD

REB

GRAY

London

Dated July 20, 1938

Rec'd 1:55 p. m.

Secretary of State,  
Washington.

654, July 20, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

The dollar was bid at the opening but as soon as the Bank of England let it be known prior to gold fixing that it was prepared to give gold freely at about parity price pressure for the dollar ceased. Actually the Bank of England's tactics did not entirely succeed in that a slight premium still persisted but it may well disappear tomorrow.

KENNEDY

KLP

RECEIVED

JUL 20 1938

TREASURY DEPARTMENT

WASHINGTON, D. C.

RR

GRAY

London

Dated July 20, 1938

Rec'd. 3:13 p.m.

Secretary of State,  
Washington.

653, July 20, 6 p.m.

FOR TREASURY FROM BUTTERNORTH.

To assess the present British economic situation and general outlook it is convenient this month to divide the available statistics roughly into indices reflecting the level of activity for a given time and barometers reflecting opinion as to the future trend.

Practically all the indices for June reflect a continuation in the downward trend of business activity. A substantial increase in unemployment which was widely spread, except for a few seasonal trades, further accentuated the depressed condition of export industries. Indeed industrial conditions in the basic industries were worsening to a critical degree. The decline in mercantile shipbuilding orders to about 50,000 gross tons for the second quarter of the year as compared with 250,000 gross tons in the corresponding quarter of 1937 is causing much discussion of the need for government subsidy of this industry in spite of the government's  
naval

2 - 653, July 20, 6 p.m. from London.

naval orders. Coal mining especially for the export trade is suffering from German subsidized coal exports and the need for government assistance to the British coal industry is being urged. The cotton manufacturing industry continues consideration of its reorganization and a bill is now being drafted to enable a majority of firms to compel the minority to fall into line in an elaborate scheme for price fixing, production control and the scrapping of redundant plants. Meanwhile the June exports of cotton cloth are the lowest for 85 years. The wool manufacturing industry suffered an increase in unemployment in June but exports improved slightly. Iron and steel production showed a very marked fall in June and though this is due in part to abnormal accumulations of stocks the peak production levels of last year cannot be expected to return even with the special stimulus of armament requirements especially if the shipbuilding industry continues depressed. The various engineering trades though in a better position than some of the above mentioned basic industries are by no means prospering.

(EID, SECTION ONE).

KLP

KENNEDY

REB

PLAIN

London

Dated July 20, 1938

Rec'd 3:23 p. m.

Secretary of State,  
Washington.

653, July 20, 6 p. m. (SECTION TWO)

Though exports of machinery and vehicles enjoyed the distinction of being practically the only items in the main export classifications which showed an increase over last year, the export outlook for these trades is not promising. The increase in machinery exports is due largely to the delivery of Russian orders placed in 1936 and 1937 while the increase in the exports of vehicles is due largely to the delivery of a few large ships to overseas customers. Exports of aircraft a small item though higher than a year ago were less than in May while exports of rail vehicles and parts were up on both last month and last year but new orders for such goods are not keeping pace with deliveries. These two items, machinery and vehicles intended to affect the total export figures sufficiently to check the downward trend in total exports but as they are both items involving long periods of production and as new orders will be slow to come even after

REB

2-#653, From London, July 20, 6p.m.  
(Sec. Two)

after a general world improvement sets in the general export outlook cannot be said to have improved by the month of June.

The import statistics for the month showed a sharp reduction in the total value of raw materials imported every item in this classification showing a decrease on last year and every item except paper making materials showing a decline on the previous month. These figures reflect not only price reductions and a bettering of the terms of trade for Great Britain but also substantial declines in the volume of materials brought in for British manufacture so that they indicate a further decline in plans for industrial activity. Increases in imports of all the major categories of foodstuffs were recorded however a fact which is probably due largely to defence storage activity.

Other indices such as rail traffics, bankers clearings and new automobile registrations also moved downwards. Building activity continued at a high level but plans approved declined slightly again in June.

Statistical data reflecting sentiment as to the future trend on the other hand was noticeably affected by the change

REB

3-#653, From London, July 20, 6pm  
(Sec. Two)

change on Wall street towards the end of June. The FINANCIAL TIMES commodity price index based on the third week of September 1931 as 100 which has been falling steadily since the spring of 1937, standing at 136.8 in June last year, touched 119.1 in the third week of June this year. It rose to as high as 121.6 in the first week of July. The turn in the trend of commodity prices must be regarded as the cause of the change in sentiment since the international situation cannot be said to have eased sufficiently to effect any major renewal of confidence. The behavior of the Stock Exchange reflects the general opinion that the turn in the commodity price trend is significant and likely to endure and the London Stock Exchange following Wall Street fairly closely has been active since the latter part of June. The FINANCIAL NEWS index of prices of ordinary shares based on 1935 as 100 rose from 80 on June 1 to 89.4 on July 7 subsequently dropping back to 85.8 by July 18. Meanwhile the same index based on 1928 as 100 for fixed interest securities rose in the same period from 12803 to 138 and has remained steadily at about that level since July 7. A crop of new issues to be floated in London is also significant and  
though

REB

4-#653, From London, July 20, 6pm  
(Sec. Two)

though these constitute municipal loans and fixed interest stocks their appearance is regarded as a sign of returning confidence on the part of business.

If the change in sentiment which is due almost entirely to the expectation of business recovery in the United States proves to be well founded there will be some increase in business activity in Great Britain but British exports cannot be expected to increase substantially until after a considerable time-lag. Furthermore the growing difficulties of the great basic industries require more fundamental adjustments than a slight or even substantial upturn in the world economic activity.  
(END MESSAGE)

KENNEDY

HPD

July 20, 1938.

Dear Mr. Livesey:

This will acknowledge your letter of July 20th which has been brought me by Mr. Lockhead, the Technical Assistant to the Secretary. A copy of telegram #1136 has been cabled to the Secretary, and we appreciate your letting us have this information so promptly.

Sincerely yours,

H. S. Klets,  
Private Secretary.

Mr. Frederick Livesey,  
Acting Adviser on International  
Economic Affairs,  
Department of State,  
Washington, D. C.

GEF/dbs

*By hand*

COPY

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DEPARTMENT OF STATE

Washington

July 20, 1938.

My dear Mr. Lochhead:

I enclose three copies of telegram No. 1135 of July 20, 1938, from the American Embassy, Paris, transmitting a rearranged schedule of appointments for Secretary Morgenthau while he is in Paris. The Embassy requests that this message be communicated to Secretary Morgenthau.

Sincerely yours,

For the Secretary of State:

/s/ F. Livesey

Frederick Livesey,  
Acting Adviser on International  
Economic Affairs.

Enclosures:

3 copies, No. 1135,  
July 20.

Mr. Archie Lochhead,

Technical Assistant to the  
Secretary of the Treasury.

Copy

GRAY

Paris

Dated July 20, 1938

Rec'd 9:38 a.m.

Secretary of State,  
Washington.

1135, July 20, noon.

To be transmitted through the Treasury Department  
to the Secretary of the Treasury on the high seas:

Your appointments have been rearranged as follows  
due to the change in hour of your arrival:

Saturday July 23 you arrive presumably between 10  
and 11 p.m.

Sunday July 24, 11 a.m., you and Mrs. Morgenthau call  
on the President.

1 p.m., lunch for you and your family at Chantilly.  
Blum will be present.

8:30 p.m., dinner for you and Mrs. Morgenthau at the  
residence of the Minister of National Economy, Patenotre.

Monday July 25, 12:15 p.m., you call on Marchandeu.

1 p.m., you and Mrs. Morgenthau lunch with Marchandeu  
at Ministry of Finance.

8:30 p.m., dinner for you and your family at the  
Embassy residence with members of the Cabinet.

Tuesday

-2- #1135, July 20, noon, from Paris.

Tuesday July 26.

1 p.m., you and Mrs. Morgenthau lunch at the Quai  
d'Orsay with the Minister for Foreign Affairs.

5:50 p.m., depart for Antibes.

Best wishes.

BULLITT

RR:WWC

EG

GRAY

London

Dated July 21, 1938

Rec'd 1:45 p.m.

Secretary of State,  
Washington.

663, July 21, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

Asked in the House of Commons this afternoon whether as a result of their conversations with the Governments of France and the United States it was the intention of His Majesty's Government to take steps to advance the question of stabilization of currencies the Chancellor of the Exchequer replied "No conversations of the character suggested have taken place and I have nothing to add to previous statements on this subject".

The tendency of the dollar to appreciate in terms of sterling once again asserted itself. The dollar opened at 4.92 $\frac{1}{2}$  but was bid down at gold fixing to 4.91.5/8 where it has remained for the rest of the day. The Bank of England did not pursue its tactics of yesterday and permitted a penny premium to be maintained.

The demand for gold continues unabated.

KENNEDY

KLP

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 21, 1938, 5 p.m.

NO.: 1144

FROM COCHRAN.

Today there was increasingly heavy pressure on the franc. The control apparently yielded more sterling than any day this week, at a rate of 178.18. There is a continued large demand for dollars. Lazards, who presumably have taken a strong position in the dollar, are talking it up, saying sterling will go back to its old parity.

There is continuation of terrific demand for gold coins.

Statement of the Bank of France as of July 14 showed coverage 47.81 versus 47.63, with no important changes.

In the press today is a story denying the report of yesterday that a Franco-German agreement on trade had been reached but that negotiations on financial aspects had not been successful and would be resumed later not in Paris but in Berlin. The report in today's press is that the general negotiations have had no break and that they will continue with regard to both phases, which it is felt are related and cannot be separated.

Some of the depression today can be attributed to the strike outbreak in the Anzin coal industry of the

northern

- 2 -

northern part of France which involves some 20,000 men. This strike has come just when an effort is being made to increase production in the French coal industry.

