

DIARY

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: August 1, 1938, 4 p.m.

NO.: 1198

FROM COCHRAN.

Very quiet Paris exchange market. London and Switzerland closed. Many French operators are away on their vacations. Nevertheless, the franc at 178.15 has required some support by the stabilization fund. There is continued demand for gold coins, and it is practically impossible to get United States eagles. Decline in franc deposits is reported by Paris-American banks; there is little inclination on their own part or that of their clients to renew Treasury bills which mature. The general market belief is that French Treasury will have to draw on the Bank of France before November and very likely by early October, varying dates being suggested. Today there is a slightly weaker Dutch florin because of published story of continued Dutch economic recession.

In the press reports it is indicated that the French Foreign Office anticipates early issuance of a communique on the favorable trend of Franco-German negotiations on Austrian loan service. The present tendency of hoarding gold coins is stressed by AGENCE ECONOMIQUE. This paper suggests

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suggests that countries of the Tripartite instead of sterilizing gold would do better by putting it into circulation.

There are rumors of negotiations for a 300,000,000 franc commercial credit from French banks to Bulgaria.

WILSON.

EA:LWW:000

8200 2-111

FROM: 4400, 4402, 4403
TO: 4400, 4402, 4403
SUBJECT: 4400, 4402, 4403

JR

GRAY

London

Dated August 2, 1938

Rec'd 1:30 p.m.

Secretary of State,
Washington.

709, August 2, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The dollar was heavily in demand today. The British control gave support prior to fixing at \$4.91. The British fixing was so large, 545 bars being sold, strengthened sterling for the time being.

But the British control had to intervene again at \$4.90-5/8 prior to New York opening. It should be noted that although the premium at gold fixing was only one-half penny the British authorities did not give any gold after fixing and the price rose by 3½ pence.

There was both a very heavy commercial demand for dollars and a speculative demand based on rumors pertaining to the Sudeten-Czech situation. From Amsterdam also emanates a rumor that Japan is contemplating imposing a moratorium on foreign debts.

KENNEDY

PEG:RR

4

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: August 2, 1938, 4 p.m.

No.: 1203

FROM COCHRAN

Franc strengthened today to 178.02 with sterling much offered for dollars. However, the franc had returned to 178.14 this afternoon. This morning there was no evidence of the stabilization fund having acquired sterling on the very thin market. The gold import point of both the Swiss franc and the belga was reached from London, which sold 545 bars at fixing. There is a strong demand for gold coins for immediate delivery. Almost no gold eagles are available, and the premium on them has risen to 8 per cent. Two and one-half dollar pieces are being sold by dealers, which practice has heretofore been almost unknown to hoarders of gold. There is continuation of sovereign shipments from India.

More offering of forward franc; apparently the stabilization fund is supporting it at three months.

In general, there is uncertainty on the market, accentuated by the conflict between the Russians and the Japanese. The market and the public are furthermore convinced that in the autumn there will be monetary manipulations

- 2 -

tions or international currency negotiations, which fear .
cannot be eliminated by official denials.

END SECTION ONE.

WILSON.

EA: LWW

REB

GRAY

Paris

Dated August 2, 1938

Rec'd 2:55 p. m.

Secretary of State,
Washington.

1203, August 2, 4 p. m. (SECTION TWO)

In the issue of the quarterly L' Activite Economique which appeared today Professor Charles Rist wrote the following editorial:

The second quarter of the year has closed under more favorable conditions than the first. From the international point of view the American depression has been checked momentarily at least. Its repercussion, which we feared three months ago would extend rapidly to the countries producing raw materials, has on the contrary not yet been felt. It has been limited so far to the industrial countries, including England and even Germany whose trade balance has again become adverse. The recovery of Wall Street is perhaps the signal of a real revival of production.

In France, the favorable development of exports, notwithstanding the world situation which remains depressed,

REB

2-#1203, From Paris, Aug.2,4p.m.

depressed, is a very encouraging sign. If nothing is done to stop such development and if, moreover, through the increase of certain agricultural quotas (for example those on vegetable products), it is possible to prevent a too sharp rise in the cost of living, the year 1938 may show considerable progress over last year. The good effects of a large return of capital following the last devaluation have been apparent already in the interest rates. The state has endeavored earnestly to succeed in both on less burdensome terms. Its efforts will be successful or unsuccessful depending upon whether it succeeds in definitively reassuring the public as to the future of the currency. If successful, the lowering of the interest rates will be rapid and decisive. Any other means of obtaining this would, of course, be useless. There is the key to the problem.

WILSON

PEG

WWC

PARTIAL PARAPHRASE, SECTION THREE, NO. 1203 OF
AUGUST 2, 1938, FROM PARIS.

"The reestablishment of public finances and the extension of the labor capacity in French economy are alone capable at this very moment we are in of guaranteeing the duration and the development of acquired results".

In an article entitled "A superfluous Central Bank" the FRANKFURTER ZEITUNG of July 31 reviewed the credit policy followed by the Federal Reserve Banks during the last twenty years and gave three reasons which are believed to be responsible for the discrepancy between the principles and the results of the American credit policy namely: (one) the lack of a concrete and detailed program of action; (two) the restricted field of operation (three) the doubtfulness of the basic principles. The paper then quoted some explanations of the policy as given in the annual report of 1923 and professor Cassel's criticism of such a policy. The United States, the paper continued, since 1934 has suffered from an over-supply of central bank money, resulting from considerable gold imports reflected in over-liquidity of member banks. Since there is no great demand for rediscount facilities, Federal Reserve Boards discount and open market policies have become practically ineffective. The influence
which

- 2 -

which the Treasury exercises on the credit structure of the United States through its financial and gold policy is so great that the influence of the Federal Reserve Banks is reduced to a minimum. One of the weakest points of American credit organization is the excess of legislation and courts governing the banks, in addition to the divided responsibility for the supervision of the banking system.

Today I had lunch with de Castellane of the Bankers Trust. He said that he fears that unless vigorous steps to remedy the French situation are taken by autumn, there will be instituted some sort of exchange control.

END MESSAGE.

WILSON.

EA: LWW

JR

GRAY

London

Dated August 3, 1938

Rec'd 9:20 a.m.

Secretary of State,
Washington.

RUSH.

713, August 3, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

This morning's gold fixing was noteworthy both for the number of bars, 1048, and for fact that the British authorities wiped out the premium. The dollar broke \$4.90 which probably means further impetus will be given to the speculative movement to push it towards the old parity point.

The extraordinary demand for both gold and dollars seems to be very widespread and the movement is acquiring hazardous momentum. The major propelling factor in my opinion is the international political situation. The realization is general and this summer period is a peculiarly difficult one and the recent German defence measures have nullified the momentary confidence in financial circles induced by the appointment of Lord Runciman as mediator between the Sudeten Germans and the Czech

Government

-2- #713, August 3, 1 p.m., from London.

Government. Small indications tell their tale, such as the request by a number of clients of the joint stock banks that their securities be held in non-London branch offices, the duplication of book records, et cetera. A minor but important factor is the ever persistent rumor of dollar devaluation which despite denials reoccur in one form or another. The market for the most part accepts the denials as being true and valid at the moment but the conviction remains in certain quarters that devaluation will nevertheless be resorted to at some period since it is believed that when pump priming has ceased more drastic priming methods will have to be used.

JOHNSON

HPD

FEDERAL RESERVE BANK
OF NEW YORK

Mr. Lockhead

12

OFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE August 3, 1938

TO
FROM J. W. McKeonSUBJECT Telephone Conversation with
Bank of England

At 10:25 am, our time, today, I telephoned Mr. Bolton at the Bank of England and asked him what was going on over there; reports yesterday indicated that they had had a very busy day in gold and exchanges. Bolton replied that the demand for gold, both yesterday and today, had been larger than it had been for many months. At fixing time this morning they had dealt in about £3,000,000 in gold (approximately \$15,000,000). To him it appeared that for the present at least, things were very calm; he could not understand why people were working themselves up into such an excited state of mind.

I mentioned to Bolton that yesterday one of our news service bulletins had reported that the stabilization authorities in London had refused to sell gold after fixing yesterday with the result that there had been considerable confusion due to the lack of offerings, and I would like to know whether or not they had changed their usual practice with regard to gold operations after fixing time. Bolton replied that it so happened yesterday that they had been active in the gold market after fixing, dealing through one of London's leading bullion brokers (I presume he referred to Rothschild). Beyond that he did not state whether or not it was their practice to deal in gold every day after fixing.

I asked Bolton how Cariguel was making out. He thought Cariguel had lost about \$1,000,000 today in an attempt to hold the

OFFICE CORRESPONDENCE

DATE August 3, 1938 ^{1.3}

CONFIDENTIAL FILES

SUBJECT Telephone Conversation with
Bank of England

FROM J. W. McKee

-2-

franc. Bolton said that Paris had been by far the largest buyer of gold in the London market with the result that francs were very weak against sterling. Everyone on the continent was very concerned about the Czechoslovakian situation.

I asked Bolton to make a guess as to the amount of gold hoarded in London at the present time. He replied that with speculation, hoarding, etc. his guess was about £155,000,000. I made further reference to a news service bulletin of yesterday which stated that the English Exchange Stabilization Fund had lost approximately \$50,000,000 in gold during the last two months. Bolton stated that figure was ridiculous; they had lost about £10,000,000 in gold. He said that they had not been able to find out about the shipping costs of gold from Paris to New York via parcel post but would inform me fully in our next conversation.

I told Bolton that the Japanese had reported about \$11,000,000 in gold on the water en route to the United States. Bolton said that the Japanese had been steady sellers of dollars for the past fortnight, most of the exchange going into sterling balances.

Just before closing our conversation, Bolton said that at that particular moment gold and all foreign exchanges were very quiet in London.

JR

PLAIN

London

Dated August 3, 1938

Rec'd 2:46 p.m.

Secretary of State,
Washington.

RUSH.

717, August 3, 8 p.m.

FOR TREASURY FROM BUTTERWORTH.

The demand this morning for gold and dollars reported in my 713, August 3, 1 p.m., continued unabated during the afternoon. Apparently most of the gold that was made available for shipping went to hoarders and many of those who purchased for arbitrage chose to sell after fixing at the 2d. to 4d. price increase which developed. The British authorities continued to give gold freely at $1\frac{1}{2}$ d. Above the fixing price until about midafternoon then at 2d. above. Business was done in gold sovereigns at 35s. 4d. which is a $5\frac{1}{2}$ d. rise overnight.

The market sees no signs other than a continued and perhaps increased demand for gold. As far as the dollar is concerned it is freely bandied about that it is only in the initial or at best middle stages of its rise in terms

-2- #717, August 3, 8 p.m., from London.

terms of sterling. Exchange dealers report a strong bona fide commercial demand augmented by some Stock Exchange money as well as a very large speculative and politically-minded purchases. It is noteworthy that the guilder another repository currency for refugee and smart money is likewise under pressure. The flight from the franc has also been large and the French fund lost very substantial amounts of sterling. The one month franc moved out to a discount of 1-1/8 and the three months to 3 1/2.

Incidentally there is a good deal of talk about the adverse trade balance with the United States in connection with the undervaluation of the dollar. The statement in the Federal Reserve bulletin for June that the high level of American exports to British countries and the drastic reduction in imports from those areas were primarily responsible for the shift in the United States trade balance has been widely quoted.

A type of statistical calculation which is cited may be of interest. One of these shows the total imports and exports of sterling area countries apart from the United Kingdom and the British Empire with a combined export balance of £ 86 million, January to May 1937, which was turned into an import balance

of

-3- #717, August 3, 8 p.m., from London.

of £ million in the corresponding period of 1938. This reversal it is argued is due to the United States recession and occurring with the reversal in the United States trade balance plays a part in the present movement.

Incidentally the Parliamentary Monetary Committee has just issued a report taking to task the Government for not allowing the pound to depreciate when American prices began to fall last year.

JOHNSON

HPD

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: August 3, 1938, 5 p.m.

NO.: 1214

FROM COCHRAN.

At five o'clock this evening I talked with the Bank of France. My friend at the Bank is on vacation just now, but his substitute said that during the day the stabilization fund had lost 1,750,000 pounds. During the morning the rate had been held around 178.19 but this evening it had been held at 178.39. Considerable weakening of forward franc. My contact attributed the pressure mainly to the international political situation, as today both the Russo-Japanese and the German-Czech affairs seemed to be more serious.

On the market my contacts emphasize that even before the latest international political developments gold hoarding was of considerable magnitude. Francs are being dumped today by speculators and hoarders. When they find that gold coins cannot be obtained, rather than hold French francs they take dollars, sterling, belgas or other currencies.

The gold demand which is so strongly demonstrated on the London market comes from all sides; however, the weakness of the French franc as compared with other continental currencies

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currencies as well as with sterling and the dollar suggests a fear for this currency greater than for the others, and anticipates that in autumn there will be a monetary change.

The article by Rist which I quoted yesterday was slightly optimistic, but most observers fail to see that the French trade figures offer much basis for Rist's encouragement. In the same publication other tables and articles make clear that very little economic recovery has really been experienced in France, and that the financial problems of France have not been solved. Disappointing statistics for iron and steel have just been published. At present so many government officials are on vacation that observers fear that the decisive leadership necessary to calm the market is lacking.

Ten and one-half percent premium now reached on gold dollars. All French rentes are weakened with the exception of those which have an exchange guarantee.

This afternoon I had a talk with Rueff of the Finance Ministry on the financial and commercial agreement between France and Germany which was signed yesterday evening at Berlin. Rueff did not think that the text would be published in the JOURNAL OFFICIEL; however, he said he had given to the press this noon a communique from the Ministry of Finance. The following is a translation of this ~~text~~ communique:

"The

- 3 -

"The negotiations opened in June at Paris between France and Germany to settle the economic problems arising from the annexation of Austria were pursued these last few days at Berlin and have just resulted in an agreement which fixes chiefly the bases of the worth of Austrian and German debts in France.

"As concerns the Austrian guaranteed loans 1933-1953 and 1934-1959, the German Government will reimburse to the French Government the amounts which the latter might have to advance owing to its guarantee. For the securities of these loans not covered by the guarantee of the French Government (non-French tranches of the 1933-1953 loan) and for the securities covered in part only by the guarantee of the French Government (1934-1959 loan), the German Government undertakes that the service will be paid in any case in favor of French holders in possession of their securities on July 1, 1938.

"For the other Austrian debts (omission) France, Germany offers the creditors settlement on the same bases as that of the German debts other than the Young and Dawes loans.

"As concerns, particularly, the five percent 1923 Austrian funding, the five percent 1926 Austrian funding and the four percent 1902/1931 City of Vienna bonds, which are
listed

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listed on the Paris Bourse, the service will be paid, under the same conditions, for securities belonging to French holders on August 3, 1938.

"Furthermore, negotiations will be held before October 15, 1938, with the organizations concerned for the conclusion of settlements relative to loans handled by the Caisse Commune of holders of the former Austrian and Hungarian public debt and to the bonds of the Danube-Sava-Adriatique Company.

"The German Government offers French holders of the Young loan an interest rate of 5% and the institution of a cumulative amortization funds of one-half percent as from June 1, 1940. It offers French holders of the Dawes loan a rate of interest of five percent and the institution of a cumulative amortization funds of two percent as from April 15, 1938. The operations of certification of securities of the French tranche of the Young loan will be resumed, the expiration of the new delay being fixed December 1, 1938.

"The transfer of the proceeds from French credits on Germany, other than the Dawes and Young loans, will continue to be made within the limit of determined rates. As concerns, chiefly, the bonds the interest will be transferred at the rate of a maximum of three percent".

I was

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I was told by Rueff that the Commerce Ministry would probably issue a statement on the trade phases of the agreement tomorrow. On the loan service he seemed to be fairly well satisfied with the agreement, particularly as France procured a rate of five percent on the French tranche of the Young loan, while the British in their agreement with Germany were given only four and one-half percent.

END OF MESSAGE.

WILSON.

RECEIVED

MAY 4 1938

THE TREASURY DEPARTMENT
OFFICE OF THE SECRETARY
WASHINGTON, D. C.

EA:LWW

FS

PLAIN

London

Dated August 4, 1938

Rec'd 9:45 a.m.

Secretary of State,
Washington.;

RUSH

718, August 4, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

I saw Phillips at the British Treasury this morning and asked him what he thought of the present situation. He began by pointing out that there was a "pause" this morning but he did not feel that it was anything more than a pause "with the dollar at the present figure". He went on to say that there were in his opinion three considerations at work strengthening the dollar. In the first place there was the decided falling off since the first of the year in American imports which he maintained was sufficient in itself to cause the dollar to strengthen decidedly in terms of sterling at about this season of the year. In this connection he showed me tables which he "had got together for another purpose" which demonstrated how the American demand for imported raw materials such as rubber and tin had fallen off as compared to the rest of the world in the first six months of the year; in the

second

FS 2-No. 718, August 4, 1 p.m. from London

second place he said the major immediate factor was the general fear on the continent of trouble arising out of the Czech-Sudeten situation and to a lesser extent the Far Eastern situation. Thirdly, there was the large speculative demand based on the belief for one reason or another that the dollar would be strong in terms of sterling which, in turn, as the dollar strengthened, had the effect of stimulating the already substantial commercial demand. As in past periods the commercial buyers fearing a rise covered their requirements much further ahead than was either necessary or desirable.

Phillips was wary about predicting how much momentum the movement was acquiring but he said that he "thought it might meet a bit of a check at around dollars 4.86".

Phillips commented on the mixed character of the reactions of different operators and of different centers and pointed out for example that the Swiss were mainly selling sterling and buying their own currency while the Dutch seemed more inclined to go into American securities. He said that the franc had been under great pressure and that the French fund had lost about two million pounds of sterling yesterday. He said as far as he knew purchases of gold in London by British nationals were next to nothing.

End

FS 3-No. 718, August 4, 1 p.m. from London

End of report of conversation.

Gold fixing was smaller, 833 bars being dealt in. Although the price was called parity it was actually at about 1/2d discount. The exchange dealers by holdoff tactics pushed the rate as low as dollars 4.88 5/8 but very little business was done at that figure and the dollar then weakened decidedly as the dealers and some operators unloaded before the large gold arbitragers such as the National City Bank began selling their dollars the rate moved up to dollars 89 3/8. The British authorities continued to give gold freely after fixing at slightly increased prices yet maintaining the parity level.

The undertone remains much the same.

It seems to me that in recent days the British authorities have been moving somewhat between two possible courses of action either (a) pushing gold out in such quantities as not only to obliterate the premium but also to force the flow across the Atlantic and thus make dollars available in large quantities or (b) create such a premium as to make some gold flow from the United States. Furthermore the market, justifiably or otherwise, had a sense of uncertainty about the official operations.

HOWEVER,

FS 4-No. 718, August 4, 1 p.m. from London

HOWEVER, Bolton has been back from leave long enough to get the feel of the situation and there is already some sign that a firmer hand is at the helm.

Both because the situation seems to warrant it and because of Phillips' statement about "a bit of a check at around dollars 4.86" I venture to say that if a stand is to be made that level for psychological and other reasons is a suitable one but the stand must be firm and strong (see last sentence, paragraph one, my 628, July 13, 6 p.m.).

WWC

JOHNSON

JR

GRAY

London

Dated August 4, 1938

Rec'd 1 p.m.

Secretary of State,
Washington.

RUSH.

719, August 4, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

Very little bar gold has been dealt in during the afternoon and the price of sovereigns declined to 35 shillings 3 pence. The dollar weakened at one time to 4.90 due to speculative covering on top of dollar sales by arbitragers. The pressure on the franc has shown no signs of lessening but the French fund has not lost quite as much sterling as yesterday.

JOHNSON

RGC:HPD

JR

PLAIN

London

Dated August 4, 1938

Rec'd 1:05 p.m.

Secretary of State,

Washington.

RUSH.

720, August 4, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The press today is unanimous in placing fears arising from the Czech and the Russo-Japanese situations as the principal cause of the gold rush. The weakness of sterling in terms of the dollar though admitted to be in part affected by transfers of refugee funds from sterling into dollars is generally considered to be more a result of the trade balance position. An editorial in the FINANCIAL NEWS for example asserts:

"Even after the readjustment which followed the Tripartite Agreement and the gold bloc devaluation it was clear that sterling was overvalued in terms of the dollar yet since then American prices have fallen much further than have British prices while the British trade balance has had to bear the added strain of rearmament imports which come in almost regardless of the cost factor".

The

-2- #720, August 4, 6 p.m., from London.

The FINANCIAL TIMES discussing the difficulties of the monetary authorities' task states "if they do not put up some real resistance to the fall in the pound Continental quarters immediately jump to the conclusion that our authorities are anxious for trade reasons to remedy the manifest over-valuation of sterling."

The City Editor of the TIMES attributes the weakness of sterling to "the impression that sterling is over-valued in relation to the dollar" but considers the present trade balance position to be due to transient factors chiefly the fact that cyclical movements in different countries do not coincide, the United States having preceded Great Britain in recession and now in recovery.

The city editors of most papers note that in spite of the official denials rumors of a coming adjustment to \$4.86 or even lower persist. EINZIG comments on this attitude by asserting that though the United States with a large export surplus could afford a lower sterling dollar rate American circles are convinced that a sterling depreciation would have a deflationary effect in the United States so that "there can be no depreciation of sterling with America's consent and it is inconceivable that the British Government would allow sterling to fall much below \$4.86 without it."

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: August 4, 1938, 4 p.m.

NO.; 1217

FROM COCHRAN

Apparently the French stabilization fund had a heavy morning supporting spot franc at 178.35 to the pound. This afternoon the pressure on the franc has been lighter, but the rate has remained about the same as it was this morning. There was also official intervention in three months sterling. The premium thereon was reduced to three francs (it was three and one-half francs). There is not so much demand for dollars and gold coins as there was yesterday; however, sentiment is still nervous. This morning there were important sales of francs in London.

The statement for the Bank of France as of July 28 showed large increase of discounts for the end of month; coverage was 47.11 versus 47.56.

BULLITT.

EA: LNW

London, August 5, 1938

Dear Mr. Secretary:

After returning from my very pleasant visit to Paris, I gave your message to the British Treasury and I have received in turn a letter which reads as follows:

"The Chancellor of the Exchequer would be grateful if you would be good enough to let Mr. Morgenthau know that he quite understands why a meeting is not possible on this occasion and that he looks forward to a meeting at some future time."

The demand for gold and the dollar has reached such large proportions during the past few days that I have postponed, for the time being, my vacation but I still hope to have the pleasure of seeing you at Antibes in the not distant future.

With kindest regards to Mrs. Morgenthau and to you.

Sincerely yours,

Walter Rostow

Henry Morgenthau, Jr., Esq.,
Hotel du Cap,
Antibes, France.

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.

Paris, August 5, 1938.

Dear Mr. Secretary:

This week has witnessed a strong rush for gold and into the dollar. The peak was reached on Wednesday when 1,048 bars of gold were offered at London on fixing. Yesterday the number was 833. The price established at fixing was the equivalent of \$34.77 per ounce, that is, the export shipping point from England to New York. On each day of the week, a premium on gold has developed above the fixing price and, so far as I am aware without definite information from London, there have been no gold shipments contracted from Great Britain to the United States. The British Control has been giving dollars importantly.

The dollar, in turn, has been sought eagerly from the Continent as well as from London with a consequent strengthening of its level against all currencies on this side. The franc has weakened vis-a-vis sterling more than have other continental currencies since this appears to be the most vulnerable. The French Control lost approximately 2 million pounds on Wednesday and 1 and 1/2 million pounds on Thursday defending the franc.

With the fear in France of further devaluation of the currency, accentuated by the international political disturbances of this week, there has been a tendency to sell Treasury obligations and to cash those maturing rather than renew them. This trend

has . . .

The Honorable Henry Morgenthau, Junior,
Hotel du Cap d'Antibes,
Antibes, A. M.

- 2 -

has been so strong that the Bank of France has been obliged to cease open-market operations which it had instituted a few days ago on a modest scale. If this week's tendency should continue, the Treasury would naturally suffer, as would also the Stabilization Fund. Market observers realize that the French Treasury must raise almost 20 billion francs between now and the end of the calendar year. If the market continues up-set this need will surely be serious enough to cause a crisis of some sort during the autumn.