Yesterday the case of the Bank of France Spanish gold came up again, but was postponed until January 25.

BULLITT.

EA:LWW

RECEIVED  
JAN 25 1938  
TREASURY DEPARTMENT  
Office of the Director  
Division of International Finance

Ticker Comment  
while you were away

Dow-Jones 2:00  
July 22, 1938

Paris - U. S. Secretary of Treasury Morgenthau is due to arrive in France Saturday evening from United States. He will visit with President LeBrun Sunday morning and will dine the same day with Minister of National Economy Paternotre. On Monday he will lunch with the Finance Minister and will meet the Cabinet ministers at an Embassy dinner that night. On Tuesday he will lunch with Foreign Minister Georges Bonnet and will leave for the south Tuesday evening.

Secy. Morgenthau last visited France in October 1935 on his way home from Spain.

EG

PLAIN

London

Dated July 22, 1938

Rec'd 2:43 p.m.

Secretary of State,  
Washington.

670, July 22, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

STRICTLY CONFIDENTIAL.

The following excerpts are quoted from the speech made last night by Earl Stanhope, the British Treasury's spokesman in the House of Lords, in reply to a speech by Lord Samuel made during the debate on the finance bill urging the British Government to state that the British war debt is not a closed chapter. These paragraphs may be of interest particularly in view of the fact that the British Treasury went out of its way to call my attention to the fact that this statement would be made.

"I can certainly say that so far as His Majesty's Government are concerned the question has never become one that is thought to be closed and finished in any way. I am anxious not to upset the situation which is by no means easy: and as perhaps this is not the best moment for discussion in view of the negotiations we are having with

-2- #670, July 22, 6 p.m. from London

with regard to trade matters with the United States from which both of us hope to obtain an early and satisfactory agreement, your lordships will forgive me if I make a statement not so much in my own words as in words prepared for me by the various departments concerned who have this matter of course under constant consideration."

After quoting the statement which concludes the British Government's note each half year expressing willingness to reopen discussions whenever a satisfactory result might be expected Stanhope went on to say:

"There is not much that can be added to this statement but it may be well to contradict the suggestions sometimes made that His Majesty's Government fail to recognize the great importance of this question or that the debt has been repudiated: such suggestions are entirely unfounded. The noble Lord, the leader of the opposition, I think, expressed the hope that this matter could be discussed between the governments concerned but I am sure the noble Lord will appreciate that before the Government of the United States can put any agreement into operation they will have to obtain the assent of Congress. Therefore I am quite sure that both he and the noble Viscount who raised the question will appreciate that it is necessary  
to

-3- #670, July 22, 6 p.m. from London

to consider not only the opinions of the governments but of the peoples concerned. Nothing could be more disastrous than to raise the question at a moment when there cannot be certainty of getting a settlement acceptable on both sides of the Atlantic.

The question of the British war debt is bound up with the question of inter-governmental debts as a whole and the debts due to us are considerably greater than that due by us. The question also has to be considered with reference to our balance of payments and to the stability in international exchanges which it is the desire of both the United States Government and His Majesty's Government to maintain to the greatest possible extent. I think the noble Viscount will certainly corroborate my statement when I say that this question is perhaps of even greater importance than any payment of debt due by us to the United States - the question of maintaining the exchanges and the stability of the sterling and dollar area and of course the franc area on which the three governments recently came to an agreement. It would require very careful consideration of the attitude of the public mind in that respect. That and other aspects such as the exchange of trade cannot be ignored in considering whether  
circumstances

-4- #670, July 22, 6 p.m. from London

circumstances are such as to warrant the hope that fresh negotiations would lead to a satisfactory result. But I hope I have said enough to convince your lordships that the statement at the end of the White Paper which as the noble Viscount said passes twice a year between us and the United States is by no means a form of words but one which has left the question open for consideration at a moment when both governments feel that we are likely to arrive at a solution satisfactory to each of us."

(END SECTION ONE)

KENNEDY

HPD

PARAPHRASE OF SECTION TWO, TELEGRAM NO. 670 of  
JULY 23, 1938, FROM THE AMERICAN EMBASSY, LONDON

The Ambassador has directed me to state that it is his opinion that the right strategy for our country to pursue would be to have all in authority abstain from making comments on the war debt problem of Great Britain, either at the present time or later on. The Ambassador for his part has made a point of not being drawn into any discussions, tentative or otherwise. He believes that such an attitude in the long run will be the most effective and the best calculated to get Great Britain to take up the war debt problem with us.

END MESSAGE.

KENNEDY.

EA: LWW

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 23, 1938, 6 p.m.

NO.: 1147

FROM COCHRAN.

Today there was some improvement in the franc. The control was not obliged to give up sterling until late this afternoon; they at a rate between 178.17 and .18 a small amount was sold.

Better market for rentes and shares. Following happy visit of British sovereigns atmosphere somewhat improved. Tight money market.

Today large banks did much rediscounting at the Bank of France. For the next two or three months the Government will refuse to consider any new requests for raising prices.

BULLITT.

01713038

8221 82 111

RENTONCO YRMAST  
EA: LWW

July 23, 1958

PRESIDENT ROOSEVELT

TO BE CONSISTENT I WISH TO SUPPLEMENT MY RECOMMENDATION TO YOU FOR  
COMPTROLLER OF CURRENCY PERIOD I SUGGEST AFTER CALIFORNIA PRIMARIES  
YOU FIRST OFFER POSITION TO JEFFY OCONNOR AND IF HE REFUSES TO ACCEPT  
THEN OFFER IT TO PRESTON DELANO PERIOD BEST REGARDS

MORGENTHAU

USS HOUSTON  
24 JULY

HENRY MORGENTHAU JR

IN GALA PAGOS THERE ARE NO COMPTROLLERS OF CURRENCY OR OTHERWISE  
PERIOD ARE THERE ANY IN PARIS PERIOD HAVING A GRAND TRIP PERIOD  
MY BEST TO YOU ALL

ROOSEVELT

COPY

TREASURY DEPARTMENT  
Telegraph Office

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1938 JUL 25 AM 8 15

NO 2DN 37GOVT EXEC

USS HOUSTON JULY 24 1938

GOVT EXEC TREASURY DEPARTMENT

WASHINGTON (DC)

FOR HENRY MORGENTHAU JUNIOR IN GALAPAGOS THERE ARE NO  
COMPTROLLERS OF CURRENCY OR OTHERWISE PERIOD ARE THERE ANY  
IN PARIS PERIOD HAVING A GRAND TRIP PERIOD MY BEST TO YOU ALL  
ROOSEVELT

743AM-S

PARIS.--SECRETARY MORGENTHAU CONFERRED TODAY WITH PAUL MARCHANDEAU  
THE FRENCH MINISTER OF FINANCE. IT WAS BELIEVED THEY DISCUSSED THE  
UNITED STATES-BRITISH-FRENCH MONETARY AGREEMENT.

7/25--R901A

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MORGENTHAU-MARCHANDEAU CURRENCY TALKS <sup>207</sup>

PARIS - CONVERSATIONS BETWEEN SECRETARY OF  
TREASURY MORGENTHAU AND FINANCE MINISTER  
MARCHANDEAU WERE FOLLOWED BY AN OFFICIAL  
STATEMENT THATY -THEY NOTED A PERFECT  
FUNCTIONING OF THE TRI-PARTITE CURRENCY  
AGREEMENT AND AFFIRMED THEIR MUTUAL DESIRE TO  
ASSURE ITS MAINTENANCE-

IT IS UNDERSTOOD THAT THE OPPORTUNITY WAS  
TAKEN TO EXPLAIN FULLY TO THE AMERICAN  
SECRETARY THE PROBLEM OF FRENCH FINANCES WHICH  
IS DOMINATED BY THE OBLIGATION TO SHOULDER THE  
BURDEN OF EUROPE-S POLICEMAN OF PEACE

MARCHANDEAU IS BELIEVED TO HAVE EXPRESSED  
OPTIMISM WITH REGARD TO THE IMMEDIATE  
FUTURE CALLING ATTENTION TO THE SATISFACTORY  
INITIAL RESPONSE TO THE NEW SHORT TERM DEFENSE  
BONDS

HOWEVER HE IS BELIEVED TO HAVE DISCUSSED  
THE QUESTION OF CONTINUED AMERICAN AID IN  
THE EVENTUALITY THAT RENEWED PRESSURE SHOULD  
MAKE THE FRANC UNTENABLE AT THE 179 FRANC TO THE  
POUND LEVEL

THE FRENCH MINISTER ALSO STRESSED THAT DOUBT  
REGARDING THE MAINTENANCE OF THE PRESENT GOLD  
PARITY FOR THE DOLLAR IS AN ADDITIONAL  
DIFFICULTY FOR THE FRENCH FRANC

LEADING CABINET MINISTERS PLUS LEON BLUM  
FORMER PREMIER AND THE GOVERNOR OF THE BANK OF  
FRANCE WERE GUESTS AT THE MARCHANDEAU  
LUNCHEON IN HONOR OF SECRETARY MORGENTHAU

100 60 1938

COPY

Via Coast Guard

July 25, 1938

FOR SECRETARY MORGENTHAU

FOLLOWING TELEGRAM RECEIVED QUOTE USS HOUSTON  
JULY TWENTY FOUR FOR HENRY MORGENTHAU JUNIOR COLON IN  
GALAPAGOS THERE ARE NO COMPTROLLERS OF CURRENCY OR OTHERWISE  
PERIOD ARE THERE ANY IN PARIS PERIOD HAVING A GRAND TRIP  
PERIOD MY BEST TO YOU ALL SIGNED ROOSEVELT UNQUOTE

CHAUNCEY

100  
7-25-38  
White Paper  
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MEMORANDUM

Under date of October 7, 1937, a memorandum was given to the Secretary outlining the policy of the Bureau of Narcotics in handling narcotic work in Europe prior to November 1, 1936, and recommending that this policy be continued. This policy was:

- First, to close foreign sources of illicit supply.
- Second, to break up international rings which feed American markets as well as Canadian, Egyptian and Far Eastern markets.
- Third, to effect seizures and arrests of violators engaged in smuggling destined for the United States or in the United States.