While the dollar has been the favored currency during the present week, the fact that gold has been sought to such an extent, even with a premium of 10 to 12 percent paid for gold dollar coins in Paris, gives evidence of the continuing fear that the dollar is to be devalued further, either in a joint realignment of the three major currencies or as an inevitable consequence of the American spending program.

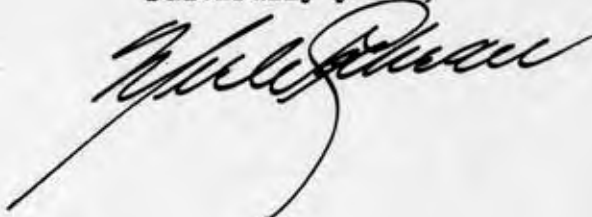
The weakness of sterling is partly psychological, in that the feeling is so widespread that there will be international negotiations in the not too distant future toward reestablishing parities between the three major currencies, with sterling to be considerably lower to remove the alleged over-valuation of the pound vis-a-vis the dollar. The favorable trade balance of the United States averaging over \$100,000,000, each of the past 6 months, is used as the main basis for the argument that sterling is overvalued. The other factors which contribute to sterling weakness are: the strain on the British budget resulting from the armament program; the increasing unfavorable trade balance as more of Great Britain's export industries are devoted to military purposes; the injury to sterling, as a world trading currency, that comes from so much of the universe being in war or civil strife; and the seasonal pressure on the pound due to payments for agricultural products imported into Great Britain at this time of the year.

There is a growing campaign in the European press for some sort of currency stabilization of a firmer character . . .

character than that achieved through the Tripartite Agreement. I have hesitated to communicate to you on your holiday in regard to the exchange situation, and I feel that the above points require no action on your part at present. Last night and again this afternoon I have had long talks with Governor Fournier. He is seeing Minister Marchandreau when the latter returns to Paris next Monday. We shall then probably get together again. Whatever your plans may be, I sincerely hope that I may have one good talk with you alone before you sail.

With very best wishes, believe me,

Faithfully yours,

A handwritten signature in dark ink, appearing to read "William Brewster". The signature is fluid and cursive, with a long, sweeping underline that extends to the left.

FEDERAL RESERVE BANK
OF NEW YORK*Mr. Lockhart* 35

August 5, 1955

DATE

OFFICE CORRESPONDENCE

CONFIDENTIAL FILES

SUBJECT Telephone Conversation with
Bank of England.

J. W. McKeon

At 11:28 am, our time today, I telephoned to Mr. Bolton at the Bank of England, and asked him how he was making out today as I thought he might be experiencing some difficulty due to the decline in the sterling rate. Much to my surprise he said things were very quiet in London today. There had been a large demand for gold but outside of that exchanges were very quiet. He said the trouble was now centered entirely in Paris. The franc continued to be under pressure, with the French large buyers of gold in the London market. France had lost considerable exchange today; he estimated it had cost Cariguel over £1,000,000.

I told Bolton we were prepared to give him an additional order for gold, good for today and tomorrow, if he thought it were necessary, but he declined the offer very graciously and said that he did not think they would need it. However, I told him we would renew our order tomorrow, good for next week.

I mentioned to Bolton that one of our news service tickers had again referred to the British Equalization Fund when they reported "There were noticeable signs that the British Equalization Fund was unwilling to release further amounts of gold." "Nonsense," replied Bolton, "we never officially sell gold to anyone. We use only one broker, Rothschild. They are large operators in the London market."

FEDERAL RESERVE BANK
OF NEW YORK

35
36

OFFICE CORRESPONDENCE

DATE August 5, 1938

CONFIDENTIAL FILES

SUBJECT Telephone Conversation with
Bank of England.

J. W. McKeon

-2-

He said Rothschild sometimes operated for their own account, South Africa's account, Bank of England's account, and others.

I informed Bolton that the net short-term capital movement for the week ended July 27 showed an outflow of funds amounting to \$20,000,000; also that we had been notified of two shipments of gold totaling \$3,800,000 from the Bank of Canada.

RECEIVED

3324

TELETYPE UNIT

U.S. DEPARTMENT OF TREASURY

LMS

GRAY

London

Dated August 5, 1938

Rec'd 2:20 p. m.

Secretary of State,
Washington.

727, August 5, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

558 bars were sold at fixing at 142 shillings which gave a penny premium. Dealings after fixing were small, the British authorities giving gold at two pence over the fixing price. They likewise supplied dollars but the demand today had definitely lessened. The trend, however, has by no means changed.

Incidentally the Bank of England estimates that the amount of gold hoarding in this market since the first of the year has about equaled the net importations to date which aggregate approximately 90,000,000 pounds; with hoardings are included gold purchases by the small central banks if they do not appear as such in their statements.

The pressure on the franc was considerable during the morning but eased in the afternoon. Today's sterling losses were again less than the previous day.

JOHNSON

GW:WVC

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: August 5, 1938, 5 p.m.

NO.: 1224

FROM COCHRAN.

On Wednesday the French stabilization fund lost approximately 2 million pounds; on Thursday the losses were approximately 1 1/2 million pounds, and today, Friday, approximately 1 million. This morning the market opened quietly but in official session turned unfavorable to the franc and this afternoon this reaction has continued. In the three months market there was official intervention against sterling, both in London and in Paris. London was an active seller of three months francs.

BULLITT.

EA:LWW

MBo

GRAY

London

Dated August 6, 1938

Rec'd 9:00 a.m.

Secretary of State,
Washington.

732, August 6, noon.

FOR TREASURY FROM BUTTERWORTH.

Only 261 bars were dealt in at gold fixing at a premium of a half penny; the price was almost fixed at parity but when the demand showed signs of increasing it was raised a half penny to 142 shillings 1½ pence. The pressure on the franc still exists but the dollar market is quieter and more settled, Paris being closed and the weather hot.

JOHNSON

RR:

OFFICE CORRESPONDENCE

DATE August 8, 1938TO CONFIDENTIAL FILESSUBJECT Telephone Conversation withFROM J. W. McKeonBank of England

Mr. Bolton of the Bank of England telephoned me at 10:52 am, our time, today, and said that they had had a very hectic and difficult time in the London foreign exchange market during the preceding hour and he wanted to let me know about it. Sterling and francs were very weak against the dollar. Thus far today Bolton has had to go to the support of the pound to the extent of selling about \$8,000,000 against our gold order; he believed he would have to sell considerable more before the day was over.

Bolton said that Paris continued to be a very large buyer of gold and dollars in the London market. I asked him if there were any new reasons for the further decline in sterling. He said that there were no new reasons; he thought that the belief on the continent was that sterling was overvalued in view of the adverse trade balance of Great Britain and general unsettled conditions on the continent. Bolton said that sterling was being offered in all foreign exchange centers with the exception of Paris. There was not the slightest sign of any alarm in London, and he believed that one of the reasons for the lack of anxiety on the part of the British people was that they knew they could obtain all the gold and dollars they needed.

I told Bolton that since our last telephone conversation on Friday foreign exchanges had been very quiet in New York; also that the Japanese had reported about \$5,800,000 in gold on the water en route to the United States.

REB

GRAY

London

Dated August 8, 1938

Rec'd 2:50 p. m.

Secretary of State,
Washington.

739, August 8, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

The demand for the dollar persists and with it the belief, as this week's statist puts it, that "all fundamental factors in the situation suggest that the improvement in the dollar must continue". At the same time the pound is weak against the Swiss franc and the Dutch guilder. In this connection the following statement in today's FINANCIAL TIMES may be of interest:

"It has to be admitted that distrust of the pound played no mean part in the activities of continental centres. For long the continent has been convinced of the over-valuation of sterling in terms of the dollar. But having been preoccupied by other matters it has waited for indications that our authorities had abandoned their defence at the level which has obtained for many weeks.

The several denials and disclaimers by British, French
and

REB

2-#739, From London, Aug. 8, 6p.m.

and American officials have failed to remove the impression that the pound is destined for its old parity level and that an all around devaluation is probable. It is now said that mid-September may be the time for this latter event. To what level the currencies are to be lowered is not mentioned, in fact it is almost impossible to state (?) true parity between the dollar, sterling and the franc."

The demand for gold for hoarding continues but seems to be mainly confined to French buying. 549 bars were sold at fixing at about one-half penny premium and the British authorities gave gold thereafter at a slightly increased price in consonance with the strengthening of the dollar. Likewise the British authorities gave substantial amounts of dollars at dollar 4.88½. The volume of trading in dollars has been fairly heavy and largely concentrated in the afternoon.

Gold sovereigns have returned to their former high price of 35 shillings 4½ pence. The franc has again been under considerable pressure and the future rates have moved out; three months to 4-11/16 and six months to over 10 francs.

JOHNSON

WWC

PARAPHRASE OF SECTION ONE
OF TELEGRAM No. 1233, August 8, 4 p.m., from Paris.

FROM COCHRAN.

178.38 was the rate at which the exchange market opened, but heavy pressure during the afternoon forced the rate quickly to .45 with stabilization fund having to yield larger quantities as it retreated. Three months premium on sterling spread to four francs. Belga, Dutch florin and Swiss franc, all stronger against the franc. The tendency of last week is thus continuing of franc weakening against sterling, the pound lower against the dollar, and gold strongly sought. The main reasons would seem to be those already mentioned, with emphasis on the market conviction ^{this autumn} that there is to be realignment of leading currencies. In addition, Franc is witnessing a recurrence of labor troubles among Marseille dock workers. Some little encouragement can be drawn from the French July trade returns which showed a deficit of one billion, 215 million francs as compared with a deficit of over one and a half billions each of the three preceding months. The improvement is a result of shrinkage in imports exceeding the decline in exports.

END OF SECTION ONE

BULLITT

PARAPHRASE. SECTION TWO OF TELEGRAM NO. 1233 of August 8, 1938, from the American Embassy, Paris.

With reference to the press report of the Bulgarian credit mentioned in my telegram No. 1198 of August 1, 4 p.m., I have received in confidence from an official of the Foreign Ministry of Finance certain data supplementary thereto. Three banks - Lazard Freres, the Banque de Paris et des Pays Bas, and Dreyfus - backed by the French official "assurance credit", have agreed that they will finance delivery to the Bulgarian Government of French goods to the amount of 375,000,000 francs at an interest rate of 5 1/2 percent, which goods will be principally armament and railway materials. The goods is to be delivered within two years from the date of credit contract. Payment for the goods is to be made within ten years from the date it is delivered.

The same official and President Trip of the Netherlands Bank have given me the following details with regard to the exact nature of the reported Dutch banking credit of 75,000,000 florins to the French Government, which I mentioned in my telegram of July 26, No. 1176. I was told that the Dutch banking group had an option for placing in the Netherlands the amount of 75,000,000 florins; actually they have placed 35,000,000 florins in the Netherlands, and it is stated that this limit will not ^{exceeded} ~~there be (exceeded)~~. The banking group has placed outside

of

- 2 -

of the Netherlands 20,000,000 florins. This part of the issue carries an option of payment in U.S. dollars.

BULLITT.

SECTIONS THREE AND FOUR.

I was told that the credit is for three months, and can be extended five times, for three months on each extension. The part of the credit which has been placed in the Netherlands has facility of rediscountability with the Netherlands Bank, but this facility can be renewed only three times. Therefore, 55,000,000 florins is the total of the credit up to the present time. The Treasury does not get any new money out of the credit - it is merely a substitution of the State for the French railways as a debtor vis-à-vis the banking group on a loan which is to mature. There is a ^{slightly} ~~(omission)~~ lower rate of interest under the new arrangement than under the preceding one. The terms of the credit are better than could be obtained in France.

I had a telephone conversation with President Trip of the Netherlands Bank this afternoon. He confirmed that by royal decree the ~~silver agreement~~ ^{gold embargo} existing since September 26, 1936, is today removed. Before this exceptions to the embargo were made upon ~~completion of~~ approval

- 3 -

off the Netherlands Bank for individual transactions brought before it. The Dutch have introduced a measure in Parliament, which will probably be passed in September, authorizing the Netherlands Government to reimpose an embargo quickly if it should be necessary to do so. There is no other change made by the decree/except the one mentioned insofar as gold policy is concerned above. I was told confidentially by Trip that gold coins will be the only gold which it is anticipated to support under this new arrangement.

END OF MESSAGE.

BULLITT.

EA: LWW

JR

PLAIN

London

Dated August 9, 1938

Rec'd 2:30 p.m.

Secretary of State,
Washington.

743, August 9, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The dollar opened at \$4.87-7/8 a quarter under New York's closing and moved down to \$4.87-5/8 at which point the British authorities made available fairly large quantities. When the control went out it touched 5/16 but later reacted to 3/4. The main demand was in the morning. The technical reaction in the dollar which occurred this afternoon was due to profit taking. While the assumption seems to be general on the Continent that the dollar should go past the old parity mark and there are not a few here who concur, nevertheless there is a considerable section of opinion which looks to that level as a stopping point, at least for the time being. As such profit taking from the very large speculative element may well occur. On the other hand if support is not manifest at around 487-6 a new wave to push the dollar further will doubtless be engendered.

The

-2- #743, August 9, 6 p.m., from London.

The 1/2D premium was maintained at gold fixing at which 826 bars were dealt in at 142S 7 1/2D. The British authorities offered gold at a 1D and 1 1/2D increase after fixing but not a great deal of business was done. The gold sovereign moved up to 35S 6 1/2D.

Concurrently the franc has been under increased pressure. The French fund has retreated to 178 29/32 and in the process have lost substantial amounts of sterling. Phillips states that British Treasury has received no indication directly or indirectly that the French Treasury is not prepared to continue to stand firm but he thinks that they must be feeling somewhat unhappy.

As stated in our telephone conversation I leave by air tomorrow morning to join Mr. Morgenthau at Antibes and Phillips has agreed to get in touch with me if necessary.

British unemployment figures for the month ending July 18 record a small anti-seasonal improvement due largely to resumption of work after holidays in the textile trades and to the increased holidays-with-pay movement which creates employment at resorts and curtails the register of unemployed. Some recovery in tin-plate employment but more than seasonal increases in building unemployment were also recorded. The
unemployment

-3- #743, August 9, 6 p.m., from London.

unemployment returns are generally regarded as indicating no further deterioration in the general position but at the same time are not indicative of a turn in the tide.

JOHNSON

HPD

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: August 9, 1938, 5 p.m.

NO.: 1240

FROM COCHRAN.

At four p.m. I paid a visit to the Bank of France. Marchandau, Minister of Finance, returned yesterday to Paris and consulted Fournier on account of the financial situation. In turn, Governor Fournier called Cariguel in today from his holiday for a conference.

The stabilization fund this morning lost 1,000,000 pounds even with letting rate move from 178.43 to .90 and had yielded 720,000 pounds by four o'clock. In addition the forward franc was offered heavily and it was only by official intervention that the spread on three months sterling was reduced to four and three-quarters francs. For each of the last five or six full business days, the cost of intervention in spot franc market had been close to 2,000,000 pounds. There has recently been an increase from 400,000 to 2,000,000 pounds in forward market commitments. Between 13 and 14,000,000,000 francs of gold and foreign exchange calculated on today's level of the franc are still being held in the stabilization fund.

Cariguel replied, in answer to the Governor's question, that he did not know what technical steps could be taken by the control to correct the situation. The demand for sterling, if the rate is moved back toward 178, would presumably increase,

since

- 2 -

since the market is convinced that both sterling and franc will go lower and would quickly take advantage of the opportunity to acquire sterling at a cheaper rate. The pledged rate of 179 would be passed if the franc is permitted to go lower, and my friend assumed that the other two parties to the tripartite would be unhappy should this occur.

My friend thinks that sterling will go below 4.86. The franc is a weak currency compared with sterling. Therefore, it would be exceedingly difficult to hold the franc at a fixed rate of 179 while the pound depreciates. My friend was in agreement with the opinion expressed to me by the Governor last week that France needs a currency which is not floating and which is roughly on gold. However, French economic conditions have not become stable. Further, in the present circumstances, my friend doubted the willingness of the British to tie the pound definitely in any sort of an international agreement.

END OF MESSAGE.

BULLITT

EA:DJW

OFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE August 10, 1949

TO
FROM J. W. McKeon

SUBJECT Telephone Conversation with
Banque de France

At 10:18 am, our time, today, I telephoned Mr. Cariguel at the Banque de France. He had been away from the Bank on an extended holiday and had returned to his desk only yesterday. Therefore, he has not had time to review thoroughly the foreign exchange situation. He said, however, that he thought things were not going along very well; that the undertone of the franc was still very weak and that the entire French situation was far from satisfactory. Yesterday he lost about two million pounds and already today about one million pounds. It appears to him that it will be very costly to hold the franc around the de facto rate of 179 to the pound. In addition, there has been a great deal of buying of gold in the London market by French nationals for hoarding purposes. This he considered was a very bad sign.

I told Cariguel that exchanges had been very quiet here for the past week and that at present all eyes were on Paris and London. I asked him if he was satisfied with our exchange operations for his account and he said "very satisfactory." However, he said very emphatically that "under no circumstances must we permit the franc to go higher than 178.90 to the pound in New York." Although the de facto rate is 179 to the pound, he figured that the rate of 178.90 was just about as far as he wanted the franc to go at least for the present. I told him that we would be only too pleased to carry out his wishes implicitly; also that if during any afternoon (New York time), while working on his order, the franc should become excessively offered, I would telephone him at his home immediately. He was very pleased at this suggestion.

JWMCK:BOC

OFFICE CORRESPONDENCE

DATE August 10, 1938

CONFIDENTIAL FILES

SUBJECT Telephone Conversation with

J. W. McKeon

Bank of England

I telephoned Mr. Bolton at the Bank of England at 10:55 am, our time, today, and asked him how things were going along over in London. He said that they had had an extremely quiet day; that there had been a slight reaction against the dollar and that most continental currencies were higher. He believed the pace had got too hot for the speculators. He thought the political situation was the fundamental basis for the recent decline in the continental currencies, particularly sterling. The demand for gold bars and coins had abated somewhat, and the quotation for gold was lower than at the fixing price this morning. The franc had been under very strong pressure most of the day. Bolton added "our friends across the channel are still in a bad way."

I told Bolton that the net short-term capital movement for the week ended August 3 showed a moderate inflow of funds, about \$5,000,000; however, security transactions showed an outflow of approximately \$5,000,000.

I brought up the question of gold shipments from London to Paris to New York via parcel post from Paris. I told Bolton that according to figures we had recently obtained, it was profitable to bid as high as 34.80 (our bid 34.77 London to New York via freight) for gold in London if you could obtain the insurance to ship via Paris to New York by parcel post. Bolton said that figure was approximately correct but that you could obtain insurance coverage only for small

OFFICE CORRESPONDENCE
CONFIDENTIAL FILESDATE August 10, 1958SUBJECT Telephone Conversation with
Bank of EnglandFROM J. W. McKeon

-2-

amounts and in addition the bars had to be shipped individually.

I told Bolton stocks were quiet this morning but that business interests were very much concerned regarding the future movements of sterling. * Bolton again emphasized the fact that he believed the fundamental basis for the recent downward movement was purely political and that at the slightest improvement in the political picture sterling would work higher.

* Bolton said that he saw no reason why £ should be coming at present level

Reviewed
W. McKeon

JWACK:BOC

JR

SPECIAL GRAY

Paris

Dated August 10, 1938

Rec'd 2:15 p.m.

Secretary of State,
Washington.

1246, August 10, 3 p.m. (SECTION ONE)
FROM COCHERAN.

Minister of Finance Marchandieu called me to his office at 10:45 this morning where he spoke to me alone along the following lines.

He recalled that he had promised to hold the franc at 179 to the pound but that in so doing he had not assumed that there would be any such depreciation in sterling as had occurred the past few days. He stated that this new weakness of sterling was dragging down the French franc, the latter being the weaker of the two currencies. He emphasized that the French stabilization fund and the Bank of France had no resources comparable with those of the British to defend their currency in the present crisis.

BULLITT

HTM:PEG

REB

SPECIAL GRAY

Paris

Dated August 10, 1938

Rec'd 4:23 p. m.

Secretary of State,
Washington.

1246, August 10, 3 p. m. (SECTION TWO).

He said that if heavy pressure continued against the franc he would have to choose between letting the rate slide beyond 179 or calling Parliament in special session to impose exchange control. He was not at all sure that Parliament would vote exchange control or that a request therefor might not give rise to political and other complications.

Marchandreau said the general French situation had become definitely better in recent weeks. He said we both knew the weak points therein and that he would not take an overly optimistic stand. At the same time he thought a real turning point had come and that the country might look to better progress in the future. He emphasized that August was a critical month since in this month there mature many of the three months Treasury bills in which much of the 16,000,000,000 francs capital of funds repatriated in May were invested. If these bills are well

RENEWED

REB

2-#1246, From Paris, Aug.10,3p.m.
(Sec. Two)

renewed the Treasury can, with the added assistance of the national defense loan now running and with the Caisse des Depots utilizing its saving bank deposits to subscribe to government securities, get along through October without borrowing from the Bank of France. If pressure on franc continues, renewals will be cut down, drawing on the Bank of France will become necessary at an advanced date, and this in turn will further injure the currency.

(END SECTION TWO)

BULLITT

NPL

HDH

REB

SPECIAL GRAY

Paris

Dated August 10, 1938

Rec'd 3:55 p. m.

Secretary of State,
Washington.

1246, August 10, 3 p. m. (SECTION THREE)

The Minister said the international political situation played some part in the present crisis but that the principal cause of the movement from the franc is the conviction on the part of market operators that there will be a change in the tripartite agreement in the autumn. He said they continued to believe that Secretary Morgenthau had conducted monetary negotiations in Paris; that he and Ambassador Kennedy were meeting on the Riviera to continue such negotiations with the British; that the Secretary would go into Switzerland for the same purpose since that country has adhered to the tripartite agreement and is naturally interested; and that everything would be timed for a new tripartite announcement upon the Secretary's arrival back in the United States. Marchandeau said that of course all of this press and market gossip was fantastic. At the same time he said he was facing a serious situation with the franc and would appreciate the Secretary's help.

(END SECTION THREE)

BULLITT

NPL-EDA

REB

SPECIAL GRAY & GRAY

Paris

Dated August 10, 1938

Rec'd 3:30 p. m.

Secretary of State,
Washington.

1246, August 10, 3 p. m. (SECTION FOUR)

The Minister's suggestion was that Secretary Morgenthau might see fit to give out a statement at Antibes reiterating the holiday character of his trip to France and definitely dismissing the above-mentioned gossip as wholly without basis. If the Secretary should do this, the Minister would then refer to the Secretary's remarks in a press statement wherein he would insist that these foolish rumors be stopped and that a friendly foreign official visiting France be permitted to enjoy France's well-known hospitality without being annoyed.

Marchandeau referred to the interviews which he and Prime Minister Daladier had with the press yesterday. There were no official communiques given out but the following is a translation of the AGENCE ECONOMIQUE account today of the interviews:

"Yesterday

REB

2-#1246, From Paris, Aug. 10, 3p.m.
(Sec. Four)

"Yesterday evening Monsieur Daladier denied that a Council of Ministers might be convoked for the purpose of examining the financial situation.

'The latter' he declared 'was not disquieting. While at this vacation period each year there is usually an increase in withdrawals from savings banks, there is this year, on the contrary, an increase of deposits as compared with withdrawals. At the same time subscriptions to national defense bonds are continuing in a really satisfactory manner'.

BULLITT

PEG

HTM

REB

GRAY

Paris

Dated August 10, 1938

Rec'd 4:30 p. m.

Secretary of State,
Washington.

1246, August 10, 3 p. m. (SECTION FIVE)

Then questioned as to the rumor of a new monetary alignment by a further modification of the tripartite agreement, the President of the Council appeared to be surprised at this question. He remarked that the recent rise in the dollar is in contradiction with the possibility of a new alignment of the American currency with the pound and the franc. This rise in the dollar is explained he said by the new American financial policy which tends to render active gold previously sterilized in banks in the United States.

'I do not know why' concluded Monsieur Daladier 'news is announced here at home. If one wished to take the trouble one could write optimistic articles for the newspapers and one would be nearer the truth'.