Under date of October 12, 1937, the Secretary approved the recommendation, stating:

Effort should be made to discover the principal sources of narcotics in Europe, and effort also should be made to trace shipments of such supplies as they may occur in going through Europe to the United States. It is essential that the initial inquiries be made in the countries in which the production occurs.

Since my return to Paris from Washington about November 1, 1937, an attempt has been made to follow out the policies mentioned. The principal cases which have been successful, are as follows:

BACULA-LYON: The arrest of BACULA and LYON was the outstanding achievement. For several months investigations were conducted with the help of the police in England, Italy, Switzerland and Vienna, during which time correspondence between members of the gang was intercepted. All information obtained was cleared through this office and furnished the police at Paris and Vienna. Finally, the Vienna police announced they had sufficient evidence to justify the arrest of BACULA as a narcotic trafficker and having been involved in the 300 kilos of opium seized at Vienna, in December 1937. The police give full credit to this office for having obtained the necessary evidence. BACULA was arrested in May, in Zurich, where he is being held pending extradition proceedings.

With respect to LYON, this office prevailed upon GREASY, who was convicted as an accomplice in the Pennington House affair, in 1935, to tell the truth about the whole matter. He implicated LYON, MACGUA, and others, and his evidence, with other evidence furnished by this office, finally led to the arrest of LYON. The evidence of Chabot, documentary and spol, and that gathered by this office is ample to secure a conviction, if the case is properly presented, not only of LYON but also of MACGUA and Mrs. SALYI.

The importance of this case can be emphasized by stating that it would be similar in importance to the arrest of SALLY GORICH and the EVANS brothers in New York.

REAUDET: The details relative to HEALING which appeared in the MACGUA-SALYI correspondence furnished through this office helped greatly in the efforts of the Viennese police against this man. He is now in prison in Vienna, though not being held on a narcotic charge.

MURKIN: When 300 kilos of opium were seized in Vienna last December, it was through the correspondence obtained through the work of this office that MURKIN was involved in the affair; also MACGUA.

DR FOLKES: DR FOLKES was arrested in connection with the LYON matter. This office knew that he had worked with LYON, but he had discreetly withdrawn within the last few months, and it was impossible to find his address. Gloria VAYLADIS, who was being contacted by one of our informers, was prevailed upon to go to Louis LYON, without knowing himself that this office was interested in his visit. LYON evidently became frightened and denounced VAYLADIS, a mistake on his part which has proven costly. For it resulted in the arrest of VAYLADIS, whose papers were not in order, and in the interrogatory of VAYLADIS which, we think, will link very definitely Louis LYON and DR FOLKES.

VAYLADIS: As explained in the preceding paragraph, he is now in jail. He had agreed to address a written denunciation of LYON to the judge, but was arrested before this was accomplished.

GURDON: Through an informer, information concerning the activities of GURDON was given this office some time before Christmas. It was known definitely that he was manufacturing in quantities. For some months this office worked with the Surete on the matter, giving good information and obtaining assurances that the Surete was about to close in on him. However in retrospect it would appear that there was lack of loyalty, very likely due to the fact that GURDON was manufacturing for CARBONE and his cousin MORSETTI. GURDON has not been arrested in connection with the LYON matter.

PESSIS (or PESSY): Bernard PESSIS is thought to be an individual whom this office described to the Surete months ago as an invalid who had been working with GURDON and who left for the Riviera. The villa in which he lived, it is thought, they used as a storeroom, removing the manufactured drugs from GURDON's house where the laboratory was, to PESSIS' house. As in the case of GURDON, unfortunately, there is doubt in our minds as to how disinterested work the French police did on this matter.

MADRID: Definite evidence was obtained that Francisco MADRID, Minister of Chile at Bucharest furnished a false passport to CREBAT, under a false name, through BACULA. It is thought that the Bucharest authorities may request his removal as Minister of Chile. Letters exchanged between MADRID and BACULA, which came to the hands of this office, have also been of great help, for they leave no doubt as to the relationship which has existed between the two men. In February MADRID came to Paris. The plans for his trip were known to this office, and he was watched during his hurried trip. It proved to be, however, a question of securities which he was evidently trying to remove for someone in Roumania under cover of his diplomatic passport. As a matter of fact, this activity on his part and on the part of BACULA and his associates is thought not to be a new one.

GOMEZ: Eliseo Ricardo GOMEZ, Minister of Uruguay at Prague, is known, from information given by an informer and also from the BACULA correspondence, to be an old associate of this group. Recently he has been under surveillance during several trips he has made from Prague to Amsterdam. From reports received from the Dutch police, we presume his present visits are in connection with smuggled securities.

ANAVI Brothers: Despite the assurances of the Sofia police that the ANAVI brothers were not a few months ago any longer in this traffic, information from an informer indicated otherwise. Because of their connection with the LYON-BACULA matter, we have

endeavored to follow up their activities, and recently, through another informer, we have certitude that at least one of them is actively in the business. At present we are working on a deal in which they will be involved.

IANDOSCO: Information was furnished the Surete by this office that resulted in the arrest of IANDOSCO on a narcotic charge. He was released on bail of 50,000 francs. While out on bail, he left France for Cuba. A Surete officer told us of IANDOSCO's departure several days after he left, giving no information as to the boat on which he was travelling. This was learned by this office and the Bureau advised. Information indicates that IANDOSCO was permitted to depart from France because LYON had indicated to a Surete officer he wished this to happen, probably because he (Lyon) was afraid of becoming implicated in the affair. It will be recalled that IANDOSCO, while en route to Havana, received wireless messages signed "Mino". The Surete was asked to ascertain the name of the sender. Inquiry was made several times as to whether they had identified the sender, and the response always was in the negative. Recently information was received from other sources that the Surete had identified sometime ago that the messages were sent by one GOLDFARB. We then requested the Surete to advise us what information they had concerning GOLDFARB, and in reply to the inquiry we were advised that GOLDFARB was the sender of the messages in question.

The Bureau will recall that when it was notified IANDOSCO was en route to Havana, it made arrangements to have him expelled from Cuba and he was arrested at New York for violation of his parole.

KATTENBERG: At the request of the Bureau, KATTENBERG was located in Roumania. Arrangements were made to have him expelled from that country and placed on a boat going to Athens. At the latter place he was arrested and held for extradition to the United States, to be tried on an indictment for conspiracy to violate the narcotic laws.

SCHWARTZ: This office cooperated with the Surete in the arrest and extradition of SCHWARTZ from France to New York, to answer an indictment for conspiracy to violate the narcotic laws.

MARZALINI.

GAGLIANO.

CARUSO: MARZALINI and GAGLIANO were reported to the French police, who watched them on their arrival from the United States until their departure for Italy. Their return to Paris became known to this office by a chance meeting on the street, and even

then their address could not be obtained from the French police, despite intensive efforts. It was eventually through the steamship company that they were found. Although the French police knew of the identity of CANOSO, having been notified of his intended visit, when he put in his appearance at the hotel of MARSALISI and GAGLIANO, he was not followed, and despite our efforts to learn his address we were unsuccessful and he sailed, as the Bureau knows, on the same day MARSALISI and GAGLIANO departed, but on another boat.

BORNELLO: Through the initiative of agents of this office, BORNELLO was arrested recently in Genoa, when he endeavored to sell 7 kilos of merchandise. The affair has opened the way to obtaining information of great value relative to the Italian traffic and the arrest of a manufacturer who was supplying BORNELLO. There have been seized conditionally, so far (that is, we are not yet formally assured by the Italian Government that part of the merchandise will not be returned to the manufacturer), 53 kilos of heroin. BORNELLO is supposed to be one of the leading suppliers of narcotics smuggled into the United States by the Italian Lines.

FAILLA.

PROVENTANO: These men, who, it is thought, send narcotics regularly to the United States, have been followed from time to time in the last months, and it is hoped that when the Surete has a little more time to give to the affair FAILLA can be apprehended.

COULOMB: Henri COULOMB is said by the Surete to be the biggest trafficker in France at the present time. Intensive work on him and on his right-hand man, Mariano SCHENLEN, who is at present in Paris under a false name, will be continued. It is thought that 150 kilos of opium recently seized at Marseille may have been intended for COULOMB.

PERETTI: This man, an associate of ANDREANI, CARROWE, COULOMB and GUIDON, was arrested recently. This office is working at present on a supply of merchandise, the source of which is not yet definitely known, but which we have reason to suspect is PERETTI or COULOMB. Information concerning PERETTI has been given the Surete on several occasions during the past year.

FRANK BLASZAK: Through an informer, the address of this man in the suburbs of Paris was ascertained. It necessitated considerable difficulty and it was only after discussion with the French police

and indication on their part that they would follow up the matter that he was taken in hand. It resulted in his being expelled from France. However, as an indication of the cooperation of the French Police, it was learned some months later that ELASEAK had returned to France, had been arrested and was about to be released after having served a sentence; no notification of his arrest was received from the French police, despite the assistance given them just previously concerning him.

S. A. P. GONJANOVITCH: This company has a factory at Skopje, Yugoslavia. Through an informer details of production were obtained which indicate that production is such in excess of amounts reported to the Yugoslav Government, the excess going into the illicit traffic. Two employees of the factory have made statements concerning these irregularities. The matter has been reported to the Yugoslav Government, which recently placed an inspector in the factory to see that a proper account is kept of all purchases of crude opium and all manufactures.

Denial TOMASOVITCH: Probably the largest supplier of narcotics from the Balkans. He has been arrested many times and fined. Recently, for the first time, he served a jail sentence, 15 days. It is believed that the activities of agents of this office and representations to the Government brought about this sentence, the maximum under Yugoslav law.

COURT OBRIG.

FACCO et al.: As the result of information given by this office to the Vienna police, the above and four other persons were arrested and 70 kilos of opium were seized. This opium was destined for Paris, where it probably was to be made into heroin for the United States.

JOHN WAGNER: Arrested, with an accomplice, by the Vienna police, and two kilos of opium seized, on information furnished by agents of this office.

BEBA IOVANDVIC: Iovasovic, with KOVANS and STERN, were arrested by the Vienna police and two kilos of opium seized. The arrests were made on information furnished by this office.

In addition to these specific cases, much information has been obtained from informers and given to the police of countries interested.

Another phase has been obtaining information of one country to give to the police of another country, where the two countries do not exchange information between themselves. This is possible because all countries feel the Treasury Department has no motive

-7-

other than to work against the narcotic traffic, while they sometimes distrust the motives of each other, due to political conditions.

International cooperation is essential to produce results. As representatives of the Treasury Department are trusted by all countries they can perform an important service as liaison officers between the different countries. They also can keep up the interest of the police in continuing their activities with respect to the narcotic traffic. This is very essential, as without some incentive the police are apt to do very little work to prevent the smuggling of narcotics.

Treasury Representatives are placed in a position of trying to enforce the laws of other countries, or at least of trying to get the officers of European countries to enforce their own laws. The latter expression is more exact, as our representatives do not enforce any laws abroad; in fact they cannot make investigations beyond a certain point which may be called getting information from informers. Under the conventions or agreements made with the different countries of Europe, the interchange of information concerning violations of narcotic law is to be only between the Commissioner of Narcotics, at Washington, and a designated person in each country of Europe. In some countries police officials are designated; in other countries, public health or other officials. It is useless to try to do effective work through public health ministers. Police work must be done through police officers. Police officials are willing to work with this office; we are not supposed to work directly with them in some countries on account of the agreements noted above. In such instances the agreements are handicaps to the work the office is trying to do. In some countries the authority named as correspondent under the agreements has agreed orally that we deal directly with the police, realizing that the best results can be obtained by such action.

In practically all countries, agents of this office have received excellent cooperation from the police. In Italy, where little support was received in the past, excellent cooperation is being given. Instructions have been issued by the government at Rome to police, customs and carabinieri throughout Italy to cooperate

-4-

with agents of this office in narcotic cases. The arrests and seizures at Genoa and Milan of traffickers who supplied Italian ships going to the United States was brought about by this cooperation.

In Germany, England, Belgium, Holland and Yugoslavia, close cooperation with officials has existed, also at Marseilles, in France. Unfortunately, the attitude of the Surete, in Paris, has left much to be desired. There has been but little evidence of any real cooperation on the part of the Surete, and at times considerable evidence of passive resistance against prosecuting narcotic cases. This office has given all information in its possession concerning French cases to the Surete; beyond answering specific inquiries asked by this office, nothing has been received from the Surete. At times I believe the fact that the United States Government has agents in Europe to work on narcotic cases is resented, and it would be most pleasing to the Surete to see such agents withdrawn. If the French police would take a decided stand against the narcotic traffic, investigating and prosecuting without fear or favor, and at the same time take this office into its confidence so our activities could be coordinated with their activities, the result would be most beneficial in stopping the narcotic traffic from France to the United States.

During the past year the agents working on narcotic cases have confined their activities mostly to the following territory:

Boyer: Station, Paris. Worked in Havre, United States Lines between Havre and Hamburg, and Hamburg.

Brown: Station Paris, worked in Switzerland, Italy, Austria, Yugoslavia and Roumania.

Butler: Paris, at station.

Di Lucia: Station, Milan. Work in Italy and South Switzerland.

Dyck: Station Antwerp. Work in Belgium, Holland and Hamburg.

Faclegg: Station Vienna. Work in Vienna and Roumania.

Fisher: Station Paris. Work in Paris and French ports.

Vieland: Station Paris, until July 1 at Marseilles. Worked in Marseilles and Southern France, Genoa, Roumania and Greece.

-9-

It is believed that the stations of the employees should not be changed except as follows:

Transfer Dyer from Antwerp to Paris, from which point he would continue to make regular visits to Belgium and Holland. Transfer Bruzer from Paris to Sofia or Budapest. There is considerable activity in the Balkan countries and Turkey. It is believed an agent stationed in one of these countries can handle the situation better if he is located at a point nearer than Paris. This would insure closer contact with officials and informers, now interrupted by returning to Paris. From the standpoint of the agent, it would be more agreeable to have a permanent home nearer his assignment.

With these changes the set-up will be as follows:

1. Paris: Butler, Beers, Dyer, Vachon, Violet
2. Sofia or Budapest: Bruzer
3. Milan: De Lucia
4. Vienna: Foglia

1. PARIS: General direction of work and records. During the past year Mr. Butler has been in charge of this activity. He also has contacted informers, police, and handled the BACULA-LYON affair. The transfer of Mr. Violet from Marseilles to Paris was to have another contact man here to relieve Mr. Butler, thus giving him more time for general direction, and for the time being, more time to devote to BACULA-LYON.

Narcotic work alone does not justify keeping a man in Antwerp. Contact with police can be maintained by visits of agents from Paris. These agents can take care of both Belgium and Holland. It will be recommended, therefore, that Mr. Dyer be transferred to Paris November 1, which will give him ample time to give the required notice to terminate his lease. In the meanwhile his services will be used in Paris for a part of the time, especially to relieve Mr. Butler, who will take annual leave as soon as there is an opportunity to do so.

All French ports, Belgium and Holland, will be covered from Paris. For the time being Mr. Beers will continue to cover ships from Hamburg, and his activities will be extended to Odessa, Danzig and Riga.

-10-

2. SOFIA or BUDAPEST: Bruner to cover work in the Balkan States, Greece and Turkey. Mr. Bruner speaks both French and German and is fairly proficient in the Serbian language. Belgrade would be the ideal place for an agent. However, the Yugoslav Government does not wish to have anyone stationed there. Sofia is next desirable; then Budapest. If the Bureau approves having an agent stationed in either of these places, it is recommended that steps be taken to ascertain if the Bulgarian Government, preferably, or the Hungarian Government, will approve of such a station and, if so, that Mr. Bruner be transferred to the new post.

3. MILAN: All work in Italy is covered from the Milan office by Mr. Di Lucia, assisted by Mr. Paterniti, when necessary. Mr. Di Lucia has done exceptionally good work. Plans have been laid for work in East Italy, where it is believed supplies of narcotics come in from Yugoslavia. In the event Mr. Di Lucia is not returned to the foreign service, it is recommended that Mr. Bruner be sent to Milan for the time being and the recommendation made under number 2 above be held in abeyance for the time being.

4. VIENNA: Mr. Peglies is stationed at Vienna, where he has exceptionally close relations with the police. It is desirable to leave him there for the time being. He can work in Austria, Hungary, Czechoslovakia, Poland and Roumania. He speaks French, German and Russian.

Mr. Peglies is not an American citizen. He is a good worker interested in his work. He has been paid a clerk's salary of \$1500, which is inadequate for the work he is doing. A promotion of \$55 to \$900 would be deserved and very much appreciated.

It is believed that the force named above, stationed as indicated, will be sufficient for the coming year. If Mr. De Lucia is not returned to Europe, another Italian speaking agent will be needed. As agents travel a good share of the time and work on their own responsibility, great care must be exercised in choosing a man who will make the most of his time without being under supervision.

-11-

Comments from the Bureau on this summary of what has been done by the agents in foreign service, and what they are attempting to do, will be welcome. Perhaps the Bureau can make some practical suggestions that will be of assistance, or point out things that are being done that might be left undone, or that could be handled better in another manner.

**BERNARD VAIT,**  
Supervising Treasury Attaché.

Copies enclosed for:  
Mr. Gibbons  
Mr. Irey  
Mr. Anslinger  
Mr. Fuller

bw/ba

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 26, 1938, 5 p.m.

NO.: 1166

The following is strictly confidential for the information of the Secretary:

This morning Secretary Morgenthau was visited by Wellington Koo, the Chinese Ambassador. I was present at the meeting. During the course of the discussion, Wellington Koo mentioned that it was a matter of vital importance for the Chinese Government to obtain financial aid, since the financial resources of China were becoming exhausted. However, he said, the morale of the Chinese army and the civilian population was admirable.

There had been a collapse of the loan negotiations with Great Britain. There had been an indication from the French that if a loan or credit were given to China by Great Britain and the United States, the French would be willing to give China a loan also.

Secretary Morgenthau told Wellington Koo that he could not make promises of any kind, but said that it might be advisable if Mr. K. P. Chen - he had negotiated with him in the past with pleasure - were to be sent

to

- 2 -

to the United States by the Chinese Government, for the purpose of looking into the possibilities of getting a credit for purchasing flour and grain products.

The suggestion was also put forward by Secretary Morgenthau that if Mr. K. P. Chen should visit the United States, he should inquire into the Chinese Government's present purchasing methods.

These suggestions were most gratefully received by Wellington Koo, who said that he would immediately get in touch with the Chinese Government.

BULLITT.

EA; LWW

RECEIVED  
APR 15 1945  
THEIR HONORABLE MEMBERSHIP  
OFFICE OF THE SECRETARY OF STATE  
WASHINGTON, D. C.