Monsieur Marchandeau conferred late yesterday afternoon with Monsieur Fournier, Governor of the Bank of France. The assistant director of the general movement of funds attended

REB

2-#1246, From Paris, Aug. 10, 3p.m.
(Sec. Five)

attended this interview which supposedly concerned the exchange situation. No communique was issued.

In this connection it was remarked at the Ministry of Finance that nothing justifies the present pressure on our money. Rumors of monetary manipulation which accompanied the voyage of Mr. Morgenthau to France were plainly denied by Mr. Morgenthau himself. If the Secretary of the Treasury had envisaged any modification whatever in the tripartite agreement the French Government certainly would have been acquainted with this intention. But definitely, declares the Rue de Rivoli, there is nothing to it. Nothing, it is concluded, can justify the pessimistic rumors put into circulation."

(END SECTION FIVE)

BULLITT

NPL

HDH

REB

SPECIAL GRAY

Paris

Dated August 10, 1938

Rec'd 5:35 p. m.

Secretary of State,
Washington.

1246, August 10, 3 p. m. (SECTION SIX)

The Minister thought these statements had done some good as the market was a little easier when I was with him but he feared that there might now be a little profit taking and then another recurrence of the attack unless something further is done to convince the market that no changes are contemplated. I told the Minister I would communicate the following to Secretary Morgenthau and give him any response. At 11:30 I telephoned this to the Secretary at Antibes and am to discuss the matter further with him this evening.

I talked at noon with Cariguel who has stopped his vacation and returned to duty. He said he was not having to yield much sterling to hold rate at 178.90 but that undertone is still nervous. Market trader tells me same tendency exists this afternoon with control bringing three month sterling down from 5 1/8 to 4 7/8.

Agence

REB

2-#1246, From Paris, Aug.10,3p.m.
(Sec. Six)

Agence Economique Et Financiere yesterday reproduced extracts from the preface to the year book of the REVUE D' ECONOMIE POLITIQUE for 1937 by Charles Rist in which he analyzes the causes of the recrudescence of the crisis in France in 1937. Although he quotes some signs of improvement in the second quarter of 1938, Rist is reserved as to future developments and he indicates two main obstacles to real economic recovery: (one) In France, the continued strengthening of the policy of protection, despite a completely altered economic situation brought about by successive devaluations, which caused French gold prices to fall below world market prices; (two) the British gold policy, which prevented the increase in gold production from playing its economic role, thus paralyzing an upward tendency of world market prices. This he contrasted with recent American policy.

(END OF MESSAGE)

BULLITT

NPL

LMS

LMS

GRAY

London

Dated August 10, 1938

Rec'd 2:35 p. m.

Secretary of State,
Washington.

745, August 10, 6 p. m.

FOR TREASURY.

This morning's press continued to attribute yesterday's heavy gold demand to the expectation of the three-power devaluation, fears for the franc and the belief that the authorities wished to realign the sterling dollar rate at the old parity. The effect of the return from holiday of both Daladier and Chamberlain was also interpreted in some quarters in the market as cause for anxiety on the international political situation, though press opinion deprecates the validity of this anxiety and stresses the unlikelihood and futility of tripartite devaluation.

Today the tendency has been somewhat changed and the dollar has been offered, the market being less nervous than in the last two or three days with less demand for gold. 533 bars were dealt in at fixing at 142 shillings 6 pence representing one-half penny premium,

the price

LMS 2-No. 745, August 10, 6 p. m., from London.

the price after fixing reaching 142 shillings 7 pence but now dropped to 142 shillings 5 pence. British authorities sold after fixing at 142 shillings 6½ pence but demand was less than during the last few days. The dollar was offered at the opening at \$4.87-3/4 reacting to \$4.87-3/8 before fixing, being \$4.88 at fixing and closing at \$4.88-1/4. The franc was still under pressure but less panicky, touching 168.7/16 at one time but falling back to 178.8. Both controls operated early in the day. The discount on the forward franc touched 5½ when the control operated. It went to 4-3/4 finally closing at 5. The principal feature of the day was the belga which went to 28.98 and 29 due apparently to speculative operations based on devaluation rumors. The three months belga was offered at 46.

Today's leading editorial in the TIMES is devoted to the financial outlook. After pointing out that so far this financial year's ordinary revenue is up pounds 5 million on the last year and expenditure up pounds 37 million, the writer says that the demands of rearmament have put the balancing of budgets out of the question, and that the real queries are how far industry is standing up to the tax burden and what are the effects of borrowings

LMS 3-No. 745, August 10, 6 p. m., from London.

ings on the national credit. Answering the first, the recession is admitted, but attributed to more international tension and export trade difficulties than to deflationary effects of high taxation. On the second point, the growing public demand for elimination of wasteful expenditure coupled with full willingness to carry the burden of essential expenditure is stressed, while significantly it is stated that the government cannot be asked to suspend "those of the social services which are as essential to the well being of the nation, and indeed to national defense, as armament themselves." Borrowing is accepted in Britain as necessary but the importance of foreign confidence in British credit is obliquely suggested by "every piece of evidence that national unity is far more widespread than the forms of political controversy might lead the uninstructed to suppose . . . has instant and salutary reactions upon foreign estimates of British financial strength." The editorial concludes "abroad there may be occasional flurries due to expectation of more than minor fluctuations of the value of sterling in terms of gold, but there is no fear whatever that either the British

Government

LMS 4-No. 745, August 10, 6 p. m., from London.

Government or the British electorate will lose their heads. That is the background against which those responsible for our financial policy will have to consider their problems during the following months."

JOHNSON

PEG:KLP

August 10, 1938

This is Ambassador Bullitt's report of his conversation with Mons. Marchandean.

COPY OF TELEGRAM
SENT

Paris, August 10, 1938.

SECSTATE

WASHINGTON

1146, August 10, 3 p.m.

From Cochran

Minister of Finance Marchandieu called me to his office at 10.45 this morning where he spoke to me alone along the following lines.

He recalled that he had promised to hold the franc at 179 to the pound but that in so doing he had not assumed that there would be any such depreciation in sterling as had occurred the past few days. He stated that this new weakness of sterling was dragging down the French franc, the latter being the weaker of the two currencies. He emphasized that the French Stabilization Fund and the Bank of France had no resources comparable with those of the British to defend their currency in the present crisis.

He said that if heavy pressure continued against the franc he would have to choose between letting the rate slide beyond 179 or calling Parliament in

special . . .

COPY OF TELEGRAM

... 1-1222

SENT

special session to impose exchange control. He was not at all sure that Parliament would vote exchange control or that a request therefor might not give rise to political and other complications.

Marchandean said the General French situation had become definitely better in recent weeks. He said we both knew the weak points therein and that he would not take an overly optimistic stand. At the same time he thought a real turning point had come and that the country might look for better progress in the future. He emphasized that August was a critical month since in this month there mature many of the three months Treasury bills in which much of the 16 billion francs capital of funds repatriated in May were invested. If these bills are well renewed the Treasury can, with the added assistance of the National Defense loan now running and with the Caisse des Depots utilizing its saving bank deposits to subscribe to Government securities, get along through October without borrowing from the Bank of France. If Pressure on franc continues, renewals will be cut

down . . .

COPY OF TELEGRAM
SENT

... 1-1000

down, drawing on the Bank of France will become necessary at an advanced date, and this in turn will further injure the currency.

The Minister said the international political situation played some part in the present crisis, but that the principal cause of the movement from the franc is the conviction on the part of market operators that there will be a change in the Tripartite Agreement in the autumn. He said they continued to believe that Secretary Morgenthau had conducted monetary negotiations in Paris; that he and Ambassador Kennedy were meeting on the Riviera to continue such negotiations with the British; that the Secretary would go into Switzerland for the same purpose, since that Country has adhered to the Tripartite Agreement and is naturally interested; and that everything would be timed for a new Tripartite announcement upon the Secretary's arrival back in the United States. Marchandeau said that of course all of this press and market gossip was fantastic. At the same time he said he was facing a serious situation with the franc and would appreciate the Secretary's help.

The . . .

- 4 -

COPY OF TELEGRAM

1-1202

SENT

The Minister's suggestion was that Secretary Morgenthau might see fit to give out a statement at Antibes, reiterating the holiday character of his trip to France and definitely dismissing the above mentioned gossip as wholly without basis. If the Secretary should do this, the Minister would then refer to the Secretary's remarks in a press statement wherein he would insist that these foolish rumors be stopped and that a friendly foreign official visiting France be permitted to enjoy France's well known hospitality without being annoyed.

(gray) ~~Begin quote.~~ / Marchandeau referred to the interviews which he and Prime Minister Daladier had with the press yesterday. There were no official communiqués given out but the following is a translation of the Agence Economique account today of the interviews.

→ "Yesterday evening M. Daladier denied that a Council of Ministers might be convoked for the purpose of examining the financial situation.

'The latter,' he declared, 'was not disquieting. While at this vacation period each year there is usually

an . . .

COPY OF TELEGRAM

... 1-1222

SENT

an increase in withdrawals from savings banks, there is this year, on the contrary, an increase of deposits as compared with withdrawals. At the same time subscriptions to National Defense Bonds are continuing in a really satisfactory manner.'

Then questioned as to the rumor of a new monetary alignment by a further modification of the Tripartite Agreement, the President of the Council appeared to be surprised at this question. He remarked that the recent rise in the dollar is in contradiction with the possibility of a new alignment of the American currency with the pound and the franc. This rise in the dollar is explained, he said, by the new American financial policy which tends to render active gold previously sterilized in banks in the United States.

'I do not know why', concluded M. Baladier, 'bad news is announced here at home. If one wished to take the trouble, one could write optimistic articles for the newspapers and one would be nearer the truth.'

M. Marchandeau conferred, late yesterday afternoon, with M. Fournier, Governor of the Bank of France. The

Assistant . . .

AMERICAN EMBASSY, PARIS

COPY OF TELEGRAM
SENT

... 1-1946

Assistant Director of the General Movement of Funds attended this interview which supposedly concerned the exchange situation. No communiqué was issued.

In this connection it was remarked at the Ministry of Finance that nothing justifies the present pressure on our money. Rumors of monetary manipulation which accompanied the voyage of Mr. Morgenthau to France were plainly denied by Mr. Morgenthau himself. If the Secretary of the Treasury had envisaged any modification whatsoever in the Tripartite Agreement, the French Government certainly would have been acquainted with this intention. But, definitely declares the Rue de Rivoli, there is nothing to it. Nothing, it is concluded, can justify the pessimistic rumors put into circulation." Un-
quote

The Minister thought these statements had done some good as the market was a little easier when I was with him, but he feared that there might now be a little profit taking and then another recurrence of the attack unless something further is done to convince the market that no changes are contemplated. I told the Minister I would communicate the following to -

Secretary . . .

COPY OF TELEGRAM
SENT

Secretary Morgenthau and give him any response. At 11.30 I telephoned this to the Secretary at Antibes and am to discuss the matter further with him this evening.

(Special Gray) I talked at noon with Cariguel who has stopped his vacation and returned to duty. He said he was not having to yield much sterling to hold rate at 178.90 but that undertone is still nervous. Market tradertells me same tendency exists this afternoon with Control bringing three month sterling down from 5 1/8 to 4 7/8.

(gray) Agence Economique et Financiere yesterday reproduced extracts from the preface to the year book of the Revue d'Economie Politique for 1937 by Charles Rist in which he analyzes the causes of the recrudescence of the crisis in France in 1937. Although he quotes some signs of improvement in the second quarter of 1938, Rist is reserved as to future developments and he indicates two main obstacles to real economic recovery: 1) in France, the continued strengthening of the policy of protection, despite a completely altered economic situation brought about by successive devaluations, which caused French gold prices to fall below world market prices; 2) the

British . . .

- 8 -

77
AMERICAN EMBASSY, PARIS

COPY OF TELEGRAM
SENT

... 1-1222

British gold policy, which prevented the increase in gold production from playing its economic role, thus paralyzing the upward tendency of world market prices. This he contrasted with recent American policy.

BULLITT

HMC/ams



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 10 August, 1938.

From: Spagent, Shanghai, China.
To : Acting Secretary of the Treasury Taylor.

Message from Mr. Nicholson.

Regarding your telegram of the sixth, K. P. Chen conveys sincere regrets and states: "Health prevents taking journey time being and have requested Minister Wang send another person." Chen has never fully recovered from his illness of last year and I know that his present physical condition is such that it would be inadvisable for him to make the proposed trip. I am confidentially advised that probably Y. C. Koo who accompanied Chen to Washington in '36 will be proposed substitute for Chen. Tsu Yen Pei, Manager Hongkong Branch Bank of China, also mentioned. In my opinion neither of these men would be particularly desirable from our government's viewpoint. Koo not big or broad enough and Pei too much of a politician of C. T. Wang type. I believe it would be more desirable if he is available and willing to have Mr. Hsi, present exchange manager Central Bank, undertake the trip. Mr. Hsi is a high class, dignified gentleman, conversant with local financial problems and I believe is straightforward in the desired degree. There would be no objection to Y. C. Koo's accompanying Mr. Hsi. I believe it would not be desirable at this time for these men to travel to United States by Japan and it is suggested some other route be adopted preferably from Hongkong via Europe. Please instruct further.

Paris, August 11, 1938.

Personal and
Confidential.

Dear Henry:

Enclosed you will find three memoranda.

I am looking forward to licking you at tennis.

Every good wish to you, Mrs. Morgenthau and the children.

Yours always,

W.C.

William C. Bullitt.

Enclosures:

Three Memoranda.

The Honorable

Henry Morgenthau, Jr.,

Hotel du Cap,

Antibes.



EMBASSY OF THE
UNITED STATES OF AMERICA

80

MEMORANDUM OF CONVERSATION WITH MONSIEUR MARCHANDEAU

Paris, August 10, 1938.

After speaking on the telephone with the Secretary of the Treasury, I called on Marchandean, Minister of Finance, this afternoon. He was most anxious to have the Secretary of the Treasury make a statement denying the rumors that there was to be a joint devaluation of the dollar, the pound, and the franc, and said that he attributed the present weakness of the franc to the growing belief in these rumors.

I replied that I thought the weakness of the franc sprang from real facts and not on fantastic rumors, and that I did not believe any denial by Secretary Morgenthau in Antibes would reverse the present trend.

We discussed at some length the fundamental causes of the weakness of the franc. Marchandean, while agreeing that hard facts constituted the fundamental cause of the present weakness, maintained that this weakness was being accentuated most gravely by the belief that conversations had been in progress between the American and British Governments for a joint devaluation of the pound and the dollar, and that Secretary Morgenthau had informed French officials during his stay in Paris that this joint devaluation would take place and that the French officials had agreed to devalue the franc. As a result, the demand for gold in France was placing the French Government in a most critical situation. For the past week he had been losing more than two million pounds a day from the

Equalization Fund. Although he still had more than thirteen billion francs in gold and foreign exchange in the Fund, no fund could withstand such a drain for a long period.

The present month was especially critical. Seven billion francs of three months bonds would fall due in this month of August. If the holders of these bonds, instead of renewing them, should demand gold, his position would become catastrophic before the end of this month.

When I ventured to doubt that the holders of all seven billion francs of these bonds would demand gold, Marchandean admitted that about three and one-half billions of the bonds were held by government institutions which would renew them, and that about three and one-half billions were in the hands of private holders who might not renew them. He added, however, that a demand for gold by the holders of these three billions and a half of bonds would be quite sufficient to make his situation disastrous. Marchandean then said that his feeling about the present situation was the following:

No nation on this side of the Atlantic could continue to make expenditures for armaments at the present rate without incurring financial collapse. Italy was already in a most difficult situation. Germany was fast approaching a most difficult situation. Even England could not continue the present pace for another year, and France was already in grave difficulties. He believed that the peace of Europe would be most severely menaced if there should be a financial collapse in France.

this summer. In finance, as in war, it was vital to be able to hold out for the last quarter of an hour. All that he was trying to do now was to stave off a collapse until the month of November. About the fifteenth of September he expected to present a budget which would be balanced except for military expenditures which could be covered by loans for the national defense. He had no large plans for attacking fundamental difficulties. "I have to be modest, and if I can live until November, I shall be satisfied", he said.

Marchandean then described the course of action that he might take if the present flight from the franc should continue and made a statement which differed somewhat from the statement reported this morning by Mr. Cochran. He said that, although as a theoretical possibility the French Government might continue to let gold run out of the Equalization Fund and, when the Fund was almost exhausted, summon Parliament and ask for the imposition of exchange control, he positively would not consider taking this course. On the contrary, if the flight from the franc should continue, he would not allow all the Equalization Fund to run out but would stop using the Equalization Fund and let the franc fall to any point to which it might go naturally without support from the Equalization Fund.

He added that the vital thing was to make every effort to remove at once any removable causes for the present weakness of the franc and stated again his belief that the fantastic rumors with regard to a joint devaluation,

devaluation, which had been accentuated by the meeting of Secretary Morgenthau and Ambassador Kennedy in the south of France, were a large contributing factor.

I reminded Marchandean that Secretary Morgenthau's visit to Paris had had a most happy effect in the general political situation in Europe since it had reinforced the impression throughout the Continent that there was close collaboration between the United States Government and the French Government and any general statement by Secretary Morgenthau that he had had no conversations of any interest whatsoever in France and was merely on vacation, would tend to remove this highly desirable impression and might produce a greater flight from the franc than existed at the present time.

Monsieur Marchandean suggested that it might be possible to work out a formula which would leave intact the impression of close collaboration between the French Government and the Government of the United States but at the same time would kill the specific rumor which, in his opinion, was doing so much damage. Monsieur Marchandean said that he would be perfectly satisfied if Mr. Morgenthau could issue a statement either at Antibes or through the Embassy in Paris along the following lines:

"I have had many cordial and interesting conversations since my arrival in France. In no one of those conversations has devaluation of the franc, the pound, or the dollar been mentioned in any way".

I suggested to Monsieur Marchandean that our previous experience with rumors of this sort had shown that a denial by one person, however eminent, of Regard Uclassified

little effect and since, according to his own statement, the rumor was based on the belief that the British and American Governments had worked out a scheme for devaluation which had been submitted by Secretary Morgenthau to the French Government, it might be much more effective to have denials come from Washington, London, and Paris rather than from Secretary Morgenthau at Antibes. I added that I had talked by telephone with the Secretary of the Treasury and that he was disinclined to make any statement.

Monsieur Marchandau said that he felt a denial by Secretary Morgenthau would be sufficient to kill the rumor and asked me once more to submit his request to the Secretary of the Treasury.

I said that I would do so.

W. C. B.



EMBASSY OF THE
UNITED STATES OF AMERICA

85

MEMORANDUM OF CONVERSATION WITH SECRETARY MORGENTHAU

Paris, August 11, 1938.

I telephoned to Secretary Morgenthau at ten o'clock this morning and said to him approximately the following:

After talking with you yesterday afternoon, I spent an hour with Marchandeu. He was most anxious to have you make some sort of statement. I told him that I thought the cuases of the weakness of the franc were real and not the result of fantastic rumors and that I could see small utility in a statement. He was very insistent, however, and said that he hoped we would not under-rate the critioal condition of the franc. He had been losing more than two million pounds a day from the Equalization Fund. He still had more than thirteen billion francs in the Fund but no fund could withstand the present drain. Furthermore, unless he could renew his three-months bonds, seven billion francs of which would fall due in August, and if the holders of those bonds should demand gold, his position would become catastrophie this month.

I questioned him with regard to the amount of these bonds, the holders of which might ask for gold. He admitted that about three and one-half billions were held by government institutions which would renew them and that only about three and one-half billion francs were in the hands of private holders and might not be renewed.

I again recurred to the underlying causes of the weakness of the franc, all of which you know, and Marchandeu said that he agreed with me as to the basic causes of the weakness and said that all he was trying

to do was stave off a collapse until the month of November. He would bring in a budget about September 15th which would be balanced except for amounts which could be covered by loans for the national defense. Otherwise, he had no plans for attacking the fundamental difficulties. "I have to be modest", he said, "and if I can live until November, I shall be satisfied."

He then went on to describe the possibilities if the present flight from the franc should continue. Here he made a statement which was somewhat different from the statement reported by Cochran. He said that, although as a theoretical possibility the Government might continue to let gold run out of the Equalization Fund and then summon Parliament and ask for the imposition of exchange control, he would positively not consider taking this course. On the contrary, if the flight from the franc should continue, he would keep a large sum in the Equalization Fund and not use it and would let the franc fall to any point to which it might go down without support from the Equalization Fund. He then again said that he felt that the rumors about a joint devaluation of the dollar, pound, and franc, having been arranged between Washington and London and by you in France were a considerable contributing factor in the present demand for gold in France and urgently requested me to obtain some sort of a statement that would put an end to these rumors.

Your visit to Paris has done a great deal of good in the general political situation in Europe by reinforcing the impression of closer collaboration between the Government of the United States and the French Government and I am just as leath, after talking with Marchandean as before

to

to jeopardize this impression in any way.

If you should wish to make a statement of the sort that Marchandean wants, there is perhaps a formula, which I discussed with Marchandean, that would satisfy him and conceivably help somewhat without detracting in any way from the effect of your visit.

"I have had many cordial and interesting conversations since my arrival in France. In no one of those conversations has devaluation of the franc, the pound, or the dollar been mentioned in any way."

I added to the Secretary of the Treasury that if he should feel inclined to make such a statement I could give it out formally at the Embassy at Paris. Secretary Morgenthau replied that he did not wish to make any personal statement and that he felt if any statement was to be made, it should be made as a formal statement in Washington, London, and Paris simultaneously.

I then said to the Secretary of the Treasury that I had made this suggestion yesterday to Marchandean and that he had felt that a statement by Secretary Morgenthau would be sufficient. The Secretary of the Treasury asked me to send him a memorandum of my conversation with Marchandean yesterday and a memorandum of our telephone conversation of this morning and to transmit both to the Treasury Department by telegraph. He also asked me to refer the suggestion of simultaneous statements in Washington, London, and Paris to Marchandean.

W.C.B.



EMBASSY OF THE
UNITED STATES OF AMERICA

88

MEMORANDUM OF A TELEPHONE CONVERSATION WITH MARCHANDEAU

Paris, August 11, 1938.

Immediately after my conversation on the telephone
→ this morning with Secretary Morgenthau, I spoke with
Marchandean on the telephone and informed him that the
Secretary of the Treasury did not wish to make any
statement from the rocks at Antibes but that if
Mr. Marchandean felt that these fantastic rumors were
causing the present weakness of the franc, he believed
the Government of the United States might participate
in a simultaneous statement in Washington, London, and
Paris.

Monsieur Marchandean said that he would get in
touch with London at once and would let me hear from
him later in the day.

W.C.B.

ML

GRAY

London

Dated August 11, 1938

Rec'd 1:40 p.m.

Secretary of State

Washington

747, August 11, 6 p. m.

FOR TREASURY

618 bars were sold at the fixing at 142 shillings 4½ pence which gave a half penny premium. Information from exchange market sources indicates that demand was fairly heavy after fixing and that after a quiet morning the dollar was heavily bought and touched \$4.88½ on retirement of the British authorities from the gold market. The authorities sold gold again and the rate stands now at \$4.87 7/8.

Pressure on the franc was heavy in the morning but eased off in the afternoon, the control holding it at 178.90. A reaction in the belga brought the rate back to 28.93½.

JOHNSON

PEG

REB

GRAY

Paris

Dated August 11, 1938

Rec'd 4 p. m.

Secretary of State,
Washington.

1256, August 11, 6 p. m. (SECTION ONE)
FOR TREASURY.

Reference my 1246, August 10, 3 p. m.

Following is memorandum of Ambassador's conversation
with Minister of Finance Marchandreau August 10:

"After speaking on the telephone with the Secretary of
the Treasury I called on Marchandreau, Minister of Finance,
this afternoon. He was most anxious to have the Secretary
of the Treasury make a statement denying the rumors that
there was to be a joint devaluation of the dollar, the
pound, and the franc and said that he attributed the
present weakness of the franc to the growing belief in
these rumors.

I replied that I thought the weakness of the franc
sprang from real facts and not on fantastic rumors and
that I did not believe any denial by Secretary Morgenthau
in Antibes would reverse the present trend.

BULLITT

NPL-EMB

ML

GRAY

Paris

Dated August 11, 1938

Rec'd 2:15 p.m.

Secretary of State

Washington

1256, August 11, 6 p. m. (SECTION TWO).

We discussed at some length the fundamental causes of the weakness of the franc. Marchandeau, while agreeing that hard facts constituted the fundamental cause of the present weakness, maintained that this weakness was being accentuated most gravely by the belief that conversations had been in progress between the American and British Governments for a joint devaluation of the pound and the dollar, and that Secretary Morgenthau had informed French officials during his stay in Paris that this joint devaluation would take place and that the French officials had agreed to devalue the franc. As a result, the demand for gold in France was placing the French Government in a most critical situation. For the past week he had been losing more than two million pounds a day from the equalization fund. Although he still had more than thirteen billion francs in gold and foreign exchange in the fund no fund could withstand such a drain for a long period.

The

ML -2- Paris August 11, 1938 2:15 p. m. #1256 Sec.2

The present month was especially critical. Seven billion francs of three months bonds would fall due in this month of August. If the holders of these bonds instead of renewing them should demand gold his position would become catastrophic before the end of this month.

BULLITT

PEG:WVC

ML

GRAY

Paris

Dated August 11, 1938

Rec'd 3:50 p.m.

Secretary of State

Washington

1256, August 11, 6 p. m. (SECTION THREE)

When I ventured to doubt that the holders of all seven billion francs of these bonds would demand gold Marchandau admitted that about three and one half billions of the bonds were held by government institutions which would renew them and that about three and one-half billions were in the hands of private holders who might not renew them. He added, however, that a demand for gold by the holders of these three billions and a half of bonds would be quite sufficient to make his situation disastrous. Marchandau then said that his feeling about the present situation was the following:

No nation on this side of the Atlantic could continue to make expenditures for armaments at the present rate without incurring financial collapse. Italy was already in a most difficult situation. Germany was fast approaching a most difficult situation. Even England could not continue the present pace for another year and France was already in grave difficulties. He believed that

ML -2- Paris Aug. 11, 1938 3:50 p. m. #1256 Sec.3

that the peace of Europe would be most severely menaced
if there should be a financial collapse in France this
summer. (END SECTION THREE)

BULLITT

PEG

REB

ORAY

Paris

Dated August 11, 1938

Rec'd 5:06 p. m.

Secretary of State,
Washington.

1256, August 11, 6 p. m. (SECTION FOUR)

In finance as in war it was vital to be able to hold out in the last quarter of an hour. All that he was trying to do now was to stave off a collapse until the month of November. About the 15th of September he expected to present a budget which would be balanced except for military expenditures which could be covered by loans for the national defense. He had no large plans for attacking fundamental difficulties. "I have to be modest and if I can live until November I shall be satisfied" he said.

Marchandau then described the course of action that he might take if the present flight from the franc should continue and made a statement which differed somewhat from the statement reported this morning by Mr. Cochran. He said that although as a theoretical possibility the French Government might continue to let gold run out of the

equalization

REB

2-#1256, From Paris, Aug.11,6p.m.
(Sec. Four)

equalization fund and when the fund was almost exhausted
summon Parliament and ask for the imposition of exchange
control he positively would not consider taking this course.

, BULLITT

NPL

EMB

REB

GRAY

Paris

Dated August 11, 1938

Rec'd 3:30 p. m.

Secretary of State,
Washington.

1256, August 11, 6 p. m. (SECTION FIVE)

On the contrary if the flight from the franc should continue he would not allow all the equalization fund to run out but would stop using the equalization fund and let the franc fall to any point to which it might go naturally without support from the equalization fund.

He added that the vital thing was to make every effort to remove at once any removable causes for the present weakness of the franc and stated again his belief that the fantastic rumors with regard to a joint devaluation which had been accentuated by the meeting of Secretary Morgenthau and Ambassador Kennedy in the south of France were a large contributing factor.

I reminded Marchandreau that Secretary Morgenthau's visit to Paris had had a most happy effect in the general political situation in Europe since it had reinforced the impression throughout the continent that there was close collaboration

REB

2-#1256, Aug. 11, 6p.m. From Paris
(Sec. Five)

collaboration between the United States Government and the French Government and any general statement by Secretary Morgenthau that he had had no conversations of any interest whatsoever in France and was merely on vacation would tend to remove this highly desirable impression and might produce a greater flight from the franc than existed at the present moment.

(END SECTION FIVE)

BULLITT

NPL

EMB

NPL

GRAY

Paris

Dated August 11, 1938

Rec'd 6:30 p.m.

Secretary of State,
Washington.

1256, August 11, 6 p.m. (SECTION SIX)

Monsieur Marchandau suggested that it might be possible to work out a formula which would leave intact the impression of close collaboration between the French Government and the Government of the United States but at the same time would kill the specific rumor which in his opinion was doing so much damage. Monsieur Marchandau said that he would be perfectly satisfied if Mr. Morgenthau could issue a statement either at Antibes or through the Embassy in Paris along the following lines:

"I have had many cordial and interesting conversations since my arrival in France. In no one of those conversations has devaluation of the franc, pound, or the dollar been mentioned in any way."

I suggested to Monsieur Marchandau that our previous experience with rumors of this sort had shown that a denial by one person, however eminent often had little effect and since, according to his own statement the

rumor

2--1256, August 11, 6 p.m. from Paris (SECTION SIX)
rumor was based on the belief that the British and American Governments had worked out a scheme for devaluation which had been submitted by Secretary Morgenthau to the French Government, it might be much more effective to have denials come from Washington, London, and Paris rather than from Secretary Morgenthau at Antibes. I added that I had talked by telephone with the Secretary of the Treasury and that he was disinclined to make any statement.

Monsieur Marchandeau said that he felt a denial by Secretary Morgenthau would be sufficient to kill the rumor and asked me once more to submit his request to the Secretary of the Treasury.

I said that I would so so."

(END SECTION SIX)

NPL:EMB

BULLITT

REB

GRAY

Paris

Dated August 11, 1938

Rec'd 5:25 p. m.

Secretary of State,
Washington.

1256, August 11, 6 p. m. (SECTION SEVEN)

Following is memorandum of Ambassador's conversation with Secretary Morgenthau by telephone August 11:

"I telephoned to Secretary Morgenthau at 10:00 o'clock this morning and said to him approximately the following:

After talking with you yesterday afternoon I spent an hour with Marchandau. He was most anxious to have you make some sort of statement. I told him that I thought the causes of the weakness of the franc were real and not the result of fantastic rumors and that I could see small utility in a statement. He was very insistent however and said that he hoped we would not underrate the critical condition of the franc. He had been losing more than 2,000,000 pounds a day from the equalization fund. He still had more than 13,000,000,000 francs in the fund but no fund could withstand the present drain. Furthermore unless he could renew his three-months bonds

REB

2-#1256, From Paris, Aug.11,6p.m.
(Sec. Seven)

bonds, 7,000,000,000 francs of which would fall due in August, and if the holders of those bonds should demand gold, his position would become catastrophic this month.

(END SECTION SEVEN)

BULLITT

NPL

EMB

REB

GRAY

Paris

Dated August 11, 1938

Rec'd 4:17 p. m.

Secretary of State,
Washington.

1256, August 11, 6 p. m. (SECTION EIGHT)

I questioned him with regard to the amount of these bonds the holders of which might ask for gold. He admitted that about three and one-half billions were held by government institutions which would renew them and that only about three and one-half billions francs were in the hands of private holders and might not be renewed.

I again resorted to the underlying causes of the weakness of the franc all of which you know and Marchandau said that he agreed with me as to the basic causes of the weakness and said that all he was trying to do was stave off a collapse until the month of November. He would ~~bring in~~ *bring in* a budget about September 15th which would be balanced except for amounts which could be covered by loans for the national defense. Otherwise he had no plans for attacking the fundamental difficulties. "I have to be modest" he said "and if I can live until November I shall be satisfied".

He then went on to describe the possibilities if the present flight from the franc should continue. Here he made

REB

2-#1256, From Paris, Aug. 11, 6p.m.
(Sec. Eight)

made a statement which was somewhat different from the statement reported by Cochran. He said that although as a theoretical possibility the government might continue to let gold run out of the equalization fund and then summon Parliament and ask for the imposition of exchange control he would positively not consider taking this course.

BULLITT

NPL

EMB

REB

GRAY

Paris

Dated August 11, 1938

Rec'd 4:05 p. m.

Secretary of State,
Washington.

1256, August 11, 6 p. m. (SECTION NINE)

On the contrary, if the flight from the franc should continue he would keep a large sum in the equalization fund and not use it and would let the franc fall to any point to which it might go down without support from the equalization fund. He then again said that he felt that the rumors about a joint devaluation of the dollar, pound, and franc having been arranged between Washington and London and by you in France were considerable contributing factor in the present demand for gold in France and urgently requested me to obtain some sort of a statement that would put an end to these rumors.

Your visit to Paris has done a great deal of good in the general political situation in Europe by reinforcing the impression of closer collaboration between the Government of the United States and the French Government and I am just as loath after talking with Marchandau as before to jeopardize this impression in any way.

If

REB

2-#1256, From Paris, Aug. 11, 6p.m.
(Sec. Nine)

If you should wish to make a statement of the sort that Marchandreau wants there is perhaps a formula which I discussed with Marchandreau that would satisfy him and conceivably help somewhat without detracting in any way from the effect of your visit.

(END SECTION NINE)

BULLITT

NPL

EMB

REB

GRAY

Paris

Dated August 11, 1938

Rec'd 5:30 p. m.

Secretary of State,
Washington.

1256, August 11, 6 p. m. (SECTION TEN)

"I have had many cordial and interesting conversations since my arrival in France. In no one of those conversations has devaluation of the franc, the pound, or the dollar been mentioned in any way."

I added to the Secretary of the Treasury that if he should feel inclined to make such a statement I could give it out formally at the Embassy at Paris. Secretary Morgenthau replied that he did not wish to make any personal statement and that he felt if any statement was to be made, it should be made as a formal statement in Washington, London and Paris simultaneously.

I then said to the Secretary of the Treasury that I had made this suggestion yesterday to Marchandreau and that he had felt that a statement by Secretary Morgenthau would be sufficient. The Secretary of the Treasury asked me to send him a memorandum of my conversation with

Marchandreau

REB

2-#1256, From Paris, Aug.11,6p.m.

Marchandreau yesterday and above memorandum of our telephone conversation of this morning and to transmit both to the Treasury Department by telegraph. He also asked me to refer the suggestion of simultaneous statements in Washington, London, and Paris to Marchandreau."

(END SECTION TEN)

BULLITT

NPL

EMB

NPL

GRAY

Paris

Dated August 11, 1938

Rec'd 6:30 p.m.

Secretary of State,
Washington.

1256, August 11, 6 p.m. SECTION ELEVEN)

Following is memorandum of Ambassador's telephone conversation with Minister of Finance Marchandean August 11:

"Immediately after my conversation on the telephone this morning with Secretary Morgenthau I (#) with Marchandean on the telephone and informed him that the Secretary of the Treasury did not wish to make any statement from the rocks at Antibes but that if Monsieur Marchandean felt that these fantastic rumors were causing the present weakness of the franc he believed the Government of the United States might participate in a simultaneous statement in Washington, London, and Paris.

Monsieur Marchandean said that he would get in touch with London at once and would let me hear from him later in the day"

END OF MESSAGE.

BULLITT

EMB:NPL

(#) Apparent omission

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: August 11, 5 p.m.

NO.: 1255

FROM COCHRAN

At five o'clock I spoke with officials of the Bank of France. The stabilization fund had yielded two ~~and~~ a half million pounds at 178.90 by five o'clock in a day of constantly heavy pressure arising from factors heretofore mentioned and from new rumors to the effect that Fournier may possibly replace Marchandean as Minister of Finance, and of some early measures toward exchange monopoly or such limited control of exchange as may be possible during the absence of Parliament.

BULLITT

EA:DJW

TRANSLATION OF A NOTE DATE 12 AUGUST 1938 WHICH WAS HANDED THE AMERICAN AMBASSADOR IN PARIS BY THE FRENCH MINISTER OF FOREIGN AFFAIRS.

The pressure exerted on the French currency, while not having its origin in circumstances related solely to the market of the franc, is entailing serious consequences for the stabilization fund and for the French Treasury. The French Government considers that it is acting in the spirit of the tripartite agreement in informing the government of the United States that if the pressure on its money should persist it would not be certain of being able to continue very long the sacrifices implied by the percent, within the present system, of the existing monetary level.

It believes it necessary, therefore, that the governments signatory to the tripartite agreement seek in common, in the spirit of confident collaboration which has always inspired them, the appropriate measures to ward off the attacks which at present are affecting the principal continental currencies. It stresses in particular the urgency of a common declaration tending to deny the rumors which continue to circulate regarding the possible modification of the tripartite agreement and of the existing monetary rates.

ADDRESS THE SECRETARY, U. S. COAST GUARD
AND REFER TO NO.



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 12 August, 1938.

From: Secretary of the Treasury.
To : Acting Secretary of the Treasury Taylor.

I had Butterworth telephone Phillips this evening, Thursday, and tell him that through our embassy in Paris, the French had approached me to obtain a statement denying Tripartite stabilization discussions, that I had replied that an individual statement did not seem to me either desirable or wise but that if they felt their circumstances demanded a statement I would be prepared to agree to a joint one to be issued simultaneously in the three countries provided its form and substance was acceptable. Phillips was also told of the French reply to the effect that they were taking the matter up with the British.

Phillips said that this was the first that he had heard of the matter; he expressed appreciation for being given this background information and he did not seem opposed to the issuance of "an innocuous statement". He volunteered that the French fund had had another bad day but no worse than recent ones.

Please inform Hull of the content of this dispatch.

Signed Morgenthau

SECRET



HEADQUARTERS

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 12 August, 1938.

SECRET

From: Secretary of the Treasury.
To : Acting Secretary of the Treasury Taylor.

I telephoned Bullitt at eleven this morning, Friday; Bullitt had heard nothing further from Marchandean. Told Bullitt about Butterworth's conversation with Phillips Thursday night and suggested that he inform Marchandean of Phillips' reaction to suggestion of three corner statement. Bullitt was surprised that English would be willing to go along. Inform Hull. On President's return to Washington please give him written summary of international exchange situation plus what I have been doing here.

Signed Morgenthau

SECRET

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE August 12, 1938

TO CONFIDENTIAL FILES

SUBJECT Telephone Conversation with

FROM J. W. McKeon

Bank of England

Mr. Bolton telephoned me at 11:35 am, our time, today, to let me know what was going on over there. They had had an extremely nervous day. Rumors of war preparations in Germany were partly responsible. There was a heavy demand for gold and dollars. He said that he had supplied the equivalent of \$2 million in gold to the market today. In addition he had sold \$2 million against our gold order. He estimated Cariguel had lost over \$1 million so far this morning and that he would probably lose an additional million before the day was over. He said the excitement in Paris over the franc was quite noticeable.

I asked him if there was any particular reason for the weakness of the belga and particularly the forward market. He said the general situation was responsible; the belga was bound to be attacked sooner or later. There had been heavy speculation in the belga following the weakness of the franc. I told Bolton we were prepared to give him an additional order for gold good for today and tomorrow if he thought it necessary, but he felt they would not need it. However, I said that we would renew our order tomorrow good for next week.

I referred to the last four Japanese shipments of gold to this country of which I had already advised him and told him we had been instructed to earmark this gold for the Bank of Japan. I referred to the Air Ministry payments and told him so far we had heard nothing.

FEDERAL RESERVE BANK
OF NEW YORK

115

OFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE August 12, 1938

SUBJECT Telephone Conversation with
Bank of England

TO J. W. McKeon
FROM

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I told him we had had to go to the support of the franc yesterday afternoon in our market and had purchased francs 25 million.

After I had finished my conversation with Mr. Belton, Mr. Harrison spoke with Mr. Knoke. Mr. Knoke said that, while there was a great deal of tension over the franc both in London and on the continent, he did not believe that anything would break over the week-end.

FEDERAL RESERVE BANK
OF NEW YORK

Mr. Lashburn

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OFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE August 12, 1936

SUBJECT Telephone Conversation with
Banque de France

J. W. McKeon

At 11:56 am, our time, today, I telephoned Mr. Cariguel and asked him how he was making out. He replied "very, very badly." Yesterday he had lost \$2 million and today so far \$2 1/2 million. Forward francs were heavily offered. He said he had intervened yesterday and again today in the forward market but that it was useless; any attempt to support the forward franc, he believed, was of no avail because they were being too heavily offered. He referred to the francs which we had purchased yesterday for his account and asked if we had any idea where the selling had come from. I told him I thought that half of the selling had come from London and the other half from Paris, but I was not certain. Cariguel requested that, should our purchases of francs reach fifty million during our afternoon trading, I call him at his home. I said we would be pleased to carry out his wishes.

JWMCK:BOC

JR

GRAY

London .

Dated August 12, 1938

Rec'd 2:40 p.m.

Secretary of State,
Washington.

757, August 12, 7 p.m.

FOR TREASURY.

Today's press comments on yesterday afternoon's dollar strength and the return to heavy hoarding purchases of gold which brought the after fixing turnover to probably over pounds one million mentions less talk of a three-power devaluation and lay more emphasis on the belief that the dollar will continue to rise because of trade balances. Yesterday's strength of the belga is attributed to the trend of the dollar rather than to any change of sentiment on devaluation possibilities. Yesterday's pressure on the franc is attributed to the Bank of France's request for curtailment of forward dealings and rumors of restrictions on gold coin sales both regarded as signs of weakness and in some quarters even suggesting eventual exchange control.

Information

-2- #757, August 12, 7 p.m., from London.

Information from exchange market sources indicates that today the demand for dollars and for gold has continued. 699 bars were sold at the fixing at 142 shillings 8 pence giving a one-half penny premium with the dollar at dollars 4.87-9/16. Though demand for the dollar continued it was not excessive and the control operated at dollar 4.87-1/4 late in the afternoon. There was a fairly active demand for gold immediately after fixing, the price went to 142 shillings 9 1/2 pence but the market was quieter later in the day. The feature of the market today was the forward franc which touched a discount of 7 with no apparent French control operating though the French authorities were selling spot sterling keeping the rate at 178-13/16.

The belga was erratic with the forward three months' rate up to 37 discount.

JOHNSON

VWC:HPD

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 1265

DATE: August 12, 1938, 6 p.m.

RUSH. FROM COCHRAN.

I talked with the Bank of France this evening at 5:50. There was even heavier pressure on spot franc than there was yesterday, and over three million pounds was yielded by the stabilization fund. Although Paris will be closed Saturday and Monday, my friend anticipates that it may be necessary that the franc be supported, perhaps importantly, on the London and the New York markets.

London, Amsterdam and Switzerland dumped forward franc, with the result that three months premium against sterling was increased to seven francs. Late this afternoon this was brought back toward six francs by official intervention.

Although my friend in the Bank of France admitted that they could not continue for long to lose gold at the present rate, he said that there were absolutely no new defensive steps planned.

(END OF SECTION ONE)

BULLITT

EA:EB

Last night Marchandean gave out a statement denying exchange control rumors. I checked with two Italian, four French and two American banks in Paris today; they all said that no new requests from the Bank of France to limit their forward exchange and gold transactions have been received by them. The London report of yesterday evening is therefore contradicted.

Thus, in spite of the improvement in the international outlook incident to Russo-Japanese armistice, the French franc situation has continued to (omission). The armistice news is counteracted on the market by the rumor that about the time of the annual Nuremberg Congress there will be trouble of some sort from Germany.

This afternoon I had a telephone conversation with President Trip of the Netherlands Bank. With regard to the outlook for the French franc he was quite pessimistic. He believed that since the bear movement has gained such an impetus there is now little chance of it subsiding, and if there is continuation of the attack next week, the franc will probably be let slide. Trip said that as long as the Frenchmen so doubt the franc and their Government, there is little which the American and British partners in the tripartite can say in behalf of the franc.

There

- 3 -

There is evidence of the forward belga beginning to suffer because of the fear that if there is any further serious drop in the franc, it would inevitably be followed by depreciation of the Belgian currency.

I had a talk with the representative of the Bank of Italy, who says that over this week-end the market expects some important monetary happening.

END SECTION TWO.

END MESSAGE.

BULLITT.

EA:LWW

Confidential

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[Handwritten signature]

Cabinet Meeting - August 12, 1938 - 2 to 4 P.M.

Present: The President and Messrs. Hull, Magill, Keenan, Woodring, Edison, Howes, Burlew, Wallace, Roper, Perkins, Hopkins

The President spoke first regarding his recent speeches in Georgia and South Carolina. He said that we all realized that some of the prominent leaders of the Democratic Party were conservatives and wished the party to be a conservative one. Furthermore, some prominent Democratic senators were content in the minority, since there was less responsibility and work involved. He had decided in May that it was time for the worm to turn and that if the party was to be a liberal party he would have to put up a fight. He said that the liberals might win or might lose, but in any event that it had to be tried out. He mentioned particularly Senator George and Senator Smith of South Carolina and Congressman O'Connor of New York.

Secretary Roper interjected that Johnson of South Carolina, who is campaigning against Senator Smith, was honest, but not very effective. As the Secretary put it, "Johnson will fall into any gutter that happens to be lying around." Secretary Roper said that for 20 years Senator Smith had managed to hold his post because the candidate opposing him had not been effective so that voters had merely a choice between two evils.

The President said that he found the Panama Canal much better defended than it was when he visited it three years ago. The Army and Navy are cooperating to good advantage. The principal need at present is for roads, to enable the quick movement of troops through the Canal Zone; and a third set of locks for the Canal not too close to the old locks. He said there would be some agitation to make the Canal a sea-level canal, but that it would cost \$500 million to eliminate the locks and only around \$100 million to build a third set of locks.

Secretary Hull reported on the European and Asiatic situation. Germany is seeking to be the colossus of Europe and the pressure on Czechoslovakia is increasing. The Czechs have an armed force of about 600,000 men and could place a million men under arms within 24 hours. The European situation is very precarious. Japan cannot win the Chinese war any time soon. Secretary Woodring reported that his information was that the Loyalists in Spain would hold out at least during the calendar year.

- 2 -

I reported that there was heavy pressure on the franc and to some extent on the pound, due to the disturbed international conditions to which Secretary Hull had referred. The French have been losing about \$10 million in gold a day for the past week in supporting the franc and on Friday they lost about \$15 million. We found it hard to determine at what figure the franc could be held unless conditions changed. The French have in their exchange fund a total of gold and foreign exchange of about \$300 million. We think that when that amount is exhausted the French will probably let the franc slide in order to preserve intact the gold reserve in the Bank of France, which in May amounted to \$2,400 million.

The President asked whether exchange control should not be applied by the French. I said that I was informed that it was now too late for exchange control to be very effective. Besides, the French Parliament would have to be called into session in order to adopt the necessary legislation.

The English are losing some gold and the pound has declined to \$4.87-1/8. However, most of the activity in the English markets appears to have been caused by sales of the franc and conversion into pounds, and thence into gold. The British have a balance of about \$4,500 million in gold. We have acquired about \$80 million in gold since July 15. I also reported that the stock market was weak, but that governments were holding up remarkably well. The bad feature in the situation is the decline in the commodities market which has occurred steadily since July 15.

Mr. Keenan reported that the Harlan trial would be postponed until next year and the case might never be retried. The President suggested that Federal investigators should be kept in Harlan County for a while to see whether or not the old conditions were repeated.

Mr. Howes reported on an airmail contract in which one bidder had offered to carry the mails for nothing. The President asked Mr. Keenan to prepare a formal opinion as to whether a bid of this character constituted the lowest bid.

Mr. Edison said that the bids for battleships would be opened on October 5, and that he was engaged in negotiations with the shipyards which claimed to be worried by the fact that the specifications were new and different from what had been put out before, and hence the yards were afraid that they might lose heavily on the construction. Messrs. Edison and Burlew both asked that the Civil Service executive order be changed so that PWA or WPA workers can be appointed on emergency work free from the Civil Service requirement. Mr. Burlew said that he could not get a Civil Service certification of available men in less than three months. The President said to give him the facts to show that Civil Service men were not really available for the work.