10.27

-MORGENTHAU AND BONNET CONFER 10/26/1938  
PARIS - HENRY MORGENTHAU JR U S SECRETARY  
OF TREASURY CONFERRED FOR HALF AN HOUR WITH  
FOREIGN MINISTER GEORGES BONNET PRIOR TO A  
LUNCHEON IN MORGENTHAU-S HONOR AT THE FOREIGN  
OFFICE  
-0-

PARIS--SECRETARY MORGENTHAU CONVERSED FOR HALF AN HOUR TODAY WITH  
FOREIGN MINISTER GEORGES BONNET PRIOR TO A LUNCHEON IN MORGENTHAU'S  
HONOR AT THE FOREIGN OFFICE.

MORGENTHAU TALKED YESTERDAY WITH PAUL MARCHANDEAU, FINANCE  
MINISTER, AND DISCUSSED MONETARY MATTERS, INCLUDING THE BRITISH-  
FRENCH-UNITED STATES EQUALIZATION AGREEMENT. A COMMUNIQUE SAID THAT  
THE TWO "ONCE AGAIN ACKNOWLEDGED THE PERFECT FUNCTIONING OF THE  
TRI-PARTITE ACCORD AND ASCERTAINED THEIR COMMON DESIRE TO ASSURE  
ITS CONTINUANCE."

7/26/W958A

Paris, July 26, 1938.

Dear Archie:

Yesterday Secretary Morgenthau talked over with Butterworth and myself certain events which have transpired in the past few months. For our information on this side he suggested that I write this letter to you asking that you extract from his confidential files, and send one copy to Butterworth and one to me, of those entries which indicated the attitude of the British monetary authorities as revealed to us when the question of France's imposing some sort of exchange control, as opposed to further devaluation, arose.

Thanking you for this favor, and with very warmest regards, I am

Sincerely yours,



Archie Lochhead, Esquire,  
Treasury Department,  
Washington, D. C.

*H. M. M.*

August 10, 1938

Dear Mr. Butterworth:

On July 26, Mr. Cochran wrote a letter to Archie, which was approved by the Secretary, instructing that he send to Mr. Cochran and yourself extracts of those entries which indicated the attitude of the British monetary authorities as revealed to us when the question of France's imposing some sort of exchange control, as opposed to further devaluation, arose.

In Archie's absence on vacation, I enclose copies of excerpts from the Secretary's file and excerpts from cables which I think will provide you with the necessary information.

I do hope that you and Mrs. Butterworth enjoyed your vacation in the south of France, and with warm personal regards,

Sincerely yours,

Frank Dietrich

FD:ek  
Enclosure

Mr. William W. Butterworth, Jr.,  
American Embassy,  
London, England.

FROM MEETING IN SECRETARY'S OFFICE, SEPTEMBER 21, 1937.

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

CONVERSATION BETWEEN SIR FREDERICK PHILLIPS  
AND SECRETARY, SEPTEMBER 21, 1937.

Phillips defined the British attitude towards the French situation briefly, as follows:

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

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

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

(4) Therefore, the British Government was of the opinion that France should be allowed to remain in the Tripartite Agreement despite franc fluctuations and, if it were necessary, a public statement should be made that France was considered as remaining in the Tripartite Agreement.

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

CONVERSATION BETWEEN SIR FREDERICK PHILLIPS  
AND SECRETARY, SEPTEMBER 23, 1937.

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

\* \* \* \* \*

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

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

CABLE 31 FROM BUTTERWORTH, JANUARY 14, 1938.

.....

Phillips said that he was afraid his previous gloomy predictions were now about to be realized but that there was nothing to do until it could be seen what was to be expected in the way of a new French Government. The situation was as we had discussed it in Washington last autumn -- either the franc would be further depreciated or exchange control would have to be tried. In his opinion exchange control would create "a hell of a mess"; aside even from their injurious effects, in <sup>(this?)</sup> the case obviously they would prove administratively unworkable.

CABLE 80 FROM BUTTERWORTH, FEBRUARY 1, 1938.

.....

I asked him whether he still held to the opinion expressed in Washington (see memorandum of conversation of September 21, 1937) that participation in the tripartite agreement was a sufficient domestic political asset to ensure successful resistance to the imposition of exchange control. He (Phillips) said he did: that the Radical Socialists held the balance of power in the French Chamber of Deputies and he thought they would continue to hold out for a liberal form of an economy. He (\*) on to reiterate how futile as a remedy the imposition of exchange controls would be in much the same terms reported in my 31, January 14, 1 p. m.

CABLE 133 FROM BUTTERWORTH, FEBRUARY 16, 1938.

316

.....

My informant said that the British Treasury was equally mystified both as regards this extraordinary procedure and what would come out of it \* \* \* \* \* ; that exchange control in France should be avoided by the French not for any mystical reason, democratic or otherwise, but for the very sound and adequate one that it was definitely in France's own interest to do so.

TELEGRAM SENT

May 2, 1938  
12 p.m.

AMEMBASSY

LONDON, ENGLAND

RUSH

188

FROM THE SECRETARY OF THE TREASURY.

Have fully informed Bewley this evening of course of interchanges today between myself and French treasury. Have suggested to British that we take no action until opportunity afforded for further consultation and examination of text of French decree.

I also asked Bewley informally to ascertain whether the British Treasury did not think that introduction by the French Government of modified supervision of capital movement might not be preferable alternative policy for the French Government to pursue rather than prospective continued decline of franc.

I withheld direct comment upon Simon's message as conveyed in Butterworth's 364 of May 2.

HULL

(HP)

EA:HF:EDA

Same to: Amembassy, Paris, France as Department's No. 247,  
May 2, midnight.

EDA

PLAIN

LONDON

Dated May 2, 1938

Received 6:10 p.m.

Secretary of State  
Washington

RUSH

364, May 2, 11 p.m.

STRICTLY CONFIDENTIAL FOR THE SECRETARY OF THE  
TREASURY FROM BUTTERWORTH.

Sir Frederick Phillips sent for me tonight to say that about seven o'clock the French Ambassador had sought an interview with the Chancellor of the Exchequer to present the French aide memoire.

At the same time Monick, French Financial Attache had called upon him.

Phillips said that he understood a copy of the French aide memoire was likewise being presented at Washington.

The Chancellor of the Exchequer had reminded the French Ambassador that the tripartite agreement was a triangular matter and that he could not give him a definite answer until after he had consulted Washington.

Phillips handed me the following document which he said had been approved by Simon in substance before

it

EDA - 2 - #364, May 2, 11 p.m. from London

it was actually drafted but of course not in phraseology:

"His Majesty's Government have studied the aide memoire left by the French Ambassador with the Chancellor of the Exchequer on the 2nd May and regret to learn that despite the additional taxation they have decided to impose the French Government have reached the conclusion that it is not possible to defend the current rate of the franc by the use of the equalisation fund.

At the same time the French Government have no doubt maturely considered all possibilities and have the responsibility for reaching a decision.

His Majesty's Government note that it is the intention of the French Government to achieve as the eventual result of their policy a rate corresponding to the economic position of France which will give to France no competitive trade advantage.

It is for the French Government to determine what is the best procedure for achieving stability at such a rate, and His Majesty's Government are prepared in the circumstances not to take exception to what is proposed as being inconsistent with the tripartite agreement though they feel it right to make it clear

that

EDA - 3 - #364, May 2, 11 p.m. from London

that they do not regard present economic circumstances as justifying a rate more favorable to the franc than about 160."

Phillips pointed out that paragraph three above did not arise out of the French side memoire but out of Bonnet's statement reported in paragraph numbered four of my 356, April 29, 9 p.m.

Phillips also said that note should be taken of the fact that the reply did not contain an unequivocal yes to the question in the last paragraph of the side memoire, that the steps "entirely conformed to the terms of the tripartite accord." Phillips went on to quote Monick to the effect that the French national income was now not more than 220 milliards while state and municipal requirements were 115 milliards; that such a condition could not go on indefinitely and unless rectified would continue to require the remedy of depreciation.

Phillips pointed out that of course the figure 220 milliards did not depend solely on the price level but on the state of business activity multiplied by the price level.

lis

EDA - 4 - #364, May 2, 11 p.m. from London.

He said that the French had not revealed to the British Treasury the whole of their decree program but that it contained severe tariff and "quota/readjustments" which in some respects were as, if not more, serious to Great Britain than the proposed currency action.

Nevertheless, this would constitute the first occasion when a tripartite country had deliberately depreciated its currency as an instrument of policy and there was no blinding the fact that it directly contravened the provisions of the tripartite agreement.

As indicated in paragraph one of my 335, April 22, 8 p.m. Phillips holds that the suitable rate is not 175 but between 155 and 160 to the pound.

However, he said he thought exchange control was the greater evil but he did not conceal that he had no great confidence in this being the final depreciation.

I asked whether in his opinion a good face could be put upon the French action or whether the tripartite accord would in effect disappear into a tissue of fictions.

He said, speaking personally, it seemed a large order at the moment to rewrite the declarations and that he believed that the franc would gradually move to the indicated level, the leaks from governmental sources

in

EDA - 5 - #364, May 2, 11 p.m. from London  
in Paris being what they were.

He hoped that Simon would not be asked a question in the House of Commons tomorrow, that no doubt he would be on Wednesday and that if it was agreeable he would reply along the lines indicated in the text quoted above.

Phillips said that he did hope that it might be possible for Washington to reach a decision tonight but if not the Chancellor would very much appreciate it if reply could be had early tomorrow.

An added reason for an immediate reply lies in the fact that the Ambassador has an appointment to see Sir John Simon at noon tomorrow.

KENNEDY

NPL

MG

GRAY

323

London

Dated May 3, 1938,

Rec'd 12:25 p.m.

Secretary of State,  
Washington.

RUSH

366, May 3, 5 p.m.

FOR TREASURY FROM BUTTERWORTH.

For purposes of record there is briefly set forth below the main points of the Ambassador's telephone report of his conversations with the Chancellor of the Exchequer and the Prime Minister:

(One) The British Government is definitely against the imposition of an exchange control by France, that they are opposed to it not only because it cuts across basic liberal principles but because they do not believe the French can work such a system. In their view it would mean the worst of both worlds, for despite exchange control the franc in their opinion would be depreciated any way.

(Two) The British maintain that they are just as annoyed as we are about the French action, but they are prepared to overlook it because they are profoundly convinced that it would be a grave mistake for political as well as financial

Page 2, #366 from London

financial reasons to break up the Tripartite Agreement, particularly on the occasion of Hitler's visit to Mussolini. They point out that British trade will be much more adversely affected than American trade and that "it won't cost us any money" to acquiesce in the French action.

(Three) At the same time the British state that they will not do anything unless we agree and they expressed the hope that in our reply to the French we would urge France to take steps to put her house in order.

The British want very much our answer by this afternoon or tonight.

**KENNEDY**

CSB

MD

GRAY

London

Dated May 3, 1938,

Rec'd 12:25 p.m.

Secretary of State,  
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The British want very much our answer by this afternoon or tonight.

KENNEDY

CSB

FROM MEETING AT SECRETARY'S HOUSE, MAY 2, 1936.

Bewley:

Well, when I left England - well, that's six weeks now - the attitude certainly was that we were afraid that exchange control was pretty likely, but we regretted - we'd rather see them fight without it. Things have gone further since then, and the attitude may have changed.

## MEMORANDUM FROM BRITISH EMBASSY, MAY 4, 1938.

.....

(1) They (His Majesty's Government) thought that any decision which led to France leaving or being expelled from the Tripartite Agreement might bring about a government by the large party in France which wants exchange control and would in any case be a heavy blow to the present French Government. They thought that exchange control could not be satisfactorily worked in France, that it would seriously hamper legitimate trade and business but would probably fail to stop illegitimate activity, and further that the effect would spread to other countries. Moreover, they did not think that exchange control would in fact prove an alternative to a lower value of the franc but would be in addition.

CABLE 633 FROM BUTTERWORTH, JULY 14, 1938.

My informant was of the opinion that exchange control could not be instituted in France without causing disorganization and disturbance and therefore he feared the immobilizing which this would entail and the opportunity it would afford to Germany.

In view of the above I questioned Phillips as to his view of the trend of events in France and of the desirability or otherwise of the institution of exchange control by France. Phillips said that he saw no signs that a movement towards control was gaining momentum, that it would be part and parcel of a resurgence of a Left political swing and that if anything the trend of political opinion in France according to British sources was towards the Center. Phillips also felt that most of the French Cabinet would not stand for any such measure and that the Senate was now no more prepared to accept such a development than it had been during the second Blum Government.

Phillips again reiterated his profound conviction that for France the institution of exchange control would prove both futile and vicious:

(1) It would not be run effectively - a black market in francs would immediately develop, capital would continue

to be exported and the worst of both possible worlds would ensue, namely all the disadvantages of exchange control would be followed by the disadvantages of a further depreciation of the franc.

(2) Not only would capital continue to seek refuge abroad but French capital now abroad would certainly not return.

(3) Likewise exchange control could not be instituted over night and during a period in which the matter would be publicly debated and legislative power sought enormous sums would leave the country. This would accentuate both the fiscal and exchange problems.

(4) While exchange control would hinder to a certain extent French exports it would by no means rectify the balance of trade by reducing sufficiently French imports for the basic armament demands would have to be satisfied.

(5) Furthermore the setting up of a control system would mean an extension of political corruption and coercion inasmuch as the allocation of the available foreign exchange for imports which could not in France be kept out of those realms.

August 10, 1938

Dear Mr. Cochran:

In Archie's absence on vacation, I have received your letter of July 26, which was approved by the Secretary, relative to the attitude of the British secretary authorities regarding the French situation.

I am enclosing copies of excerpts from the Secretary's file and excerpts from cables which I think will provide you with the necessary information. As requested, I am sending to Mr. Butterworth a duplicate set of the copies enclosed.

I do hope that Mrs. Cochran and yourself are having a pleasant summer, and wish to send you my warm personal regards.

Sincerely yours,

Frank Dietrich

FD:ek  
Enclosure

Mr. E. Marie Cochran,  
First Secretary, American Embassy,  
Paris, France

FROM MEETING IN SECRETARY'S OFFICE, SEPTEMBER 21, 1937.

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

CONVERSATION BETWEEN SIR FREDERICK PHILLIPS  
AND SECRETARY, SEPTEMBER 21, 1937.

Phillips defined the British attitude towards the French situation briefly, as follows:

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

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

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

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\* \* \* \* \*

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

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

CABLE 31 FROM BUTTERWORTH, JANUARY 14, 1938.

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CABLE 80 FROM BUTTERWORTH, FEBRUARY 1, 1938.

.....

I asked him whether he still held to the opinion expressed in Washington (see memorandum of conversation of September 21, 1937) that participation in the tripartite agreement was a sufficient domestic political asset to ensure successful resistance to the imposition of exchange control. He (Phillips) said he did: that the Radical Socialists held the balance of power in the French Chamber of Deputies and he thought they would continue to hold out for a liberal form of an economy. He (\*) on to reiterate how futile as a remedy the imposition of exchange controls would be in much the same terms reported in my 31, January 14, 1 p. m.

CABLE 133 FROM BUTTERWORTH, FEBRUARY 16, 1938.

.....

My informant said that the British Treasury was equally mystified both as regards this extraordinary procedure and what would come out of it \* \* \* \* \* ; that exchange control in France should be avoided by the French not for any mystical reason, democratic or otherwise, but for the very sound and adequate one that it was definitely in France's own interest to do so.

TELEGRAM SENT

May 2, 1938

12 p.m.

AMEMBASSY

LONDON, ENGLAND

RUSH

188

FROM THE SECRETARY OF THE TREASURY.

Have fully informed Bewley this evening of course of interchanges today between myself and French treasury. Have suggested to British that we take no action until opportunity afforded for further consultation and examination of text of French decree.

I also asked Bewley informally to ascertain whether the British Treasury did not think that introduction by the French Government of modified supervision of capital movement might not be preferable alternative policy for the French Government to pursue rather than prospective continued decline of franc.

I withheld direct comment upon Simon's message as conveyed in Butterworth's 364 of May 2.

HULL

(HF)

EA:HF:EDA

Same to: Embassy, Paris, France as Department's No. 247,  
May 2, midnight.

EDA

PLAIN

LONDON

Dated May 2, 1938

Received 6:10 p.m.

Secretary of State

Washington

RUSH

364, May 2, 11 p.m.

STRICTLY CONFIDENTIAL FOR THE SECRETARY OF THE  
TREASURY FROM BUTTERWORTH.

Sir Frederick Phillips sent for me tonight to say that about seven o'clock the French Ambassador had sought an interview with the Chancellor of the Exchequer to present the French side memoire.

At the same time Monick, French Financial Attache had called upon him.

Phillips said that he understood a copy of the French side memoire was likewise being presented at Washington.

The Chancellor of the Exchequer had reminded the French Ambassador that the tripartite agreement was a triangular matter and that he could not give him a definite answer until after he had consulted Washington.

Phillips handed me the following document which he said had been approved by Simon in substance before

it

SDA - 2 - #364, May 2, 11 p.m. from London

It was actually drafted but of course not in phraseology:

"His Majesty's Government have studied the side memoire left by the French Ambassador with the Chancellor of the Exchequer on the 2nd May and regret to learn that despite the additional taxation they have decided to impose the French Government have reached the conclusion that it is not possible to defend the current rate of the franc by the use of the equalization fund.

At the same time the French Government have no doubt maturely considered all possibilities and have the responsibility for reaching a decision.

His Majesty's Government note that it is the intention of the French Government to achieve as the eventual result of their policy a rate corresponding to the economic position of France which will give to France no competitive trade advantage.

It is for the French Government to determine what is the best procedure for achieving stability at such a rate, and His Majesty's Government are prepared in the circumstances not to take exception to what is proposed as being inconsistent with the tripartite agreement though they feel it right to make it clear that

EDA - 3 - #364, May 2, 11 p.m. from London

that they do not regard present economic circumstances as justifying a rate more favorable to the franc than about 160."

Phillips pointed out that paragraph three above did not arise out of the French side memoire but out of Bonnet's statement reported in paragraph numbered four of my 356, April 29, 9 a.m.

Phillips also said that note should be taken of the fact that the reply did not contain an unequivocal yes to the question in the last paragraph of the side memoire, that the steps "entirely conformed to the terms of the tripartite accord." Phillips went on to quote Monick to the effect that the French national income was now not more than 220 milliards while state and municipal requirements were 115 milliards; that such a condition could not go on indefinitely and unless rectified would continue to require the remedy of depreciation.

Phillips pointed out that of course the figure 220 milliards did not depend solely on the price level but on the state of business activity multiplied by the price level.

Ho

EDA - 4 - #364, May 2, 11 p.m. from London.

He said that the French had not revealed to the British Treasury the whole of their decree program but that it contained severe tariff and <sup>quota</sup> "readjustments" which in some respects were as, if not more, serious to Great Britain than the proposed currency action.

Nevertheless, this would constitute the first occasion when a tripartite country had deliberately depreciated its currency as an instrument of policy and there was no blinding the fact that it directly contravened the provisions of the tripartite agreement.

As indicated in paragraph one of my 335, April 22, 8 p.m. Phillips holds that the suitable rate is not 175 but between 155 and 160 to the pound.

However, he said he thought exchange control was the greater evil but he did not conceal that he had no great confidence in this being the final depreciation.