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Secretary Wallace stated that the wheat crop this year would amount to 955 million bushels. The domestic consumption is 650 million bushels. In 1937, 850 million bushels were produced and 98 million exported. The Canadians have fixed a price of 80¢ at Fort William. Their plan is to export the wheat and get what they can for it, the government paying the difference. The Canadian crop amounts to 3 million bushels. The big volume of Canada's exports occurs in October and November. Hence, Mr. Wallace recommended that we should pursue an active merchandising campaign abroad, using Commodity Credit or the regular exporting houses. He said he did not see any long-time solution for the wheat problem except a world ever-normal granary and a general understanding that taken year in and year out the United States would produce 750 million bushels and export 100 million.

He mentioned as one of his exporting efforts, the possibility of selling wheat to China, and stated that apparently Secretary Morgenthau favored it. He then showed the President my letter transmitting Secretary Morgenthau's cablegram, mentioning that Mr. Chen had been invited to come to Washington from China. The President suggested that it would be well to sell 10 or 15 million bushels of wheat to China and suggested that the State Department, the Treasury, and Agriculture should confer about the situation and cable to Secretary Morgenthau if necessary. (I told Secretary Wallace after the cabinet meeting that Mr. Taylor was handling the subject on behalf of the Treasury. The principal difficulty was in connection with the financing of the Chinese purchase, since China did not want to pay cash.)

The cotton price is still 5 points above that at which a cotton loan must be made and Secretary Wallace hopes that it will not be necessary to make such a loan.

Secretary Roper reported that business was improving; that the steel mills were working at 40 percent capacity. He brought up the problem of providing space for the work on the 1940 census which will require around 25,000 people. It has been suggested that a new building be constructed for this purpose at Wisconsin Avenue and E Street by a private contractor. The President suggested that Mr. Roper look into the question of sites outside the District so that PWA money could be used.

Miss Perkins reported that unemployment in England did not appear to be increasing. The English are studying the possibility of increased use of the land and also better distribution of the population. The President said that he thought that population distribution would be an important issue in this country and that he believed that we ought to encourage movements of the population from cities to the country. Miss Perkins reported that employment in July was up

- 4 -

70,000 over June, whereas there is normally a seasonal decline of about 90,000. More people are now at work than in 1933. The automobile workers are now being called back. She felt that we may be over the "hump," as she put it, on labor disputes between the employers and the unions, but that there were increasing difficulties between the CIO unions and the A F of L unions, particularly in the maritime industries. The Pacific Coast is settling down but jurisdictional disputes between the unions are apt to increase on the Atlantic Coast.

Miss Perkins felt that the first matter of importance under the wages and hours bill is that the standard set by Congress should be obeyed. The problem of raising the standard is a later one, but compliance must be secured first.

Mr. Hopkins said that it was very important that the departments which had received PWA money should begin to spend it at once. He reported on a case in Pensacola of money allotted for a naval hospital on which the plans were not yet drawn, so that the money would hardly be spent within the next two years. He said the South is much interested in the wages and hours bill and is anxious regarding its administration.

The President said that he was leaving Washington Wednesday night, to stay at Hyde Park until about the 29th. He expects to be here then for about 5 days and then to return to Hyde Park. Hence, there is no immediate prospect of another cabinet meeting.

Rm

MG

GRAY

London

Dated August 13, 1938.

Rec'd 9:10 a.m.

Secretary of State,
Washington.

760, August 13, 2 p.m.
FOR TREASURY.

There was a rather large gold turn-over for Saturday, 485 bars being sold at the fixing at 142 shillings 9 pence giving a one half penny premium on the basis of \$4.87 $\frac{1}{2}$. Information from market sources indicates that the demand for gold continues and the price is up to 142 shillings 9 $\frac{1}{2}$ pence, the dollar remains in strong demand and British authorities are operating heavily. Pressure continues on the franc, the three months forward discount having touched 7 $\frac{1}{4}$ pence.

The press reports there is a good deal of talk of the dollar going considerably beyond \$4.86.

JOHNSON

HPD

August 13, 1933.

Dear Mr. President:

I have been in communication with Secretary Morgenthau at intervals during the past few days, and the situation in the Foreign Exchange markets has become so serious that he asked me to give you a memorandum summarizing the situation. The enclosed memorandum covers the situation up to last night's close. While the markets are somewhat quieter today, the tendencies which I described continue to be evident.

If there are any aspects of the situation which you would like to have me elaborate naturally I shall be glad to do so.

Faithfully yours,

The President,

The White House.

encl

Memorandum for THE PRESIDENT

August 12, 1933

Secretary Mergenthau has asked me to give you a written summary of the international exchange situation plus an account of his experiences and activities since his arrival in France.

On July 7, the day of your departure from Washington, the pound closed at 4.92 1/2 and the franc at 2.77 1/2. At that time the undertone of the market, while not strong, was steady. However, hoarding of gold, particularly as evidenced by the premium paid for gold coins, continued to be a characteristic of the Continental markets.

Three weeks of comparative quiet followed. Then various rumors made their appearance. These rumors included statements to the effect that the pound and dollar were to be devalued in connection with the new trade agreement, that the pound was going to its old parity, and that negotiations of a new tripartite agreement which would include definite stabilization of the three currencies at lower levels were actively in progress, etc. These rumors, plus the fact that Great Britain's and France's trade balance figures continued unfavorable, plus the downward movement in world commodity prices which started in the latter part of July, tended to accelerate a movement into gold which was started by and dominated by the international political situation. The exchange markets and the gold markets have registered a steady and persistent decline on the part of individuals of large and small

- 2 -

means to get out of foreign currencies, particularly the French franc, and into gold. While the dollar has been fairly strong during this period, the price for gold in the London market has been steadily advancing, reflecting a demand for gold rather than for dollars. For example, the French Fund has lost about \$110,000,000 during the period in question. We estimate that the British Fund has lost some \$90,000,000, while we have gained only about \$31,000,000 in gold in our Stabilization operations. In other words, the movement has been out of Continental currencies into sterling and then into gold.

While our total gold stocks have increased \$84,000,000 during this period and \$20,000,000 is on route, these figures include domestic production and miscellaneous importations not directly attributable to the weakness in Continental currencies.

The movements and tendencies which I have described above have increased in strength during the present week. The French are in serious difficulties again and it is extremely unlikely that they will wish to or be able to hold the franc at its present level through another week. Their market will be closed until Tuesday but London and New York will be open on Saturday and Monday. The market expects a continuation of the present movement until or unless some miracle relieves the international political tension. Sterling closed tonight at 4.87 1/4, and the franc at 2.75 1/2.

Secretary Morgenthau's visit to Paris was extremely well received by the French Press and made an excellent impression in Continental circles generally. After three days in Paris he moved to Antibes where he was comparatively undisturbed until Wednesday of this week. The increased

pressure on the French prompted Harbordson to request Secretary Werguthman through the Embassy in Paris to issue a statement denying tripartite collaboration discussions. After consultation with Ambassador Bullitt and Kennedy, the Secretary replied that an individual statement did not seem to him either desirable or wise but that if the French felt their circumstances demanded a statement the Secretary would be prepared to agree to a joint statement, to be issued simultaneously, in the three countries, provided its form and substance were acceptable. Harbordson stated that he would discuss the question with the British, but up to this time the British have heard nothing from the French.

The only new development since Thursday is a conversation which Secretary Werguthman had with Bullitt in which the Secretary told Bullitt that the British did not seem opposed to the issuance of an innocuous statement and had no informed the Secretary through Ambassador. Secretary Werguthman suggested that Bullitt inform Harbordson of the British reaction to the suggestion of a three-countried statement.

During the period which I have described, we have kept the Secretary of State fully informed and have counseled him on several aspects of the situation.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: August 13, 1938, 3 p.m.

NO.: 1271

RUSH.

I refer to the latter part of my telegram No. 1267 of August 12.

I just had a telephone call from Saint, who is in Bonnet's Office. He said that again the French Government has changed its mind with regard to sending a formal note to the United States Government and to the British Government relative to the pressure on the franc, and the necessity of a common statement to deny the rumors that the Tripartite Agreement is to ^{be} modified. I was told by Saint that Bonnet now requests urgently that the note which he gave to me yesterday evening be transmitted to the United States Government as an official note. In addition, Saint said that this morning an identical note was handed to the British Chargé d'affaires.

END SECTION ONE.

BULLITT.

MG

GRAY

Paris

Dated August 13, 1938.

Rec'd 11:35 a.m.

Secretary of State,
Washington.

RUSH

1271, August 13, 3 p.m. (SECTION TWO)

A translation of the note is as follows: "The pressure exerted on the French currency, while not having its origin in circumstances related solely to the market for the franc, is entailing serious consequences for the stabilization fund and for the French Treasury. The French Government considers that it is acting in the spirit of the Tripartite Agreement in informing the Government of the United States that if the pressure on its money should persist, it would not be certain of being able to continue very long the sacrifices implied by the defense within the present system, of the existing monetary level.

It believes it necessary therefore that the governments signatories of the Tripartite Agreement seek in common, in the spirit of confident collaboration which has

Page 2, #1271 from Paris (Section Two)

has always inspired them the appropriate measures to ward off the attacks which at present are affecting the principal continental currencies. It stresses in particular the urgency of a common declaration tending to deny the rumors which continue to circulate regarding the possible modification of the Tripartite Agreement and of the existing monetary rates."

Cochran has telephoned foregoing to Secretary Morgenthau.

Please advise Treasury. (End Message)

BULLITT

WWC

HPD

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: August 13, 1938, 8 p.m.

NO.: 1272

RUSH

FROM COCHRAN

When I had despatched my telegram No. 1271 of August 13, 8 p.m., I got in touch with the Minister of Finance at the request of Secretary Morgenthau, transmitted through Ambassador Bullitt. The Minister of Finance and Rueff had gone out of town for the long weekend, but I spoke with Couve de Murville, who was on the point of leaving also.

I asked Couve de Murville what action they expected from the United States on the note from Bonnet; he replied that they sought our acceptance in principle of a common statement which they hoped (omission) on Tuesday, August 16th. I said that there was no chance of getting agreement from the United States either to the principle or the text of a communique for Tuesday unless by Sunday morning we had a draft of it. I told Couve de Murville that even then they should not expect us to join in any positive statement to the effect that the franc will not be further depreciated. Any communique would have to be carefully considered, since the French have indicated their own uneasiness on this point and had served us notice. I was informed by de Murville that the British had not given them any indication of their reaction. He told me that he would, however, get in

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in touch with Rueff and endeavor to telephone a draft text to me Sunday forenoon.

This evening I talked ~~in~~ with Secretary Morgenthau by telephone, and gave him the foregoing information. The Secretary said that Butterworth, who was with him, would telephone Phillips and let him know about it.

BULLITT.

EA:LWW

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.

HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

Aug. 14, 1938.

SECRET

From : The Secretary of the Treasury.
To : Assistant Secretary Taylor.

After Cochran gave me an account of his conversation with Rueff, Butterworth talked with Phillips he too agreed that the first and second parts of the French note were, from the British and American viewpoint, incompatible and as regards the "appropriate measures" mentioned in the note Phillips implied that the burden of proof was very much on the French. When informed that Rueff had stated to Cochran that the French draft of a possible statement would not be available until they had heard from the British. Phillips said that he had in mind a reply to the effect that nine tenths of their difficulties arose out of the actual circumstances, international and otherwise, unconnected with rumors and that too much protesting in the form of denials would really only make for further weakness. Butterworth asked him to have the British Embassy in Paris make the substance of their reply available to Cochran. Incidentally, Butterworth feels that the British technique will also be to have the Bank of England work on the Bank of France. Butterworth is attempting to get reservations which will permit him to be in London Tuesday afternoon.

SECRET

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: August 14, 1938, 5 p.m.

NO.: 1274.

RUSH.

FROM COCHRAN.

At 1:45 p.m. I had a telephone call from Rueff. He said that my message (reference: my telegram No. 1272 of August 13, 8 p.m.) had been given to him by de Murville. Thereupon Rueff drafted a common statement, and had had a telephone conversation with the Minister of Finance about it. Marchandean said he felt that they should not try any final drafting for transmission to us until they had had some word from the British about the note from Bonnet.

Rueff promised that if they had any draft to communicate to us on Monday he would call me; however, he thought it most likely that they would not have anything until they were all back in Paris on Tuesday morning, August 16. Rueff said that he was holding his own draft as a basis for their discussions at that time, and he thought that Prime Minister Daladier might also join in the discussions. As in my talks with de Murville, I stressed to Rueff our desire to know what they are going to do toward holding the franc during the time that a communique is being prepared, and then after issuance of such communique; I made it clear that we could not give our assent to a draft statement the same day that they submitted it to us.

Rueff

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Rueff said that he understood this and gave up the idea of issuing any communique on Tuesday. However, he still hopes that he can give us a draft text of a communique on Tuesday at the latest. Therefore we will be able to see how the Paris market develops on that day before having to take any decision in the matter.

At four o'clock this afternoon I telephoned the foregoing to Secretary Morgenthau at Antibes. I have been instructed to speak with him on Monday night at Brianon.

BULLITT.

EA:LWW

August 15, 1938

MEMORANDUM

When I received the Secretary's message of August 14th through the Coast Guard and compared this message with the Cochran and Bullitt cables (1271-72-74), I got the impression that we were in process of getting some wires crossed and that the interjection of Bullitt and Bonnet into the situation was taking the matter out of the established channels of Treasury-to-Treasury conversations and negotiations on all matters affecting the Tri-Partite Agreement. I therefore called Cochran to find out if the Secretary had engaged in any conversations with which I was not familiar which would render a change to Foreign-Office-State Department conversation desirable. Cochran described the situation as he understood it and stated that there were no reasons that he knew of for altering the established channels. I therefore called Livesey and Moffett of the State Department to emphasize to them the importance of keeping all these conversations on the financial level and asked them to make this clear to the French Charge d'Affaires here who had already approached Moffett with Bonnet's message. Moffett and Livesey both agreed completely with my recommendation and Livesey in turn cleared the matter with Secretary Hull, so that there should be no misunderstanding. Livesey informs me that Secretary Hull personally o.k.'d the request which I had made through him.

I felt that it was quite important to clarify this question before matters had gotten along too far.

well.

REB

GRAY

London

Dated August 15, 1938

Rec'd 3:12 p. m.

Secretary of State,

Washington.

769, August 15, 7 p. m.

FOR TREASURY.

Exchange market sources report quieter conditions with Paris and Brussels closed for holiday but no change in the general feeling and sterling still weak with considerable commercial demand and also Scandinavian buying of dollars. The British authorities are supporting sterling at \$4.87 1/8 and the franc at 178.29/32 and selling gold at 142 shillings 9 1/2 pence which is 1 1/2 pence over today's fixing price when 371 bars were sold at 142 shillings 8 pence quoted as a half penny premium on dollar 4.87 1/2. The three months franc apparently unsupported touched 7 1/2 discount but has improved to 7 1/8 with little business.

JOHNSON

KLP

RGC

August 15, 1938
Monday

Mr. Leroy-Beaulieu, French Financial Attache, called today at 3:30 P. M. and saw Mr. Taylor and Mr. Lochhead.

He explained the purpose of his visit was to ascertain whether the United States Treasury had an answer ready to the note from the French Government transmitted through the State Department by the American Embassy, Paris under date of August 13. He stated that prompt release of a joint statement on the exchange situation by the Tripartite members as requested by the French Government would be helpful, as the French market being closed today it might be possible for them to save considerable resources if the statement was made public before the French markets opened on Tuesday.

It was pointed out to Mr. Leroy-Beaulieu that we had not received the text of the proposed message from the French and pending receipt of the message, and an opportunity of steadying it, and consulting with the British, there was nothing the U. S. Treasury could do at the moment.

Mr. Taylor explained that we would be glad to give as prompt action as possible to their proposal, but the delay was evidently occasioned by the French Treasury officials' absence from Paris over the holiday. Mr. Taylor also explained that as Secretary Morgenthau was in close touch with the situation, it would be necessary for us to hear from him after the proposed statement was received before any

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answer could be given from this side.

Although Mr. Leroy-Beaulieu admitted that the international political situation was the main disturbing factor at the present time, he still felt that a joint statement to the effect that no new re-alignments of currencies were contemplated would be of great help to the French franc.

The attention of Mr. Leroy-Beaulieu was drawn to the fact that the note of August 13 had been addressed by the French foreign office to the U. S. State Department, which was contrary to the procedure always carried out in Tripartite matters of making such communications from Treasury to Treasury. Mr. Leroy-Beaulieu ventured the opinion that the reason for this was the absence of the Treasury officials from Paris at the time the note was dispatched by Mr. Bonnet, who was acting in a dual capacity as both Minister of Foreign Affairs and also former Minister of Finance. He agreed that any future communications should be addressed to the U. S. Treasury direct by the French Treasury.

Mr. Leroy-Beaulieu stated that he was staying in Washington to be of any assistance possible until this present emergency had cleared up.

Hanes read and return
Confidential

August 15, 1938

To: The Secretary

From: Mr. Magill

Luncheon with the President

The President said that you must be having quite a time in France. I told him that the French and British Governments and our own Treasury people had bothered you a good deal. The French had now sent a note suggesting a joint statement by the United States, Great Britain, and France, but had not yet given us the terms of the proposed joint statement. We thought it was probably too late for such a statement to be effective. The President asked about the Japanese resources and I told him that our last reports were that the Japanese had about \$200 million in gold remaining; and that they had recently shipped \$45 million in gold to us to be earmarked for them. The President then recounted reports transmitted to him by marine officers stationed in China regarding the ability of battalions of the Eighth Route Army to filter through the Japanese lines and to operate behind the lines in destroying or confiscating Japanese supply trains.

The President asked me what our recommendations on taxes should be. I told him that the budget estimate of receipts for the present year would prove to be approximately correct so far as present indications are concerned. In a year with business conditions as good as 1936, we might hope to obtain \$6 billion from our present revenue system, but it would take an unusually good year to bring in the \$7 billion which the President had mentioned in January as the normal level. I said our studies were directed toward a determination of the best means to produce \$7 billion of Federal revenue. The President then confirmed his opinion that \$7 billion should be regarded as the normal Federal budget. I said our studies indicated that we would need to increase estate tax rates and income tax rates decidedly in order to bring about the desired flow of revenues. I said I would not make any recommendation as to the timing of the proposed increase. The President said that one matter of timing was clear. If the proposed increases were not made next year, there was no prospect of making them before 1941. He expressed no opinion as to the desirability of increasing the income tax or estate tax rates in 1939.

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The President then said that he thought the elimination of governmental tax exemptions ought to be provided for in a bill in three parts. First, that the interest on future issues of state and Federal securities should be subject to the Federal income tax; second, that the interest on past issues should be taxed under the Glass proposal but at one-half the regular surtax rates; and third, that a statement of policy to the effect that the interest on future issues of Federal securities should be subject to the same rates of state income tax that the states applied to their own securities. He asked me to give him a memorandum on this subject. He asked my opinion as to the legality of the second part of his proposal. I said that in conversation with Mr. Justice Stone I had obtained the distinct conviction that the Court would be likely to uphold legislation applicable to the interest on future issues of securities, but that they did not want to uphold such a tax upon the interest from past issues and that they would like an assurance to the effect that the interest on past issues was not going to be taxed, in the same bill in which the tax was imposed on the interest from future issues.

I said that the Treasury had refrained from expressing any opinion as to the retroactive taxation of state officials' salaries, since the taxes on past salaries constituted an excellent trading point in our favor in seeking legislation making future salaries taxable. I, personally, would be willing to give up the taxes on past salaries back of, say, 1938, if we could secure the legislation for the future.

The President then said that he had two proposals which accountants unanimously disapproved, but which he thought would be desirable. First, he would like to see items of expenditures in the Federal budget which might ultimately be repaid to be separated out from the ordinary expenditures. He thought the repayments in such cases should be earmarked to retire on a forty-year basis Federal bonds which might have been issued to pay for the expenditure; and the balance set aside in a revolving fund to be reappropriated by Congress for similar purposes. He used as an example the expenditures on the Boulder Dam. He said that \$100 million or more had been spent on the Dam. Receipts are coming in at the rate of \$7 million a year. He would use \$2.5 million a year to retire Federal bonds and place the balance in a reserve fund to be appropriated by Congress for other similar projects. As a second illustration, he cited some naval historical publications for which an appropriation of \$10,000 had been secured. The first volume sold for a little over \$10,000 which went into the general fund of the Treasury. The Navy would have to seek a new \$10,000 appropriation in order to publish the second volume, etc. The President wanted the \$10,000 to be set aside and subject to reappropriation by Congress for the same purpose. In the second place, the President said he would be willing

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to see some taxes earmarked for special purposes. All over the country people thought that the gasoline tax receipts ought to be used for roads. He would be willing to see the Federal receipts earmarked for roads provided that it be understood that all kinds of roads were included -- roads in military reservations and Navy yards and National parks, as well as roads in the states.

I reminded the President of his speeches as Governor of New York regarding the desirability of coordination of state and Federal revenues, and suggested that there was no more pressing present problem. Neither government could well afford to give up sources of revenue, but a good deal of work could profitably be done on coordinating administration and the taxes themselves. I suggested that the President might well appoint a distinguished commission of five to look into the subject and to make a report. The President appeared interested but did not commit himself. He finally suggested that the Treasury should study the desirability of cigarette taxes and liquor taxes laid as a percentage of the selling price. He had in mind a cigarette tax of, say, 50 percent of the sales price. I told him we had done a good deal of work on the subject in 1934.

I also told the President of Senator Harrison's press conference, to which the Senator had expressed the hope that there would be no general tax revision this year.

I then handed the President my letter of resignation. He said that perhaps it would be wise not to give it out immediately, but that he would arrange at his Thursday press conference to have someone ask about my impending departure, and he would say that I was returning to Columbia in September. At some later time, possibly after your return, he would put a date on the letter and give it out.

RM

Confidential

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has read and return August 15, 1938

To: The Secretary

From: Mr. Magill

Senator Harrison asked me to see him prior to a press conference which he is holding at 11 o'clock today. The Senator told me that he expected to say the following: He hoped that there would be no general tax revision this year. A considerable number of the excise taxes expire on June 30 and the corporation taxes for the future will have to be provided. Consequently, there will have to be a tax bill. If expenditures are to continue at the present rate, it may be necessary to lower the exemptions and to make some adjustments in the middle brackets. He is opposed to any increase in the upper brackets because he thinks they are already too high. The matter of tax exemptions is now being studied both by a Senatorial committee and by the Treasury. The principal question is whether the exemption can be changed by statute or whether a constitutional amendment will be necessary.

I told the Senator that the summer had been dead from a news point of view and hence newspaper men had been asking me every week what tax studies the Treasury was making. I had told them that we are constantly engaged in collecting statistics and other information on the various proposals that are pending. I told the Senator that no conclusions had been reached on major questions of policy and, indeed, no recommendations would be formulated until the President and you had an opportunity to confer in the fall.

The Senator asked me whether I thought tax exemptions could be eliminated by a statute. I told him it was a question of forecasting the line that Supreme Court decisions were likely to take, but that my own opinion was that the exemptions could be ended by statute. The decision itself in the Port Authority case did not go so far, but the language of the opinion indicated that the Supreme Court would uphold a statute ending tax exemptions of interest on governmental securities and the salaries of state and local officials.

The Senator said that he did not like the way the budget was going; that he, himself, was opposed to a continuation of the present large expenditures, but he was afraid that they would have to be continued. He asked me what the budgetary picture was for the current year. I told him that the July 17 revised budget estimated total receipts for the current year of about \$5 billion; total expenditures of \$8,985 million and a budget deficit of \$3,984 million. The Senator said he did not see how we could possibly provide so large an amount of taxes except through a general sales tax which he had always opposed.

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The Senator also said he was very blue about the political situation. He had had it out with the President after the Conference Committee reached an agreement on the tax bill last spring. The President had told him that he ought to be more cooperative. Senator Harrison had said there was no man more cooperative than he, but that his tax philosophy and the President's tax philosophy were entirely different and no amount of discussion could bring them together. He said that Senator George is one of the best men in the Senate and if George is a conservative, he is too. The Senator said he expected that Senator George and Senator Smith would both win.

In response to his question, I told the Senator that I expected to leave the Treasury about the middle of September, and that Mr. Hanes would then be in charge of internal revenue. Senator Harrison said he had heard him highly spoken of and he wanted to meet him. I told the Senator that I would ask Hanes to give him a ring before the Senator leaves two or three days from now. Later in the day, I took Mr. Hanes up to see Senator Harrison, and we had a pleasant fifteen minutes together.