I asked whether in his opinion a good face could be put upon the French action or whether the tripartite accord would in effect disappear into a tissue of fictions.

He said, speaking personally, it seemed a large order at the moment to rewrite the declarations and that he believed that the franc would gradually move to the indicated level, the leaks from governmental sources

in

EDA - 5 - #364, May 2, 11 p.m. from London  
in Paris being what they were.

He hoped that Simon would not be asked a question in the House of Commons tomorrow, that no doubt he would be on Wednesday and that if it was agreeable he would reply along the lines indicated in the text quoted above.

Phillips said that he did hope that it might be possible for Washington to reach a decision tonight but if not the Chancellor would very much appreciate it if reply could be had early tomorrow.

An added reason for an immediate reply lies in the fact that the Ambassador has an appointment to see Sir John Simon at noon tomorrow.

KENNEDY

NFL

MG

GRAY

London

Dated May 3, 1938,

Rec'd 12:25 p.m.

Secretary of State,  
Washington.

RUSH

366, May 3, 5 p.m.

FOR TREASURY FROM BUTTERWORTH.

For purposes of record there is briefly set forth below the main points of the Ambassador's telephone report of his conversations with the Chancellor of the Exchequer and the Prime Minister:

(One) The British Government is definitely against the imposition of an exchange control by France, that they are opposed to it not only because it cuts across basic liberal principles but because they do not believe the French can work such a system. In their view it would mean the worst of both worlds, for despite exchange control the franc in their opinion would be depreciated any way.

(Two) The British maintain that they are just as annoyed as we are about the French action, but they are prepared to overlook it because they are profoundly convinced that it would be a grave mistake for political as well as financial

Page 2, #366 from London

financial reasons to break up the Tripartite Agreement, particularly on the occasion of Hitler's visit to Mussolini. They point out that British trade will be much more adversely affected than American trade and that "it won't cost us any money" to acquiesce in the French action.

(Three) At the same time the British state that they will not do anything unless we agree and they expressed the hope that in our reply to the French we would urge France to take steps to put her house in order.

The British want very much our answer by this afternoon or tonight.

KENNEDY

CSB

FROM MEETING AT SECRETARY'S HOUSE, MAY 2, 1938.

Bewley:

Well, when I left England - well, that's six weeks now - the attitude certainly was that we were afraid that exchange control was pretty likely, but we regretted - we'd rather see them fight without it. Things have gone further since then, and the attitude may have changed.

MEMORANDUM FROM BRITISH EMBASSY, MAY 4, 1938.

.....

(1) They (His Majesty's Government) thought that any decision which led to France leaving or being expelled from the Tripartite Agreement might bring about a government by the large party in France which wants exchange control and would in any case be a heavy blow to the present French Government. They thought that exchange control could not be satisfactorily worked in France, that it would seriously hamper legitimate trade and business but would probably fail to stop illegitimate activity, and further that the effect would spread to other countries. Moreover, they did not think that exchange control would in fact prove an alternative to a lower value of the franc but would be in addition.

CABLE 633 FROM BUTTERTH, JULY 14, 1938.

My informant was of the opinion that exchange control could not be instituted in France without causing disorganization and disturbance and therefore he feared the immobilizing which this would entail and the opportunity it would afford to Germany.

In view of the above I questioned Phillips as to his view of the trend of events in France and of the desirability or otherwise of the institution of exchange control by France. Phillips said that he saw no signs that a movement towards control was gaining momentum, that it would be part and parcel of a resurgence of a Left political swing and that if anything the trend of political opinion in France according to British sources was towards the Center. Phillips also felt that most of the French Cabinet would not stand for any such measure and that the Senate was now no more prepared to accept such a development than it had been during the second Blum Government.

Phillips again reiterated his profound conviction that for France the institution of exchange control would prove both futile and vicious:

(1) It would not be run effectively - a black market in francs would immediately develop, capital would continue

to be exported and the worst of both possible worlds would ensue, namely all the disadvantages of exchange control would be follosed by the disadvantages of a further depreciation of the franc.

(2) Not only would capital continue to seek refuge abroad but French capital now abroad would certainly not return.

(3) Likewise exchange control could not be instituted over night and during a period in which the matter would be publicly debated and legislative power sought enormous sums would leave the country. This would accentuate both the fiscal and exchange problems.

(4) While exchange control would hinder to a certain extent French exports it would by no means rectify the balance of trade by reducing sufficiently French imports for the basic armament demands would have to be satisfied.

(5) Furthermore the setting up of a control system would mean an extension of political corruption and coercion inasmuch as the allocation of the available foreign exchange for imports which could not in France be kept out of those realms.

REB

GRAY

London

Dated July 27, 1938

Rec'd 2:30 p. m.

Secretary of State,  
Washington.

689, July 27, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

Since the debate in the House of Lords in which Britain's war debt was discussed, reported in my telegram No. 670 of July 22nd, the financial press has reported that Lord Samuel's proposal has "met with unanimous approval in banking circles" and that city opinion favors the reopening of the question "without further delay".

In the House of Commons yesterday the leader of opposition--liberals referred to the matter in the debate on foreign affairs. He stressed the importance to Great Britain of American friendship and said that three things were needed to strengthen it, firstly to strike the same note as the President and Mr. Hull regarding the need to uphold peace and democracy and extend trade, secondly to push on with the Anglo-American trade treaty and to extend its general principles and thirdly "to tackle the question of the war debt. Do not let it lie festering under the  
bondage

REB

2-#689, From London, July 27, 6p.m.

bondage of polite diplomacy. Cauterize it even if it hurts a little and Anglo-American friendship will be all the healthier and stronger for the great part it will play in the preservation of peace and freedom in the world".

The Prime Minister's reply to this was as follows:

"I agree very much with the right honorable gentlemen in the value that he attaches to our relations with the United States of America. I am happy to think that they have never been better than they are at the present moment. With regard to the debt I am not quite sure what the right honorable gentlemen meant by cauterizing it. The settlement of the debt has to be a settlement between two parties and cannot be settled by one alone. As for the attitude of the British Government I would like to refer the right honorable gentleman to the debate which took place on this subject only a few days ago in another place when the spokesman of His Majesty's Government made it perfectly clear what our attitude was".

KENNEDY

KLP

DDM

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris  
DATE: July 27, 4 p.m.  
NO.: 1176  
FROM COCHRAN.

Only light trading on the French market has been witnessed during the past three days. No evidence of intervention by the control in the spot franc has taken place, the spot franc position being somewhat improved with higher tax returns for May, Mr. Morgenthau's visit to Paris, and a better international outlook. However, the control is apparently operating in the forward market. It was thought by some observers today that they saw the first signs of operations under the new open market policy. Japanese purchases of sterling with dollar proceeds of gold shipments to the United States is considered partly responsible for the fluctuation in the dollar-sterling rate. Belgas are being purchased for the French control by Paris-American Bank, presumably for application on French railway obligations in Belgium, but the belga's strength in sympathy with the dollar makes this a costly operation.

Please refer to my telegram 1105 of July 13, 4 p.m., in which I quoted a press report of a loan of 75,000,000 florin to the French Government by a banking group headed by Mendelssohn and Company. I am informed by Paris-American

banker

-2-

banker that today the Banque de Paris et des Pays Bas has offered his institution French Treasury bonds at 3 1/4% net for this loan. The above-mentioned bonds are for three months with privilege of five extensions of three months each and are payable, at the option of the holder, in either Dutch florins or United States dollars. I am inclined to believe, in the absence to date of any public or private information from French officials that this operation involves new money, that it is partly or wholly a replacement loan with the French Treasury substituting itself for the French railways as debtor vis-à-vis the bankers at the early maturity date of the railway loan.

There is a slackening in the demand for gold coins. Sales are being pushed abroad by Swiss bankers of Swiss gold coins at three percent premium which is less than the current premium on French, British and American coins. These latter three are scarce on the market while the Swiss National Bank is actively minting to make this profit and disseminate its gold.

BULLITT

EA:DJW

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 28, 1938

TO: CONFIDENTIAL FILES

SUBJECT Telephone Conversation

FROM: J. W. McKeon

with Banque de France

I called Mr. Cariguel of the Banque de France at 10:30 am our time today and, in his absence, spoke with Mr. Kogan. I asked Mr. Kogan how things were and he said foreign exchanges had been extremely dull for the past two weeks; there had been considerable hoarding of gold, but he thought that during the past two or three days the demand had subsided. I told Mr. Kogan foreign exchanges had also been very quiet with us for the past two weeks, although stocks had been rather active. Mr. Kogan was very happy to state that the political situation on the continent was very much brighter, particularly in Czechoslovakia, and that the French Stabilization Fund had been very quiet during the past week with the result that they had neither gained nor lost foreign exchange on balance.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 28, 1938, 4 p.m.

NO.: 1183

FROM COCHRAN.

Today the stabilization fund has had to give up possibly 200,000 pounds to hold the franc at a rate of 178.14 following the report of German reaction to the proposals by the Czechs. The outlook has darkened a little because of this, but there is no serious weakening in the market's confidence in the British ability to keep peace in Europe. During August things are expected to be comparatively quiet as many traders will be out of town. The July 21 statement of the Bank of France showed no important changes. Coverage was 47.56 versus <sup>47.61</sup>~~46.61~~.

At a press conference yesterday the President of the French National Defense Fund gave a statement to encourage subscription to the issue of eight months bonds which was recently opened. This official indicated that sales were satisfactory. The impression was gained that this issue - for an unfixed amount - will be kept open indefinitely in the hope that subscriptions will keep up with national defense expenditures.

BULLITT.

EA:LWW

CAP D'ANTIBES, FRANCE.--SECRETARY MORGENTHAU AND HIS FAMILY ARRIVED TODAY FOR A VACATION.

MORGENTHAU HAS HELD INFORMAL TALKS WITH FRENCH GOVERNMENT LEADERS SINCE ARRIVING IN FRANCE SATURDAY NIGHT.

7/27--R851A

PARIS.--MINISTER OF FINANCE PAUL MARCHANDEAU REPORTED TO THE CABINET TODAY THAT CONVERSATIONS WHICH HE HAD HELD WITH SECRETARY MORGENTHAU HAD ENABLED HIM TO ASCERTAIN THAT THERE WAS PERFECT AGREEMENT BETWEEN THE FRENCH AND AMERICAN GOVERNMENTS TO APPLY THE AMERICAN-FRENCH-BRITISH MONETARY AGREEMENT "IN A SPIRIT OF CONFIDENT COOPERATION."

MORGENTHAU SAW MARCHANDEAU AND OTHER GOVERNMENT LEADERS DURING A VISIT HERE ON HIS WAY TO THE RIVIERA FOR A VACATION.

A CABINET COMMUNIQUE MENTIONING MARCHANDEAU'S STATEMENT MADE NO REFERENCE TO WAR DEBTS.

THE CABINET APPROVED A DECREE ORGANIZING NATIONAL PASSIVE DEFENSE, OR PROTECTION OF THE CIVILIAN POPULATION AGAINST AIR RAIDS AND OTHER ATTACKS. GENERAL AUBE WAS NAMED INSPECTOR GENERAL OF PASSIVE DEFENSE IN ADDITION TO HIS DUTIES AS INSPECTOR GENERAL OF AIR DEFENSE.

7/29--R958A

- MINISTER OF FINANCE PAUL MARCHANDEAU  
REPORTED TO THE FRENCH CABINET TODAY IN PARIS  
THAT CONVERSATIONS WHICH HE HAD HELD WITH  
HENRY MORGENTHAU JR UNITED STATES SECRETARY OF  
TREASURY HAD ENABLED HIM TO ASCERTAIN THAT  
THERE WAS PERFECT AGREEMENT BETWEEN THE FRENCH  
AND AMERICAN GOVERNMENTS TO APPLY THE AMERICAN-  
FRENCH-BRITISH MONETARY AGREEMENT -IN A SPIRIT  
OF CONFIDENT COOPERATION- - MORGENTHAU SAW  
MARCHANDEAU AND OTHER GOVERNMENT LEADERS DURING  
A VISIT HERE ON HIS WAY TO THE RIVIERA FOR A  
VACATION - A CABINET COMMUNIQUE MENTIONING  
MARCHANDEAU-S STATEMENT MADE NO REFERENCE TO  
WAR DEBTS

JUL 29 1938

7.45-

FEDERAL RESERVE BANK  
OF NEW YORK

308

## OFFICE CORRESPONDENCE

DATE July 29, 1938TO CONFIDENTIAL FILESSUBJECT Telephone ConversationFROM J. W. McKeonwith Bank of England.

Mr. Hawker of the Bank of England telephoned me at 11:02 am, our time, today. There had been a great deal of excitement over there today in foreign exchanges, and he thought we would like to know about it. There were three important factors that contributed to the weakness of the pound.

1. The same old story of rumors of the dollar-sterling stabilization between the United States and Great Britain. It had been reported in one of the British newspapers that when Mr. Morgenthau was asked about the rumor he said that he could say nothing "orally."
2. Continental commercial demand for dollars due to England's adverse balance of trade.
3. People were not feeling very happy about the Czechoslovakian situation. For a time the people had been very pleased over the appointment of Runciman as mediator, but now the situation was not very good.

Mr. Hawker asked me if there had been reports in the New York newspapers about the dollar-pound stabilization. They had heard in England that the rumors were circulating very freely in New York today. I told him that now and then some reference was made to it but that the report was not circulating freely, and that personally I did not believe there was anything to it. Hawker agreed that it was all "nonsense."

At the time of our telephone conversation sterling was quoted at 481 5/8 but Mr. Hawker said that if sterling weakened

FEDERAL RESERVE BANK  
OF NEW YORK

359

OFFICE CORRESPONDENCE

DATE July 29, 1938

TO CONFIDENTIAL FILES

SUBJECT Telephone Conversation

FROM J. W. McKeon

with Bank of England

-2-

to 491 1/4, it would be necessary to go in and sell four or five million dollars and that would mean he would be working on our dollar gold order. I told him that would be all right with us.

During the course of our conversation I mentioned to Mr. Hawker that during the past two weeks the Japanese had reported shipments of gold to the United States amounting to about \$17,500,000. Mr. Hawker informed me that on August 11 the Japanese Central Bank would take over all foreign exchange holdings from commercial banks in Japan. That probably means that the Japanese are short considerable foreign exchange.

I asked Mr. Hawker if he knew anything about two gold shipments, totaling about \$2,000,000, which had been shipped from London to Paris and reshipped from Paris to New York by parcel post and which were reported due to arrive in New York about August 1. I told him that I was interested in finding out about the exact costs, insurance, etc. He said he did not know about these particular shipments but would look into the matter and tell me more about it in our next telephone conversation.

I told him that the net short-term capital movement for the week ended July 20 showed a moderate inflow of funds for the first time since the latter part of April. I thanked him for calling and promised to call him next week.

JWCK:BOC

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 29, 1938, 5 p.m.

NO.: 1188

FROM COCHRAN.

This morning the French stabilization fund held the franc rate at 178.14, and upon shifting rate to 15 at bourse opening had to give up an increasing amount of sterling. Slightly more offering of forward franc. Continental hoarders are actively seeking gold coins. This morning the Credit Suisse bought at London 75 bars of gold. Opinion here is that the dollar strength comes mainly from purchases thereof by the Swiss and British.

Better market for French rentes. However, little public enthusiasm is evidenced for renewing Treasury bills and two year national defense bonds as their maturity date is reached.

Tight day to day money. Most of the banks in Paris had to rediscount importantly today at the Bank of France to meet requirements for the end of the month. Today the French Council of Ministers discussed the financial and 1939 budgetary problems and plans of Marchandreau. Vigorous recommendations have been made by the Bank of France Governor to the Minister of Finance for budgetary savings.

Today

- 2 -

Today I had a telephone conversation with Jacobsson at the Bank for International Settlements. Jacobsson said he had been expecting a break in the market in New York. He is much encouraged by the way it was received and by yesterday's reaction. In his opinion, the retail price rise in Great Britain in June constitutes a second favorable factor.

Jacobsson talked about the following four points re prospects of war -

First, he believed that the spilling of German blood in Czechoslovakia would be the one most potentially dangerous cause of war. This might incite Hitler to mad action as<sup>in</sup>/the incident in Almeria.

Second, in his opinion the fact that the British are concentrating on air defense has effectively put out of the minds of those Germans who have extreme confidence in their own air force the idea that Germany could exact peace terms from the British after a very short conflict merely by a mass bombing attack on London.

Third, he hopes that French financial difficulties may be postponed until November, since France is having a prosperous tourist season, a good wheat crop, and the labor situation is more pacific; also, the French Parliament is not likely to convene until after senatorial elections. Jacobsson believes that such postponement

would

- 3 -

would make the situation less tempting to Germany than if a crisis came earlier in the autumn when marching is still good.

Fourth, in view of the growing financial difficulties of Germany and Italy, and the possibility that domestic public opinion might, under adverse circumstances, so turn against the leaders that they would consider risking war in desperation, Jacobsson believes that countries which desire peace should not be too severe in pressure on Germany and Italy. ~~to be made in peace~~

END MESSAGE.

BULLITT.

EA:LWW

RECEIVED  
JUN 30 1958  
FEDERAL BUREAU OF INVESTIGATION  
U. S. DEPARTMENT OF JUSTICE

ML

GRAY

London

Dated July 30, 1938

Rec'd 10 a.m.

Secretary of State

Washington

706, July 30, 1 p. m.

FOR TREASURY FROM BUTTERWORTH

Both the President of the Board of Trade and the Prime Minister made in yesterday's closing session of the House of Commons what the press calls "re-assuring statements".

In the course of a description of the progress being made with the projected Anglo-American trade agreement, Stanley stated "The right honorable gentlemen referred at some length to the adverse balance of trade which, of course, is a matter that must give the Government cause for constant and anxious attention. The right honorable gentleman will realize--although I am not sure that the public generally realizes--that the course of overseas trade has altered completely as between the first and second quarters of the year. Whereas during the first quarter of the year there was a monthly increase in the adverse balance

ML -2- London July 30, 1938 10 a.m. #706

balance of visible trade as compared with the year before in the three months of the second quarter the adverse visible balance of trade has month by month been lower than a year ago. Although the fall has not yet been sufficient in the second quarter to make up for the increase in the first quarter yet the tendency now is towards improvement at any rate in the visible balance of trade". In answering a question regarding the placing of armament orders in the depressed areas the Prime Minister stated "The honorable gentleman knows that the Government have throughout done their very best to direct expenditure upon armaments to those areas where unemployment is most prevalent. We have indeed on numerous occasions taken action in cases where if we had considered simply the desirability of getting the work out in the quickest time we should have sent the work elsewhere but it has been deliberately diverted to places where it was most required. There again I think the general question of trade is one to which we have to direct our attention. I deprecate any suggestion that we are on the edge of a slump or of a return to any such conditions as existed in 1931".

THE

ML -3- London July 30, 1938 10 a.m. #706

The foreign exchange and other markets have been under holiday influences. All markets are closed on Monday.

KENNEDY

DDM:CDP

RECEIVED

NOV 30 1938

THE NATIONAL ARCHIVE  
COLLECTIONS  
1100 COLLEGE AVENUE  
BETHESDA, MARYLAND 20814