Rm

HARRISON PREDICTS WIDER INCOME TAX UNLESS TRADE RISES

Senator Warns That More
Revenue Will Be Needed to
Meet Federal Costs

SEES \$3,900,000,000 DEFICIT

He Says Nuisance and Undis-
tributed Profits Levies
May Be Prolonged

Special to THE NEW YORK TIMES.

WASHINGTON, Aug. 15.—Broadening of the base for income taxes to produce additional Federal revenue was pictured today as a probable necessity by Senator Harrison, chairman of the Senate Finance Committee, if business did not improve by the first of next year.

He gave this opinion in a discussion of the tax program faced by the next Congress, in which he also stated that new tax legislation would be inevitable next year because many miscellaneous taxes expire next June 30 and the controversial undistributed-profits tax law itself runs only until Jan. 1, 1940.

Senator Harrison, who led the successful revolt which forced the Administration to accept a much milder corporate-tax law than it desired, made clear that his opposition on that score had not abated and that he would fight any effort to revive the levies written into the 1936 law and modified in subsequent legislation.

The spread of income tax levies probably would be unnecessary if business showed a moderate gain, Senator Harrison said, because "the Federal Government has so many arms out for taxes now that an upturn in business would bring a great increase in receipts."

Warns of Big Deficit

"But the fact is," he added, "that we face a deficit in this fiscal year of some \$3,900,000,000. If conditions do not improve by the time of the session we naturally will have to consider lowering income tax exemptions and perhaps broadening the middle brackets. But I hope we won't have to do it."

"There won't be any new taxes if I can help it unless we have to raise more revenue to save the credit of the country. I would rather that it be done through a pick-up in business and curtailment of government expenses."

Talking informally to newspaper men, Senator Harrison indicated that he would probably support general continuation of the "nuisance taxes" and the current undistributed-profits tax rather than reopen the whole general subject of taxation.

"It will be necessary at the next session to have a tax bill," he said, "but I see no reason for a general revamping of the tax laws and look for no highly controversial question to arise in its consideration. The tax bill which Congress will pass must be considered in view of the fiscal and general economic conditions which at that time confront Congress."

"The bill is necessary because several of the miscellaneous or nuisance taxes expire June 30 and the Undistributed-Profits Tax Bill expires Jan. 1, 1940. At present it looks as though it will be necessary to extend the taxes on the miscellaneous items."

"It is impossible at this time to

tell what Congress will do about the undistributed profits tax. It is my opinion that unless we have not removed the surcharge and broadened the old law in this last year, it will be continued without change."

"It is impossible to tell at this time what the reaction of the country will be to the new tax bill. The taxes have yet been passed by the House. If it turns out that we have not removed the discriminatory features, we might have to go back to the old flat corporate tax."

Aside from such a possibility, however, Senator Harrison reiterated his belief that "Congress will continue the present set-up."

Senator Harrison refrained in this part of his discussion from referring to the administration demands for heavier imposts on undistributed profits, but said in answer to a question that he had "heard nothing from the White House to indicate the thing is going to be insisted upon again." But he added again that he would "fight any attempt to reinstate the features of the old 1936 tax law."

Says Corporate Tax Aided Recovery

Senator Harrison said he thought that the revamped corporate tax bill had definitely aided recovery, although he regretted that there had not been "complete unanimity" on it.

"I haven't had a single complaint to my committee on the undistributed profits tax such as we received after the old 1936 law was passed," he added.

Senator Harrison said, in response to other questions, that he expected some effort to be made in the next Congress to impose Federal taxes on State securities and wages, as recommended by President Roosevelt in a message last Spring, but expressed doubt whether this could be done by law, lacking an amendment to the Constitution.

"It is largely a constitutional question whether the Federal Government has the right to tax State bonds and salaries," he said. "As to whether we have the right to do that I am willing to be shown. The special committee now studying that will have a lot of influence upon what is done."

There is no question, the Senator said, that the Federal Government can tax its own securities.

Tax Increases To Hit 'Middle' Incomes Seen

Exemptions Will Be Cut If Business Fails to Gain Before Congress Meets, Senator Harrison Says

From the Herald Tribune Bureau

WASHINGTON, Aug. 15. — A broadening of the income-tax base by reducing exemptions and increasing levies on the middle brackets will be considered by Congress if business does not improve before 1939, Senator Pat Harrison, Democrat, of Mississippi, chairman of the Senate Finance Committee, said today.

"If we are impelled to get more money, which I hope we will not have to do," he said, "then we will consider reducing exemptions and increasing taxes on the middle brackets." If Congress decides to seek additional revenues in the income-tax field it will probably consider the La Follette proposals to reduce the exemption of married persons from \$2,500 to \$2,000 and for unmarried from \$1,000 to \$500.

Senator Harrison asserted he would oppose efforts to re-enact the rates of the 1938 undistributed profits tax. Furthermore, he asserted, when Congress considers a new tax bill at the next session and finds that all the "inequities of the 1936 undistributed profits tax have not been removed," it might go back to the old flat corporation tax.

"Any move to compel Congress to restore the old features of the undistributed profits tax will be fought by the Senate." On May 27 President Roosevelt at Arthurdale, W. Va., rebuked Congress for acceding to the demands of business by drastically modifying the undistributed profits and capital gains taxes. He set the bill become a law without signing it.

At that time Mr. Roosevelt said he would not rest until Congress has restored provisions designed to plug loopholes through which profits escaped taxation. The President's criticism was directed particularly at two points—what he called the inadequacy of the penalty for withholding dividends to stockholders, which was fixed at 2½ per cent, and the elimination of the graduated tax rate on capital gains, the rate fixed in the bill being 15 per cent regardless of the amount of such profits.

"Of course, I will fight against restoration of the 1936 undistributed profits tax at the next session," Senator Harrison said emphatically. "That is the sentiment of Congress." Chairman Harrison said he had not heard from the White House whether Mr. Roosevelt will demand restoration of these provisions to a new tax measure.

Sees Aid for Business

Chairman Harrison said the 1938 tax bill modifying the original 1936 undistributed profits tax had helped business. He added that if the measure had obtained unanimous Congressional approval business improvement might have been greater.

So-called excise or nuisance taxes, expiring June 30, 1939, will probably be extended by Congress, Mr. Harrison said. Taxation will be considered in the light of economic conditions. "It's impossible to tell at this time what Congress will do with the undistributed profits tax," he said.

Because of the fact that excise taxes expire on June 30, 1939, a new tax bill is necessary, he pointed out. The undistributed profits tax which was passed by the last session of Congress expires on January 1, 1940. Mr. Harrison expressed the opinion that Congress will continue the undistributed profits tax.

The chairman was asked whether Congress will tax other sources for revenues in addition to a possible broadening of the income tax base, continuance of excise taxes and taxation of future tax-exempt securities. He replied that the government's arms are already extended in many fields to obtain receipts and if there is a pick-up in business it will "get substantial revenue."

Senator Harrison said he had had no business complaints about the 1938 tax bill with its modified undistributed profits and capital gains provisions. He pointed out, however, that tax collections on the new measure do not begin until next March 15, 1939. He will be able to gauge business sentiment on the bill following first-quarter collections, he said.

Senator Harrison expressed the belief that taxation of tax-exempt Federal, state and municipal securities "is largely a constitutional question." His opinion is diametrically opposed to that of President Roosevelt, the Department of Justice and Treasury authorities. The President and his two administrative departments believe that tax-exempt securities could be taxed by legislation, instead of by a constitutional amendment.

Would Tax Securities

He said that although he differs on the method of attaining taxation of tax-exempt securities, he favors their taxation. "I think it was a big mistake to have permitted the issuance of tax-exempt securities," Mr. Harrison asserted.

"The Federal government has the power to place a tax on its own securities, but such a step would place state and municipal securities on a favorable plane to the disadvantage of the government bond market," he observed. "A settlement of this controversial question affecting all types of tax-exempt securities is preferable."

Senator Harrison took issue with the report on the South prepared under the direction of the National Emergency Council by a group of Southerners in which they painted a

black picture of economic and social conditions of that section of the country.

He was asked what effect the wage and hour bill will have on the South. He replied: "If it is fairly administered it will work a hardship, but if it is administered sensibly it will do harm."

"I have lived in the South all my life," Senator Harrison said, commenting on the N. E. C. report. "I think the Southern people understand our economic problems. I do not think somebody else who lives 1,000 or 1,500 miles away can diagnose and tell us of our situation quite as well as some of us who have studied it and whose hearts are in it."

Says South Is Happy

"No one can tell me that the South is the poorest and most ignorant section of the country. We are getting along pretty well. Our people are the happiest in the world and we are doing our best to better the situation. Of course we have had a lot of people we had to take care of for a long time. A lot of our white people who had a hard row to handle, because of conditions placed upon us some years ago. But we are making great strides, great progress."

"I think that the people who have lived there know that certain things blasted all over the country that we are the poorest and most ignorant section are not true."

Last June President Roosevelt, in a letter to the conference on economic conditions in the South, described the South as "the nation's No. 1 problem," and requested the N. E. C. to organize a study of conditions in the South by prominent Southerners.

The report, presented as wholly the work of Southerners, was handed to President Roosevelt when he arrived at Pensacola from his fishing and political trip. The report painted a dire picture of conditions under which a large section of the 28,000,000 of the South's inhabitants live. It offered no specific recommendations but asserted that the South's problems "are not beyond the power of men to solve."

FEDERAL RESERVE BANK
OF NEW YORK

August 16, 1938

OFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE

Telephone Conversation with

SUBJECT:

Banque de France

J. W. McKeon

I telephoned Mr. Cariguel at 10:11 am, our time, today, and told him that exchanges had been very quiet yesterday due to the holiday in France. Cariguel seemed quite happy over the telephone. I asked him if he thought conditions were any better on the continent. He replied "the situation is slightly easier; not so bad as it was at the end of last week." I asked him how he had made out yesterday and Saturday in the London market. He said he had lost a little exchange on Saturday but that it had been very quiet in London yesterday. He remarked that the dollar was weak in London this morning but believed it was only temporary due to short covering and a small demand for pounds sterling. The Paris forward market still continued easy but not offered quite as heavily as last week. I asked him how he was making out today and he said he had lost about \$800,000 so far this morning and expected to lose a little more before the day was over.

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

CONFIDENTIAL FILES

DATE August 18, 1936

SUBJECT Telephone Conversation with

J. W. McKeon

Bank of England

At 10:55 am, our time, today, I telephoned Mr. Belton at the Bank of England, and in his absence spoke with Mr. Tonge. I told him that due to the holiday in France yesterday exchanges had been extremely quiet. I said that we were interested in knowing the reason for the strength of sterling this morning. He said there was definitely a much brighter current on the continent today; however, he was not very optimistic as to whether it would last. Paris, Brussels, and Amsterdam seemed more cheerful today, not so nervous as last week. The pressure against the franc had moderated somewhat in the last few days, particularly the three-month forward francs. Early this morning in London there had been a little bidding for the dollar but after the demand had been satisfied, the dollar turned offered. One or two of our large American banks were in the market this morning selling sterling at 487 7/8. I told Tonge francs continued weak in our market; on Saturday we had purchased francs 23 million and yesterday 10 million. He was very much surprised that that was all we had had to purchase to maintain the franc at its 178.90 level. I told him I believed that any selling of francs in the New York market had come from the continent. I also mentioned to Tonge that nothing had come through on the Air Ministry payments.

With reference to Japanese gold, I gave Tonge some indication of the total gold shipments now on the water or to be shipped, and I said that we had been instructed to earmark some of

FEDERAL RESERVE BANK
OF NEW YORKOFFICE CORRESPONDENCE
CONFIDENTIAL FILESDATE August 16, 1938SUBJECT: Telephone Conversation with
Bank of EnglandFROM J. W. McKeon

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the shipments instead of offering the gold to the San Francisco Mint for sale. Tonge said that there had been a little demand for gold after fixing and that there had been considerable re-selling for speculative and hoarding accounts. For the first time in several months, Russian gold came into the market yesterday.

JWCK:BOG

REB

GRAY

London

Dated August 16, 1938

Rec'd 2:28 p. m.

Secretary of State,
Washington.

778, August 16, 6 p. m.

FOR TREASURY.

Exchange market sources report that though they expected heavy business today there has been a complete change in sentiment though this may be temporary. British authorities sold a few dollars 4.87 1/8 shortly after the opening but subsequently sterling improved on market buying to \$4.88 1/2. The franc has been easily held by the French authorities at 178.90 and the forward rate was brought down to 6 3/4 discount by a slight manipulation. Only 412 bars of gold were sold at the fixing at 142 shillings 8 1/2 pence giving a half penny premium on the basis of \$4.87 5/16th. The gold price after the fixing has remained at about the fixing level and the market has been narrow.

JOHNSON

HPD

Paraphrase of Telegram
of American Embassy at
Paris, No. 1280,
August 16, 5 p.m.

CONFIDENTIAL

At luncheon today I chanced to meet Marchandau and we talked briefly about the present financial situation.

He said that he now agreed with the opinion I expressed to him last Wednesday (my 1256, August 11, 6 p.m.) that the present demand for gold in France has much more profound causes than the rumors of a joint devaluation of the three currencies. He said that heavy as the demand for gold had been in France, the demand in England had been three times as heavy. Clearly there was a profound wave of distrust throughout Europe of the stability of the French and British currencies. Gold would be taken so long as the British and French would give it freely and dollars would be bought if gold should be refused.

As he now felt that it was impossible to arrest the present demand for gold without more far-reaching action than a mere denial that there is any plan for simultaneous devaluation of the three currencies, he felt that some decisive action should be taken and that any declaration that is made should be in conjunction with this decisive action.

When I asked what decisive action he had in mind, he replied that he had not yet made up his mind. The chief question was whether or not the British would be willing to

Paris, No. 1280 - 2.

take any decisive action.

With regard to the proposed declaration denying that there is any plan for simultaneous devaluation, Marchandean said that our Treasury Department (Mr. Taylor) had indicated to the French Financial Attache that it is ready in principle to participate and that the British Treasury had indicated a willingness to participate. He said, however, that he had not yet decided whether it is advisable to draw up an immediate declaration and I gathered that the entire situation is under discussion between him and the British Treasury.

He promised to keep us fully informed as to the progress of his thoughts. Mr. Cochran, at my request, will telephone the foregoing to Secretary Morgenthau.

BULLITT

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: August 16, 1938, 9 p.m.

NO.: 1383

RUSH

FROM COCHRAN.

On Saturday at London the French stabilization fund lost three hundred thousand pounds; on Monday it lost one hundred thousand pounds, and today it lost one million four hundred thousand pounds.

Thus the week-end and holiday are followed by recurrence of the pressure on the franc that prevailed last week.

Today three months premium on sterling was reduced from 7 3/8 to 6 1/4, but there was no significance to this move. A report from dealers in gold is to the effect that inspectors of the Ministry of Finance are increasing check-ups on their operations.

At half-past eight this evening I had a telephone conversation with Secretary Morgenthau at Aix les Bains. Tomorrow he will be in Geneva and from there he will instruct me whether he wants me to go to Switzerland tomorrow night for consultation with him.

BULLITT.

EA:LWW

FEDERAL RESERVE BANK
OF NEW YORK

157

OFFICE CORRESPONDENCE

TO CONFIDENTIAL FILES

FROM J. W. McKeon

DATE August 17, 1938

SUBJECT: Telephone Conversation with
Bank of England

At 11:30 am, our time, today, I received an urgent telephone call from Mr. Bolton. He had just returned from a short visit to Paris and wanted to inform us that things are pretty bad in Paris. Very bad news may be expected from Paris within the next few days, probably the early part of next week. He said that at the present time there is a large capital movement from Paris to London which he believes will continue and will run into very large figures. Under the circumstances Bolton hopes to be able to maintain the sterling-dollar rate at around 4.88 at least for the time being. He said he could hope to do nothing better. He believes it better to keep the market steady than to permit wide fluctuations. During our conversation Bolton mentioned that he had just sold \$5,000,000 against our gold order and that most of the dollars he is supplying are going into the French market. The French franc continues to be freely offered and Cariguel is still holding the cross rate at 178.90. Cariguel has lost several million pounds so far today. I asked Bolton if he thought that this recent trouble in France might result in exchange regulations or a higher French-English cross rate. He replied that it is very largely a French and internal problem but nevertheless it may cause further disturbances in Europe.

I thanked Bolton for calling and promised to telephone him at 10:30 am, our time, tomorrow.

JWCK:BQC

DEPARTMENT OF STATE

THE SECRETARY

Aug - 11 - 38

Sec. Hull directed
that the attached be
returned to Mr. Faylor -

C. V. Gandy



HEADQUARTERS

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO NO.

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

Aug. 17, 1938.

159

From: The Secretary of the Treasury.
To : Assistant Secretary Wayne C. Taylor.

Strictly confidential. " In regard to request of Marchandean that I give out statement denying rumors about my supposed negotiations my first reaction was against doing so and at noon today Wednesday discussed the request with Joe Kennedy who felt strongly I should not. Bullitt called me this afternoon at five and advised against statement. I feel that present weakness in franc and sterling must be based on something more substantial than gossip. I am particularly disturbed because Marchandean seems to be looking for an excuse to let franc go above one seventy nine. Please inform Hull of the contents of this message. Signed Morgenthau.

SECRET

JR

PLAIN

London

Dated August 17, 1938

Rec'd 2:45 p.m.

Secretary of State,
Washington.

RUSH.

784, August 17, 7 p.m. (SECTION ONE)

STRICTLY CONFIDENTIAL FOR ASSISTANT SECRETARY OF
THE TREASURY TAYLOR FROM BUTTERWORTH.

I returned to London 8 o'clock last night.

Sir Frederick Phillips sent for me and discussed
at some length the French situation.

He let me read the British reply to the French note
of August 12 which was sent in confidential code to
the British Embassy in Paris and delivered orally to
Bonnet. While admitting that there is some disturbance
of the European currencies due mainly to the international
political situation it states that advisers of the
British Government are unanimously agreed that rumors
of changes in the value of the Tripartite agreement
currencies have little or no practical effect on the
situation, that such rumors existed before Mr. Morgenthau
went to France, and it is always possible that they will
reoccur from time to time but at this moment

international

-2- #784, August 17, 7 p.m. (SECTION ONE) from London.

international political events completely overshadow other considerations. It goes on to state that the effect of denying such rumors in a formal and official manner would not be likely to be beneficial; that the fact that the Governments would be forced to give an explanation would be taken by the market as a sign of weakness and an effort to distract attention from the real causes. The position therefore would only be aggravated if demands for gold in London would not be fully met and there is no question of interfering with London's free gold market.

I also obtained from Phillips a copy of a proposed Tripartite statement which Monick handed to the British Treasury when he returned from Paris Tuesday morning. He said that he was acting on behalf of Daladier. Phillips did not gather that Daladier had approved of the text as such which was probably drafted by Monick himself but that it probably was as Monick maintained, the kind of statement which Daladier would think appropriate. The translated text is as follows: "The Governments of the United States of America, of Great Britain and of France, (a) in view of the unjustified return

-3- #784, August 17, 7 p.m. (SECTION ONE) from London.

return to the hoarding of gold, its incidence on the position of exchanges, the instability of the financial markets, (b) considering, on the other hand, that the production of gold has never attained the present figures, that the metallic reserves in the United States, in Great Britain and in France have increased all their forces of credit to unthought of proportions, and that their capacity of production is greater than ever, (c) noting that the last monetary adjustments have now attained their end; considering that for the future it is on their closely concerted financial and commercial policy that the new economic adjustments, which are still necessary, depend, (d) determined above all to maintain the foreign exchange value of their internal currencies which guarantees their purchasing power and the stability of price, (e) declare solemnly that their common monetary policy excludes all manipulation tending to new devaluation, (f) decide to base on their large available stocks of gold and their forces of credit the execution of a collective program of economic recovery, of development of international commerce and of assistance to countries more especially affected by the crisis and by the political instability in Europe and in the rest of the world, (g) constitute from now

on

-4- #784, August 17, 7 p.m. (SECTION ONE) from London.

on among themselves a committee of permanent international action charged with putting this program into effect and gradually to pursue its realization."

Phillips told me in the strictest confidence that Daladier had addressed a personal and private letter to the Prime Minister which was dated August 12 but received August 15. (Incidentally Phillips specifically asked that no mention of it be made in my telegram to Paris the text of which follows below). In this letter Daladier set forth the difficulties of the French position and Government and indicated that he had an internal plan which he wished to put into effect but could not do so except under cover of and in conjunction with an international arrangement. He gave no details of his internal plan. He emphasized the dislocating effect of the fluctuations in the price of gold incident to hoarding and dehoarding movements and implied that inasmuch as the Tripartite currencies controlled the overwhelming majority of the world's gold stock it was up to them to produce a plan for its use in restoring international commerce. He concluded by asking the British Government to enter into discussions immediately with a view to producing some scheme and prophesied

"disastrous

-5- #784, August 17, 7 p.m. (SECTION ONE) from London.

"disastrous things for next week". Phillips said the British reply had not yet been formulated but that it would be designed to get at the real intentions of the French. It would ask about the internal plan and at the same time point out that whereas it was highly desirable to use the available gold stocks to facilitate international commerce there was no new plan at hand for the execution of such a purpose. It would also mention that the price of gold had in fact been remarkably steady, not having varied more than 3 per cent which was scarcely more than a gold point variation. It would also mention that because there had been a strong movement into gold there was no reason to believe that it would go on forever and that there was in private hands in London about the same amount of gold now as at the time of the signing of the Tripartite Agreement.

UNSIGNED

KLP

Section 2 of telegram No. 784 from London Aug. 17

7 p.m.

Following ^{are} ~~by~~ the two telegrams I sent Cochran this afternoon which give Phillips views on what he takes to be "the real inwardness of the situation".

1. "Rush. From Butterworth for Cochran, August 17 4 p.m. Strictly confidential. The British interchanges with the French leave Phillips convinced that his Government and the United States Government are about to be confronted by the Daladier Government with three alternatives:

- (1) "The Daladier Government might resign;
- (2) "Exchange control might be imposed;
- (3) "The franc might be further depreciated, presumably to another established but lower level.

"Phillips believes (1) to be an unlikely contingency since he does not think Daladier wants to resign.

"On alternatives (2) and (3), he asked me pressingly for a definition of the American attitude. I countered by pointing out (a) that I have no instructions covering this point, and (b) that by the manner in which it had conducted the recent interchanges, the French Government itself had shown that it looked to France's allies, the British, for a prior definition of attitude.

"Phillips then stated that as regards the second alternative he did not see how France could still adhere to the terms of the tripartite agreement while imposing

-2-

exchange control, and that, as he had so often mentioned to me, he did not believe exchange control was workable in France. He asked whether we concurred in his opinion that the French Government has no existing legal powers whereby to impose an exchange control. I told him that when I was in Paris two weeks ago I had asked you the same question and that you too did not know of any legal means whereby exchange control could be imposed ~~by~~ without obtaining the approval of the French Parliament. He said that since this is the case, he could conceive of nothing which would do more harm than to call the French Parliament at such a time for such a purpose. On that score alone he felt that alternative (2) should be excluded.

"On the third point he said 'we certainly shall not advise the French to depreciate the Franc further'. I said I took that to mean that in the last analysis the British would acquiesce in further depreciation. He agreed.

"Phillips said the French have advised the British that a monetary decision must be reached before next Monday, August 22. He therefore wants an official expression of our attitude in the premises as soon as possible. He asked when you would see Mr. Morgenthau. I told him you might possibly be leaving for Geneva tonight. He expressed the strong hope that you would carry the foregoing information with you to Mr. Morgenthau and I am therefore telegraphing this to you.

-3-

He made a particular request that it be not transmitted orally over French telephone lines. In view of the Monday deadline Phillips asks for an expression of our attitude, if possible, not later than tomorrow afternoon.

"Copy to Washington."

Telegram two. "August 17, 5 p.m. Double priority. Rush. Strictly confidential. From Butterworth for Cochran.

"I have had occasion to see Phillips since I talked with you. I told him that you might not leave tonight and that by staying it might be possible for you to obtain a statement from the French. He was sure that no worthwhile statement would be forthcoming because it is obvious the French are awaiting an indication of the British Government's views. The latter in turn did not wish to move without prior consultation with us. He most strongly urged again the desirability of immediate action.

"I pass this on to you for what it may be worth."

While the first part of this message was being sent Phillips telephoned to say that he had just had "reliable advices from a private source in Paris" to the effect that there were two parties within the French Government as regards the alternatives two and three referred to above and that inasmuch as alternative two would require the calling of the French Parliament the advocates of this course would doubtless

-4-

be defeated and might well have to be dropped from the Government. His informant also had warned him that Daladier had a way of signing papers which he had not himself prepared and to the contents of which he had not necessarily given careful consideration.

Will you please advise me tomorrow when I may expect our official reply. END OF MESSAGE

JOHNSON.

EA:FL:DJW

RECEIVED
JAN 11 1944
U.S. DEPARTMENT OF JUSTICE
WASHINGTON, D.C.

EDA

PLAIN

LONDON

Dated August 17, 1938

Received 4:30 p.m.

Secretary of State

Washington

785, August 17, 8 p.m.

FOR TREASURY FROM BUTTERWORTH.

Looking over the press clippings on my return I get the impression that whatever emphasis was placed on devaluation and realignment rumors two weeks ago has now largely been submerged in the political situation which is recognized as the dominant immediate factor in weakening both sterling and the franc, the latter being also constantly influenced by the French fiscal outlook. It is noteworthy that yesterday sterling was not weak in spite of the publication of unfavorable British July overseas trade returns.

However, articles which argue that sterling is overvalued in terms of the dollar are appearing in many journals, and talk of the dollar going beyond the old parity is increasing.

For example the following quotation from the STATIST of Saturday last: "It is somewhat surprising that once this stage (sterling within the old gold points) was reached

EDA - 2 - #785, August 17, 8 p.m. from London

reached there should have been no greater indications of profit taking repurchases of sterling against dollars --- must one then suppose that the traditional parity does not possess this backing (a psychological resistance point) and that the view is spreading that it may well be swept aside by the forces that are pulling down sterling in terms of the dollar? It is unquestionable that such a view is gaining ground".

The EVENING STANDARD last Wednesday ran the following on its financial page "Towards 4.50. The view has often been attributed to our authorities that the \$5.00 to the pound rate seriously overvalues our currency, and that a rate nearer 4.50 is more in keeping with the true situation. Accordingly, while our authorities are probably anxious to prevent a too sudden depreciation in the pound against the dollar, over the longer period they may well take the view that economic forces must cause the dollar rate to move towards 4.50. Their recent actions suggest that this is the case."

And finally, today's leading editorial in the FINANCIAL NEWS asserts that though for the moment pressure seems to be over, the essential problems which created it remain. "The statistical pointers, in short, surely indicate over-valuation of sterling." The article states that

EDA - 3 - #785, August 17, 8 p.m. from London

that there are three long term alternatives open to the British authorities, namely deflation to reduce costs, which is impracticable, "or they may allow sterling to fall to, say, 4.50 at the expense of a certain strain upon Anglo-American economic relations and a possible currency war." Or they may lose gold to support the old parity rate. The writer's opinion is that "the maintenance of the 4.87 rate might be costly but in the long run it would be less expensive than a breach in Anglo-American relations." The article concludes by stating that the loss of gold would provide breathing space for making cost adjustments and possibly establishing some export subsidies.

The British July overseas trade returns record further marked declines in imports of raw materials and much less than the usual seasonal increase in exports, the deterioration in capital goods export markets having now begun to show. The adverse trade balance which for the past three months had shown a slightly improving trend was for July again greater than a year ago and the import surplus for the first seven months of the year of 235,000,000 pounds compares with 223,000,000 pounds for the corresponding period a year ago with the added
certainty

EDA - 4 - #785, August 17, 8 p.m. from London

certainty of substantial reductions in invisible export receipts. The cost problem is evident from the fact that whereas exports of manufactures declined in volume during the first half of the year as compared with the first half of 1937 by 17 per cent but increased in price by over 5 per cent, the total retained imports which fell in volume B P $5\frac{1}{2}$ per cent showed a fall in price also of $5\frac{1}{2}$ per cent. These facts may be cited as making for a weak pound but a basic economic factor unmentioned in the press, is that British industry is riddled with monopolistic price fixing systems especially in steel and coal which affect nearly all producers and this is also playing its part in the cost problem which is furthermore affected by armament activity.

Analysis of Anglo-American trade shows that imports from the United States are now falling substantially except for foodstuffs, oils and a few armament materials. These imports are influenced by war needs and many must be imported irrespective of price. Furthermore, the period of heavy imports from the United States of metals and machinery now appears to be tapering off. In spite of an increase of nearly 1,500,000 £ in imports of grains and 500,000 £ in oils in July 1938 as compared with July 1937, the total imports from the United States were

EDA - 5 - #785, August 17, 8 p.m. from London

7.7 million pounds or about the level of July last year. This trend has been evident since April in which month the iron and steel duties were reimposed.

Only 211 bars of gold were sold at the fixing at about parity. There was little demand for gold after fixing when the price touched 1428 5D Coin dealings were less.

Conditions in the exchange market were relatively quiet with the British authorities operating at between 4.88 3/16 and 4.88 1/4. There was little pressure and this rate was easily held. The same was true of both the spot and forward franc the French authorities having fairly easily kept the three months discount around 6 3/4.

JOHNSON

NPD

REB

PLAIN

London

Dated August 17, 1938

Rec'd 5:30 p. m.

Secretary of State,
Washington.

RUSH

788, August 17, 11 p. m.

STRICTLY CONFIDENTIAL FOR ASSISTANT SECRETARY OF
THE TREASURY TAYLOR FROM BUTTERWORTH.

Phillips has just telephoned me to say that he gave the British answer, along the lines indicated in my 784, August 17, 7 p. m. to Monick earlier this evening. Monick was very disgruntled about its substance and said that the British were driving them to a course of action that the British themselves did not like. Phillips said that he frankly replied that that was bunk.

Phillips also stated that he gathered that the French would probably appeal to us and that Monick had gone so far as to ask what would be the British Government's attitude if the French could persuade the United States to make a statement without British assent.

Phillips

REB

2-#788, From London, Aug.17,11p.m.

Phillips replied that he would be glad to have a look at any such statement and he felt sure that the United States would afford the British Government an opportunity to do so before any such possible statement was made public. I venture to say that such a course of action as Monick suggested seemed most unlikely and I felt equally sure that Phillips was right in his assumption.

The Secretary of the Treasury telephoned me tonight and asked about the position. I supplied him with the kind of summary that can be given over the transcontinental telephone. He said that Cochran would meet him in Basel on Friday morning and he requested that I attempt to get there also; and it was arranged that I would go if it were practicable, and that in any case Cochran would carry with him all available documents.

I believe a plane leaves tomorrow shortly before 1:00 P. M. May I hear from you before then?

JOHNSON

NPL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: August 17, 6 p.m.

NO.: 1287

RUSH FROM COCHRAN

Although it was thought by market observers that the pressure on the franc was comparatively light today, on a visit at 5:15 I learned that by that hour the French control had yielded over one and a half million pounds with a continuing demand for sterling. This afternoon London was likewise feeling a strain, having to yield both gold and dollars reversing the improvement that had been evident in the rates of this morning. Rumors in inside circles of difficulties within the French Cabinet and particularly the possible resignation of Marchandeu, Minister of Finance, has caused part of the nervousness in Paris this afternoon. Incidentally, fourteen one hundred dollar bills were today purchased by lady friend of Minister of Justice Reynaud.

Demand is increasing for those French securities which carry a guarantee of exchange. My friends in official circles are of the opinion that there is a growing feeling in France against any further devaluation of the currency.

123 million francs of gold bars were today invoiced by Bank of France to Federal Reserve Bank of New York aboard the DE GRASSE.

-2-

Regarding my message of yesterday, it is confirmed in the press that an old regulation had been revived which requires dealers in gold coins and precious metals to incribe the names of the purchasers and sellers in their books.

END OF MESSAGE

BULLITT

EA:DJW

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris
DATE: August 17, 1938, 8 p.m.
NO.: 571.
RUSH. FOR COCHRAN FROM TAYLOR.
STRICTLY CONFIDENTIAL.

I have sent the following comments to Mr. Butterworth, in response to questions presented by his conversations with Phillips:

"Naturally I cannot speak for the Treasury, as we have had no definite proposals from the French, and with Secretary Morgenthau on ground.

However my own feeling has been and is now that the international political situation is the dominant factor in the French situation; that any measures such as exchange control or a further devaluation of the franc will merely provide a breathing spell, until some miracle alters this outlook, and that the French have something much more far-reaching in mind such as the common utilization of gold resources implicit in Monnick's statement and also in the wording of the communication (Paris Embassy's No. 1271 of August 13) which was drafted by Bonnet and handed to us and to the British. In addition, on account of the strong commitments

-2-

commitments to hold the franc and not to impose exchange control, I do not think that Daladier can employ either method (2) or (3) without convening Parliament.

France could decide not to give up any more gold, however, and the franc might then be permitted to depreciate to whatever level it might be forced ^{to} by pressure. It is obvious that this would be a complete violation of the Tripartite arrangements, and we would have no alternative. France would have to withdraw from the Club. By a process of elimination one therefore returns to some method by which Great Britain and ourselves can support the franc during an indefinite period of tension. I cannot see how this Government could agree to such an undertaking or to any statement which would imply such an action under any circumstances. This implication is strongly given by both Monnick Daladier and Bonnet statements. Finally, since we naturally would not make any statement without consulting the British, I do not feel that any joint statement which falls short of this type, which we cannot make, would be effective.

I think it would be useful for you to go to Switzerland.

This message has been repeated to Cochran."

In case Butterworth does not go to Switzerland with you, please convey this message to Mr. Morgenthau as representing in general the views of Mr. Lockhead and myself.

HULL

Same to Amembassy London, for Butterworth as No. 458, omitting first and last paragraphs.

Regraded Unclassified

Extra Copy

August 10, 1938

Dear Mr. President:

On receipt of your memorandum of August 10, 1938 enclosing Ambassador Bullitt's confidential letter to you on the proposed gray-goods and flour credit to China, I discussed the matter with Mr. Wayne Taylor, who has been keeping in touch with this situation. In accordance with your instructions, Mr. Taylor called on Secretary Hull this morning. Secretary Hull will explore the question further with members of his Department and with the Chinese Ambassador and will inform us of the Department's attitude as soon as possible. Mr. Taylor has already discussed various aspects of the situation with Secretary Wallace, and will speak to him further after we hear from Secretary Hull.

Our last information on Secretary Morgenthau's position was contained in a message which we transmitted to Secretary Wallace on August 8, 1938, and which he showed you at Cabinet meeting, August 18th. The full text of this message follows:

"Am not familiar with details of proposed loan to China. Before I left Washington you and I were waiting to hear from Hull. You know I favor making flour and cotton gray goods loan to China. If after President's return Treasury is the only stumbling block to Chinese loan will contact Taylor and ask him to state his objections. For your very confidential information, have invited E. P. Chen to come to Washington to discuss Chinese financial outlook early in September."

Incidentally, as I mentioned on Friday last at Cabinet meeting, we have received word that E. P. Chen is unable to accept Secretary Morgenthau's invitation and that his substitute has not as yet been determined. This information has been transmitted to Secretary Morgenthau and we are awaiting further instructions from him as to his preference in the matter of a substitute.

Faithfully,

The President,

The White House.

Acting Secretary of the Treasury

RM/egh

August 16, 1930

Dear Mr. President:

On receipt of your memorandum of August 16, 1930 enclosing Ambassador Bullitt's confidential letter to you on the proposed Grey-Goods and Flour exports to China, I discussed the matter with Mr. Wayne Taylor, who has been keeping in touch with this situation. In accordance with your instructions, Mr. Taylor called on Secretary Hull this morning. Secretary Hull will explore the question further with members of his Department and with the Chinese Ambassador and will inform us of the Department's attitude as soon as possible. Mr. Taylor has already discussed various aspects of the situation with Secretary Wallace, and will speak to him further after we hear from Secretary Hull.

Our last information on Secretary Morgenthau's position was contained in a message which was transmitted to Secretary Wallace on August 9, 1930, and which we showed you at Cabinet meeting, August 15th. The full text of this message follows:

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Faithfully,

The President,

The White House.

Acting Secretary of the Treasury

W/ogk (Reply prepared in collaboration with Mr. Taylor)

THE WHITE HOUSE
WASHINGTON

CONFIDENTIAL

August 16, 1938.

MEMORANDUM FOR

THE ACTING SECRETARY OF THE TREASURY

Dear Ross:-

I enclose a confidential letter just received from Bullitt. I hope much, and I know Morgenthau agrees, that we should do everything possible.

Will you push this with State Department and Agriculture and, if necessary, R. F. C., Commodity Credit and Export-Import Bank and let me know as soon as possible?

F. D. R.

FDR

Paris, August 8, 1938.

Personal and
Strictly Confidential

Dear Mr. President:

From a multitude of reliable sources, I have been informed during the past two months that the Chinese will be at the end of their financial resources by the first of next January, unless they can obtain credits abroad. Chiang Kai-shek's will to fight and the courage of the Chinese people remain unbroken; but there will be just no money to buy anything. I have had this information in a series of messages from Chiang Kai-shek, T. V. Soong, and Doctor Kung transmitted to me by the Chinese Ambassador here, and I have had the same information from a horde of detached observers.

As you will recall, some months ago Bonnet said to me that he hoped it might be possible for the United States to extend some sort of a credit or
loan

Honorable

Franklin D. Roosevelt,

President of the United States of America,

The White House.

loan to China and that he was certain that if we should be willing to act, both France and Great Britain would act simultaneously though not jointly. Two days ago, Bonnet reiterated this to me. He added that he was certain that either England, France, or the United States could give credits to China without provoking any serious Japanese reaction. The Japanese were too involved in China and were too fearful of Russian attack to dare to act against either England, France, or the United States.

This reasoning seems to me sound. I believe we should, however, avoid putting ourselves out on any long limb. I do not think we should sell the Chinese arms or munitions on credit, but I believe we should give the Chinese Government a credit of one hundred million dollars for the purchase of flour and grain goods in the United States.

We shall have to take a loss on our wheat and cotton anyhow. If we sell the Chinese Government flour instead of wheat and grain goods instead of cotton, we shall get the benefit of the first processing and even if we should lose the hundred million, it would be money well spent.

I

I have talked over this idea with Henry Morgenthau and find that he is entirely in accord with me. As you know, he suggested to the Chinese Ambassador in Paris that the Chinese Government should send K. F. Chen to Washington and I have just received information that Chen will reach Washington about the same time that Henry returns.

If you should approve of this proposal, I suggest that you should let me know in advance so that I could try to push Bonnet into making good his statements to me with regard to the readiness of the French Government to take simultaneous and similar action.

I have thought about this a lot and I feel certain that we ought to do it. I hope you will too.

Love and good luck.

Yours affectionately,

W.C.B.

William C. Bullitt.

August 31, 1938

Miss Chauncey

Miss Humphries

Attached is a file for your records - the President's memorandum to Mr. Magill as Acting Secretary - August 18, 1938 - and Mr. Magill's reply of August 18th.

You will also find attached the original letter from Ambassador Bullitt to the President, which, doubtless, should go back to the White House. We did not return it with Mr. Magill's reply because it was then in Secretary Bull's hands - having been left with him by Mr. Taylor, - and I had not seen it or had copies made of it until it returned to me later. Will you please see that the Bullitt letter reaches the proper person? Thank you.

by Chauncey 8731-

FILE COPY

August 18, 1938

Dear Mr. President:

On receipt of your memorandum of August 16, 1938 enclosing Ambassador Bullitt's confidential letter to you on the proposed grey-goods and flour credit to China, I discussed the matter with Mr. Wayne Taylor, who has been keeping in touch with this situation. In accordance with your instructions, Mr. Taylor called on Secretary Hull this morning. Secretary Hull will explore the question further with members of his Department and with the Chinese Ambassador and will inform us of the Department's attitude as soon as possible. Mr. Taylor has already discussed various aspects of the situation with Secretary Wallace, and will speak to him further after we hear from Secretary Hull.

Our last information on Secretary Morgenthau's position was contained in a message which we transmitted to Secretary Wallace on August 8, 1938, and which he showed you at Cabinet meeting, August 18th. The full text of this message follows:

"Am not familiar with details of proposed loan to China. Before I left Washington you and I were waiting to hear from Hull. You know I never making flour and cotton grey goods loan to China. If after President's return Treasury is the only stumbling block to Chinese loan will contact Taylor and ask him to state his objections. For your very confidential information, have invited E. P. Chen to come to Washington to discuss Chinese financial outlook early in September."

Incidentally, as I mentioned on Friday last at Cabinet meeting, we have received word that E. P. Chen is unable to accept Secretary Morgenthau's invitation and that his substitute has not as yet been determined. This information has been transmitted to Secretary Morgenthau and we are awaiting further instructions from him as to his preference in the matter of a substitute.

Faithfully,

The President,

The White House

FILE COPY

Secretary of the Treasury

Trig. by spec. messenger to White House at 5:45 P. M. - 8/18/38 (incoming memo Taylor left at State Dept. and it has not yet been returned to Taylor)

Regraded Unclassified

This draft brought in by Wayne Taylor late 8/18/38 -
changed by Messrs Taylor and Magill - and final copy made from this draft.

Dear Mr. President:

On receipt of your memorandum of August 16, 1938 enclosing Ambassador Bullitt's confidential letter to you on the proposed grey-goods ^{and} flour credit to China, I discussed the matter with Mr. Wayne Taylor, who has been keeping in touch with this situation. ¹ He explained to me the various aspects of question and suggested ^{to our} that we first take the matter up with Secretary Hull as his last information on Secretary Morgenthau's position was contained in a message ^{and which he showed you at Cabinet August 12,} which we transmitted to Secretary Wallace on August 8, 1938. The full text of this message follows:

"Am not familiar with details of proposed loan to China. Before I left Washington you and I were waiting to hear from Hull. You know I favor making flour and cotton grey goods loan to China. If after President's return Treasury is the only stumbling block to Chinese loan will contact Taylor and ask him to state his objections. For your very confidential information, have invited K. P. Chen to come to Washington to discuss Chinese financial outlook early in September."

Incidentally, as I mentioned on Friday last at Cabinet meeting, we have received word that K. P. Chen is unable to accept Secretary Morgenthau's invitation and that his substitute has not as yet been determined. This information has been transmitted to Secretary Morgenthau and we are awaiting further instructions from him as to his preference in the matter of a substitute.

¹⁰⁰ In accordance with your instructions, Mr. Wayne Taylor called on Secretary Hull this morning, ~~and discussed the~~

~~matter fully.~~ Secretary Hull will explore the question further with

members of his Department and with the Chinese Ambassador and will inform

us of the Department's attitude as soon as possible. Mr. Taylor has already discussed various aspects of the situation with Secretary Wallace, and will speak to him further after we hear from Secretary Hull.

Faithfully,
Rosenall Magill

Regraded Unclassified

COPY
TREASURY DEPARTMENT
THE SECRETARY OF STATE
Washington

August 19, 1938

MEMORANDUM FOR HONORABLE ROSWELL MAGILL

I herewith return memorandum of the President to you,
dated August 16, 1938, and letter of Ambassador Bullitt to the
President. Thank you.

/s/ Cordell Hull

THE WHITE HOUSE
WASHINGTON

CONFIDENTIAL

August 18, 1938.

MEMORANDUM FOR

THE ACTING SECRETARY OF THE TREASURY

Dear Ross:-

I enclose a confidential letter just received from Bullitt. I hope much, and I know Morgenthau agrees, that we should do everything possible.

Will you push this with State Department and Agriculture and, if necessary, R. F. C., Commodity Credit and Export-Import Bank and let me know as soon as possible?

F. D. R.



Paris, August 8, 1938.

Personal and
Strictly Confidential

Dear Mr. President:

From a multitude of reliable sources, I have been informed during the past two months that the Chinese will be at the end of their financial resources by the first of next January, unless they can obtain credits abroad. Chiang Kai-shek's will to fight and the courage of the Chinese people remain unbroken; but there will be just no money to buy anything. I have had this information in a series of messages from Chiang Kai-shek, T. V. Soong, and Doctor Kung transmitted to me by the Chinese Ambassador here, and I have had the same information from a horde of detached observers.

As you will recall, some months ago Bonnet said to me that he hoped it might be possible for the United States to extend some sort of a credit or
loan

The Honorable

Franklin D. Roosevelt,

President of the United States of America,

The White House.

lian to China and that he was certain that if we should be willing to act, both France and Great Britain would act simultaneously though not jointly. Two days ago, Bonnet reiterated this to me. He added that he was certain that either England, France, or the United States could give credits to China without provoking any serious Japanese reaction. The Japanese were too involved in China and were too fearful of Russian attack to dare to act against either England, France, or the United States.

This reasoning seems to me sound. I believe we should, however, avoid putting ourselves out on any long limb. I do not think we should sell the Chinese arms or munitions on credit, but I believe we should give the Chinese Government a credit of one hundred million dollars for the purchase of flour and grain goods in the United States.

We shall have to take a loss on our wheat and cotton anyhow. If we sell the Chinese Government flour instead of wheat and grain goods instead of cotton, we shall get the benefit of the first processing and even if we should lose the hundred million, it would be money well spent.

I have talked over this idea with Henry Morgenthau and find that he is entirely in accord with me. As you know, he suggested to the Chinese Ambassador in Paris that the Chinese Government should send L. J. Chen to Washington and I have just received information that Chen will reach Washington about the same time that Henry returns.

If you should approve of this proposal, I suggest that you should let me know in advance so that I could try to push Bonnet into making good his statements to me with regard to the readiness of the French Government to take simultaneous and similar action.

I have thought about this a lot and I feel certain that we ought to do it. I hope you will too.

Love and good luck.

Yours affectionately,

Bill

William C. Bullitt.



THE SECRETARY OF STATE
WASHINGTON

August 19, 1938.

MEMORANDUM FOR HONORABLE ROSWELL MAGILL

I herewith return memorandum of the President to you, dated August 16, 1938, and letter of Ambassador Bullitt to the President. Thank you.

Cordell Hull

August 18, 1938.
3:20 P. M.

Present: Mr. Taylor
Mr. Magill
Mr. Lochhead
Mr. White.

(H.M.Jr. called from Basel, Switzerland, today. The Telecord machine was disconnected for decorating purposes in H.M.Jr.'s office, and the conversation, from this end, was recorded by the Stenotype reporter.)

Taylor: Hello. Hello, Henry. Bearing up, and you? I have Ros, Harry, and Archie - Harry White, and Archie. You're not on the air. You have Butterworth? What? Yes, I know that. No. I have not. Yes. Yes, we have that; that came over the broad tape. Yes. Yes. I don't quite get that, Henry. Yes. Well, has that been confirmed? Yes. Yes. I can't think of anything better. Yes. That I call you at the same time tomorrow night? I'll do that. A hundred per cent agreement. Agreed! To what? Exactly. Right. Exactly. That's the only thing that's underlying the whole business. I didn't get the start of that, Henry. You'd like that from Harry and Archie? Yeah. Right. We'll get that to you. All right. Yes. Well, we'll give you the best explanation we have for that. Right.

We did another seven today. We did another seven today. Seven. Seventeen yesterday. Yes. We don't think so. Dead. Kind of messy. Messy - mixed. Ah, steady but off a little bit today.

Lochhead: Stock market? Up a shade.

Taylor: (To H.M.Jr.) Yes, we did some more. We cleaned up everything. Yeah. Yes. We will. Now, there's one thing, while I'm talking to you; I have discussed this situation at great length, with State. I knew that you would want me to do that, particularly with the head man. What? Oh, I talked to him this morning, ah, for three quarters of an hour. He has no suggestions to make. He has no suggestions to make - was completely satisfied with the position that we were taking. He agreed, I gathered, very much, in principle at least, with the cable that I sent to Butterworth. What? Well Butterworth has it.

- 2 -

Well, I expressed them as my personal views. Yeah, so as - I thought you'd like to know that the other man was too. Yes, there again I didn't express any disagreement. I went into that quite thoroughly with him. What? Yes. Yes. No. How much does who? Ah - he knows, not the recent developments. On Friday Ros gave him a rather full description of the situation. I followed that up with the memorandum which you suggested that I give him, so that I think he is fully informed as to the seriousness of the situation. ~~No~~, he does not. Yes, I can. He's up in Canada tonight. What? I'll send it to Hyde Park. Hello. I think it's tomorrow. Right. Right.

Now, you want to talk to any of the people here? Just a minute. (Points to Mr. Magill.)

Magill: Hello Henry. How are you, sir? Well, that's good. Wayne has been having to carry the load over here. The rest of it has been pretty quiet except for that, and we - we're trying to take them as they come. Your plans haven't changed, I suppose? Yeah. Well then, I'll - I'll see you at that time. I don't think there is anything to clear with you. I went across the street the other day but that talk will wait until you get back. Yeah. Anything else?

No, you're not. We're in Wayne's office; your place is being cleaned up. Yeah. Yeah, that is being done. That'll be done. All right, I'll tell him that. If you want him to phone you'll send him a cable. Yeah. All right; well, I'll tell him that. Well, the best of luck to you, sir. I hope they haven't worn the life of you. I say, I hope they haven't worn you down too much. Yeah, all right, I'll put Archie on.

Lochhead: Hello. Well, (laughs) well, I'll tell you, we got gold for it. (Laughs) Well, I'll tell you. The market here is not showing any signs of the heavy activity on the other side. The surface over here is very quiet, and, of course, they don't realize the amounts that are being done by way of London, which we get through the Stabilization Fund. Oh, we're sending over on every American boat, the limit, which is from ten to twelve million. Ten to twelve million, every American boat. We're doing that - I don't think it's enough yet to call on any foreign boats, but

- 3 -

No, we haven't had any reference at all. The American public doesn't realize the volume. They know there is something going on but they haven't got enough direct interest in the exchanges to be really in on it.

There is one thing you might be interested in: The Bank of England is shipping about fifteen million dollars worth of gold themselves this week. He says they are going to send it over here by the Aquitania, and if they need it for exchange, when it comes over they will use it; if they don't they will send it on up to Canada. I thought you'd be interested in that angle. They are going to ship some direct to the United States instead of sending it up to Canada. All right, sir. Did you wish to speak to Harry. O. K.

(He wants to say hello to you, Harry.)

Whiter

Hello, Mr. Secretary. Well, I came back. You see, after having arranged this whole French matter before you left, so you could keep your hand in over there, I thought I'd come back and see how you were holding up under it. On the phone - oh yes. Yeah. I'll be glad to. All right.

You know that it's been raining like hell here and there have been no birds flying over. I say it's been raining a lot and it hasn't been birds - no birds, but it's been raining a lot. Yep, a lot better. Yeah. We'll give it to you. That's right; we'll give it to you on the cable. That's right. We'll give it to you on the cable. O. K. It may have to be a little long, but it will be there. Send it where? To Strasbourg - if it's long; but if it's short you want it sent where you are? All right. All right, sir. All right, sir, and if it's short we'll send it to where you are. Righto. All right.

Did you wish to speak with Mr. Taylor? All right. Goodbye.

(HANGS UP)

- 4 -

White: If the message is a long one - over a hundred words - send it to Strasbourg, where he will be tomorrow night; if it is less, send it to him where he is.

Magill: All he said to me, of any importance - you got that - he is sending a cable as to whether he was telephoning tomorrow afternoon.

Taylor: I am going to sort of dictate this, and then see what we can put together:

He first said - asked me if I'd gotten Cochran's last cable which was mailed after Daladier issued his statement, and I said, no, I did not have that. He said that Cochran indicated, in view of this statement - and that Daladier was due to go on the air on Sunday - that the French did not expect a statement from us. I asked if that was officially confirmed by a conversation with Cochran, and he said he thought so, but in any case, why, that was perfect news; that the best thing we could do under all the circumstances was not to make a statement, which I completely agreed with him. He is meeting Cochran yet tomorrow when he gets in and suggested that I call him at the same time tomorrow, so I gather he reversed that with you.

Magill: Yes, that is

Taylor: And so on. And he said he felt that this situation had become so entirely political that we had better keep out of it, or attempt to keep out of it in every way, by saying nothing, with which I also agreed completely. He wanted to know what the economic reasons were for the things that were going on in the currencies over there, and wanted an analysis of that. Also he wanted to know why we had done so much in the way of gold in the last few days, and wished you, Lochhead, and Harry and myself to send him a short cable, or rather a cable, which would give him whatever feel we had of that, or whatever explanation we could give. I said that we would do that.

He wanted to know - well, first I told him of the conversations that I had had with the State Department, and which I explained the fact that I'd kept in very close touch with them on the Hungarian

- 5 -

situation, and that I had seen Secretary Hull for three quarters of an hour this morning, and explained our understanding of the situation to Secretary Hull and asked him if he had any suggestions to make; they had no suggestions, and I referred to the cable that I had sent last night, in which I had expressed my personal views; that I had discussed that particular cable with Secretary Hull. Secretary Hull was familiar with the cable and had no suggestions to make.

Then he asked me how recently informed the President was. I described to him Ros' - Mr. Magill's - account which was given at the Cabinet meeting on Friday, and the fact that I had followed that up with a memorandum which I had sent to the President the following morning, at the Secretary's request, but that he was not currently informed of the last developments, as far as I knew. He asked me to send a memorandum to the President, to Hyde Park, giving him the most recent information, up to right now.

The Secretary emphasized the fact that we should await developments. The fact that we were not expected to make a statement was very fortunate for us under the circumstances, and that we would simply have to see what happened on Monday.

Lochhead: He gave no indication of the story we have that there might be something done over the week-end, calling upon us for some action.

Taylor: Well, he said that Cochran had sent him a message, saying that in view of the fact that Daladier was scheduled to go on the air on Sunday, describing the program

Lochhead: Yes.

Taylor: that that meant we were not expected to make a statement, and I questioned him about that - that, "Is that official?" and he said, "I think so."

Lochhead: I agree on that, on the statement we are not going to make a statement; we may have to make a decision though. I don't think he wanted to talk about that over the phone.

- 6 -

Taylor: Butterworth is there with him, see?

Lochhead: So he ought to be up to date on it.

White: The fact that he felt there was no need to discuss it - or he didn't want to do it on the phone.

Taylor: Well, that's - I am still not sure. I am still not sure.

White: Whether he has any?

Taylor: I am still not sure whether Cochran's cable to him was official. Let's put it that way. I hope it is, but I am not sure of it.

White: I was under the impression that he instructed you to - asked you to call him back tomorrow.

Taylor: He did, but then he changed that with Ros - said he'd cable me if he wanted me to call him.

FEDERAL RESERVE BANK
OF NEW YORK

Mr. Lashley
201

OFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE August 18, 1938

SUBJECT: Telephone Conversation with
Banque de France

TO J. W. McKeon
FROM

At 10:06 am, our time, today, I telephoned Mr. Cariguel and asked him how things were going today. He was not in a particularly happy mood. He said "not good, we are having a very, very bad time today." Cariguel lost two million pounds yesterday and so far today over two million pounds. I told Cariguel that foreign exchanges were very quiet and steady here today. I asked him what he thought of the Czechoslovakian situation; also what he thought of the general situation on the continent. Cariguel said the Czechoslovakian situation was not any easier, but he thought that possibly things on the continent might calm down soon.

JWCK:BOC

EDA

GRAY

LONDON

Dated August 18, 1938

Received 10:27 a.m.

Secretary of State
Washington

RUSH

790, August 18, noon.

FOR ASSISTANT SECRETARY OF THE TREASURY TAYLOR
FROM BUTTERWORTH.

STRICTLY CONFIDENTIAL.

While your 458, August 17, 7 p.m., was being de-
coded I had another conversation with Phillips prior
to my departure for Switzerland by plane at one o'clock.

I got Phillips to elaborate on remarks of yester-
day. He reiterated his statements about exchange con-
trol but went on to say that if Daladier established
a new low level of, say, 200 to the pound, the British
Government was quite prepared to permit them to stay
within the Tripartite Agreement and to make a public
statement along the lines of that given out on May
5 on the occasion of the last depreciation. But if
such a depreciation was thus agreed to he would also
want

EDA - 2 - #790, August 18, noon from London

want the French to do something about internal reforms. It so happened that I asked him about the legal position as regards a further depreciation and he said that the officials of the British Treasury held the view that the present French Government was not legally bound to hold the franc at the avowed level; that that was merely a ministerial declaration and that in any case if a Cabinet shake up should occur, even if the new Cabinet was composed largely of the same people, it would not be bound by the previous ministerial commitments.

Phillips went on to say that one awkward point about a further depreciation of the franc arose out of the positions of Belgium and to a lesser extent Holland. The question was at what stage should they be informed. They certainly should be told this time.

Phillips also said that if the French on the other hand continued to press for a statement he does not wish to hold out to the very last ditch. As he has previously indicated he does not think there was much of a case for a declaration but the British Government in the last analysis would be prepared to join with the American Government in a denial that they had been considering plans for altering the value of their currencies. This would not be a trilateral but a bilateral denial.

It

EDA - 3 - #790, August 18, noon from London

It would, of course, be awkward to issue any statement and then have the franc depreciation occur shortly thereafter but this formula seemed to him the only one having semblance of logic.

JOHNSON

HPD

FEDERAL RESERVE BANK
OF NEW YORK

Mr. Lockhead
205

OFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE August 18, 1938

SUBJECT: Telephone Conversation with
Bank of England

J. W. McKeon

I telephoned Mr. Bolton at 10:55 am, our time, today. Yesterday he had tried to saturate the market with dollars in an attempt to keep the pound over 4.88 but had not been successful. Underneath the dollar had been very strongly bid. Today so far he had sold \$4,000,000 in an attempt to keep the pound at 4.88; he doubted whether he would be able to maintain the position of 4.88; he did not want to throw money away. Bolton was very grateful to us for so quickly increasing our gold order yesterday; I told him we were glad to do so.

I asked Bolton if he had any new slant on the French situation. Bolton said that the situation as he sees it now is as follows: Things have not changed even one little bit from what he had told me yesterday. The markets in London, Paris, and Amsterdam are relatively unaware of what is going on in France. Paris is practically empty of brokers and bankers right now. They are all away on a holiday; yet in spite of that the Banque de France is losing exchange at the peak of the tourist season. The bankers will be quick to gage the situation when they return, and when that happens we will probably see some ructions in foreign exchange. The French cabinet is in a state of nervous tension.

I referred to an item that appeared on our news ticker this morning regarding Daladier's denials that his government in-

FEDERAL RESERVE BANK
OF NEW YORK

208

OFFICE CORRESPONDENCE

DATE August 18, 1935

CONFIDENTIAL FILE

SUBJECT: Telephone Conversation with

J. W. McKeon

Bank of England

-2-

tended to further devalue the franc or institute exchange controls. Bolton said the mistake in making such statements was that they attract attention to the situation and only make matters worse. Bolton informed me that Daladier will broadcast tomorrow evening a new plan to improve the financial situation in France.

I asked Bolton to what he ascribed the strength in guilders this morning. Bolton said that Holland is regarded as a neutral country and in the event of disturbances, it will be a haven for capital.

Bolton informed me that they will ship on the Aquitania next Tuesday from Southampton the equivalent of three million pounds of gold (\$15,000,000). If they are in need of dollars when the shipment arrives in New York, they will probably sell all or part of the shipment; otherwise they will probably reship it to Ottawa. Bolton will inform us of any subsequent shipments of gold.

Before closing our conversation, Bolton reiterated that he believed there was a deceitful quietness about the market right now; that very likely there will be a break within the next ten days.

JWCK:BOC

Regraded Unclassified

REB

GRAY

Paris

Dated August 18, 1938

Rec'd 2:40 p. m.

Secretary of State,
Washington.

1299, August 18, 6 p. m. (SECTION ONE)

FROM COCHRAN.

Premier Daladier today gave a communique to the press, the following being a translation of the PARIS-SOIR account thereof:

"In view of international difficulties the gravity of which has been exaggerated, apprehension has been shown in most events for the future of the various currencies. At the same time gold purchases, gold hoarding which had stopped for some months have started again with intensity on most European markets. Such hoarding which is harmful to a country is moreover an error on the part of those who yield to it. The action produced on the franc is for the most part the expression of such fears and they have been aggravated by rumors circulating both of exchange control and of a further devaluation of the franc. The Government is resolutely opposed to exchange control as well as to a further

REB

2-#1299, From Paris, Aug.18,6p.m.

~~Further~~ devaluation of the franc. Apart from their harmful effects on the welfare of the nation they would furthermore result inevitably in the rupture of international solidarity which is the most efficacious guarantee for the maintenance of peace in Europe.

On the other hand the President of the Council does not consider it necessary to deny at length the ridiculous and untrue rumors which represent the government as being divided. He will himself set forth shortly (at the end of the week) in a radio address the program of vigorous measures necessary both for the support of the currency and for the defense of the nation. The Government trusts that the French people confident in the future of their country will accomplish their duty toward it as it is itself resolved to accomplish its own duty."

(END SECTION ONE)

BULLITT

WWC-KLP

PARAPHRASE OF TELEGRAM RECEIVED

NO: 1299 (Section two)

FROM: American Embassy, Paris

DATE: August 18, 1938

at 5:30 p.m. I talked with my friend. Playing the rate between 178.85 and .90, the French control had by that time yielded more than 3,000,000 pounds. Since the pressure was continuing, it appears that the Prime Minister's statement had exercised no helpful influence on the market, either here or in London. The control had also spent a great deal to improve the three months rate against sterling. It is not known to either my friend nor his chief what the Prime Minister intends to say in his Sunday broadcast, but they have made strong recommendations to him that his Government take drastic action to improve the budgetary and economic situation.

at 6 p.m. I talked with Couve de Murville by telephone. ^{He said that} (7) Although the Ministry of Finance was working on Daladier's statement for the broadcast to be made this weekend, agreement had not yet been reached on even the general terms, in view of the statements which were made in the communique today indicating the appeal of the Prime Minister to the French people.

It

-2-

It is not expected by my friend that an approach will
be made immediately to the United States.

(END MESSAGE)

BULLITT

EA:EB

RECEIVED
AUG 10 1958
TREASURY DEPARTMENT
U.S. DEPT. OF THE TREASURY
WASHINGTON, D.C. 20548

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: August 18, 7 p.m.

NO.: 1303,

STRICTLY CONFIDENTIAL

I asked Bonnet, in the course of our conversation today, to explain to me the meaning of Daladier's statement made this morning (see my No. 1299, August 18, 8 p.m.) in the course of which Daladier said that the Government was resolutely hostile both to a new devaluation of the franc and to exchange control. The meaning of this statement, according to Bonnet, is that neither measure would be adopted. Bonnet replied to my question of what other alternative there was at a time when gold was leaving the equalization fund with such rapidity by saying that in the speech which he will make at the end of this week, Daladier will suggest certain modifications in the application of the forty-hour law which he hopes will produce an increased confidence in the French financial situation.

Bonnet described at some length the reasons why the Government considers exchange control out of the question and said that no other measures were being taken. When I asked Bonnet how long he felt the equalization would last, he said that it contained 13 1/2 billion francs still. I suggested that the figure was not quite so high as this, but Bonnet replied that he had had this figure

officially

-2-

officially this morning from the Treasury.

I asked him why the idea of a declaration of the British, American and French Governments denying the rumors of a joint devaluation of the pound, dollar and franc had been dropped and Bonnet replied that the British Government had refused to make any declaration of this kind. In response to arguments of the French Government, the British Government had answered that any such declaration by the British Government/^{now}would create anxiety in England and tend to cause further demands for gold. The American Government had not been further approached by the French Government regarding this matter merely because of the British refusal to cooperate with them.

I made the suggestion to Bonnet that a different interpretation was being put on Daladier's statement. His statement regarding the hostility of the Government both to exchange control and devaluation of the franc was interpreted by some to mean that he himself would not remain Prime Minister if a continued flight from the franc should drain the equalization fund, but would resign and leave the ultimate decision to somebody else. Bonnet made the emphatic assertion that this interpretation was in no way justifiable. Daladier had not the slightest idea of resigning his position.

Please repeat to the Treasury.

BULLITT

EA:DJW

Regraded Unclassified

Tw Jim 3:10 PM

213



ASSISTANT SECRETARY

TREASURY DEPARTMENT

Washington.

August 19, 1938.

WHITE HOUSE:

Please send the following message to President Roosevelt at Hyde Park.

In a telephone conversation yesterday Secretary Morgenthau asked me to inform you of the developments in the foreign exchange situation.

With the exception of a brief period on Tuesday, the pressure on the franc which I described to you in my last report has continued without interruption and we estimate the French have lost over \$50,000,000 in gold and foreign exchange during the week, Wednesday and Thursday being the heaviest days. The movement into gold which I described last week has subsided slightly and there has been a stronger demand for dollars, resulting in an increased gold movement to this country. While sterling has been somewhat stronger, this comparative strength has been at the expense of heavier gold flow to this country. Our stabilization fund has acquired \$25,000,000 in gold from London and private gold shipments have amounted to \$16,000,000. Current quotations are 4.88 for the pound and 2.73 for the franc. The market is quieter today, apparently awaiting Daladier's radio appeal and program on Sunday.

While we have been in constant communication with the French Treasury and the Bank of France, they have failed to disclose to us any details of what they have in mind. Meanwhile, discussions

- 2 -

have been concentrated in London where the British and French failed to reach an agreement. The British have kept us informed of the French conversations and of the British reaction to them, but up to now no working details of any French plan of action have been disclosed to the British Treasury. Secretary Morgenthau's impression, which he conveyed to me yesterday, is that the whole situation is so political in character, both from a domestic and an international standpoint that it is just as well that we are not being asked to do anything at this time. He has been in touch with the situation every day and Cochran and Butterworth met him in Basle this morning. We feel here that while curiosity alone may retard the pressure on the franc until next week, it is probably merely a question of time before we are approached by the French and possibly also by the British with urgent new requests for cooperation and assistance.

Layb.

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO HQ.



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 19 August, 1938.

SECRET

From: Secretary of the Treasury.
To : Acting Secretary of the Treasury Taylor.

Confidential. Please see that President and Hull get following message and ask them if they have any advice to offer me "after conferring in Basel with Cochran and Butterworth and in view of Deladier's public statement of Thursday and his announced address for Sunday plus Bonnet's statement to Bullitt cable 1303 I intend to sit tight and do nothing until after Sunday". 3

Signed Morgenthau

SECRET

ACROSS THE COMMANDANT, U. S. COAST GUARD
AND OVER TO ME.

HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON

20 August, 1938.

SECRET

From: Secretary of the Treasury.
To : Acting Secretary of the Treasury Taylor.

FOLLOWING STRICTLY CONFIDENTIAL FOR TREASURY OFFICIALS
ONLY: "Cochran gave me following suggestion last night. To avoid
break up of Partite we should in conjunction with British buy future
francs against a gold or equivalent dollar guarantee. The suggestion
intrigues me. I am convinced that France does not need further de-
valuation and if she lets franc slide further it will be at expense
of other club members. Present French government has now declared
itself against further devaluation and exchange control. A monetary
crisis at this time could easily precipitate a political crisis fol-
lowed by war. Have lawyers and foreign exchange expert ready to go.
I arranged a few days ago to have Butterworth bring Fredrich Phillips
secretly to Reims to see me. Want Taylor's, Lochhead's and White's
immediate reaction to above thought. If you do not agree amongst
yourselves give the individual opinion."

Signed Morgenthau

SECRET

ML

GRAY

London

Dated August 20, 1938

Rec'd 9:45 a.m.

Secretary of State
Washington

800, August 20, noon

STRICTLY CONFIDENTIAL FOR ASSISTANT SECRETARY OF
THE TREASURY TAYLOR FROM BUTTERWORTH.

I returned from Basle 8 o'clock last night.

I met with Phillips and Rowe--Dutton--British
Financial Attache at Paris, who has been recalled from
his vacation and returns to his post today.

Under instructions from the Secretary of the Treasury I explained to Phillips that in view of Daladier's public announcement and Bonnet's statements to Ambassador Bullitt on August 18 there appeared to be no decision for the American Government to make at this time, to which he agreed. I also told Phillips that on Cochran's estimate the French fund still possessed some 10 milliards of gold and that at the present rate of out flow, if they were willing to use these resources, the franc might be held for three or four weeks. Phillips expressed satisfaction that the French (as indicated by Bonnet) were now taking the line that they were prepared to handle
the

ML -2- London Aug. 20, 1938 #800 9:45 a.m.

the situation themselves and consequently he instructed Rowe-Dutton not to have immediate recourse to French officials in an attempt to obtain details of the French Government's plan of action but to get them from unofficial sources. Incidentally during the course of our conversation the Bank of England telephoned and told Phillips that Cariguel had seen the draft of these proposals and was not too pleased. Phillips also added that "even three or four weeks went take the French to November 15" and said he felt sure that we would be forced to deal with this problem sooner or later, but perhaps (and that perhaps depended on Daladier's proposals) not until after Mr. Morgenthau had returned to Washington.

Cariguel also told the Bank of England that the French fund had only lost the equivalent of some 40 million francs today. The pressure on the dollar has also been moderate. Gold fixing--155 bars at 142 shillings 5½ pence included a ½ pence premium. There was little demand after fixing.

JOHNSON

KLP

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: August 30, noon

NO.: 1309

FROM COCHRAN

I returned from Basel this morning from ~~visit~~ with Secretary Morgenthau.

The statement made by Daladier, see my 1299, August 18, 6 p.m., had some good effect on Friday and the Paris market was quieter. There was improvement in three months sterling from 6.25 to 4.75 and in spot rate from opening of 178.85 to .77. On Friday intervention cost one and three quarters million pounds. 200,000 pounds was required this forenoon in holding franc in London at 178.75. I was told at noon by my official friends that the terms of Daladier's broadcast for Sunday are still under consideration and that it now appears that a forty-five hour week will be mentioned.

BULLITT

EA:DJW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE August 22, 1938

TO Secretary Morgenthau
FROM Mr. Taylor

I talked to the President on the telephone at Hyde Park at a little after ten o'clock on the morning of August 22nd.

I read him your message to me of August 20th and my reply of the same date. He asked several questions as to how we could be technically protected in future operations and I explained that our idea was that we would utilize the gold which France had with the Federal Reserve Bank in New York and as operations were entered into we would set aside an amount of gold which would be necessary to give us full protection. He asked me if all the gold in New York was free for this purpose. I told him that I was not sure but of course if it were not free the operation under consideration could not be worked out as we felt that gold in New York was the only security which would be completely acceptable. He told me that he thought it was all right to go ahead with this proposal but that we should retain full freedom of action so that if, for example, we made an arrangement by which we operated in futures to the extent of, say, \$50,000,000, that if a new request appeared later to continue this type of operation we should have full freedom as in our other operations and that if we decided that it was undesirable to continue this arrangement we would be in a position to discontinue at any time.

- 2 -

He then asked me what the latest developments were on the Chinese wheat credit. I said that I had taken it up with the State Department and that we were waiting for a report from them before pursuing the matter. He re-expressed his interest in the flour-gray goods idea. I recalled to him my opposition to the plan as I had felt that it would not be possible to work out an arrangement which would be either satisfactory to the Chinese or ourselves.

He then asked what I knew about the Spanish situation. I said that I had nothing new on that subject, but that he said he was going to talk to Norman Davis to find out if the Red Cross couldn't reconsider its decision that it did not have enough funds to take care of the processing of the wheat. I said that it was my impression that the Red Cross had ample funds in its various emergency funds.

He stated that he was going to return to Washington on Monday but that if I wished to reach him about anything in the foreign situation to call him at Hyde Park.

I asked him if the reports which we had been furnishing him were satisfactory and he indicated that they were.

uej.

August 22, 1938.

MEMORANDUM

Yesterday morning I received word through the Coast Guard that the Secretary had received my cable and wished me to call him at ten o'clock French time that evening. Shortly after four o'clock Washington time I was able to reach him on the telephone.

He said that he had received our cable and had become more and more interested in Cochran's idea. He instructed me to call the President at Hyde Park and explain the proposal to him. If the President approved in principle, the Secretary wished me to call him between eight and ten French time this evening; also if the President wished to speak to him about any aspects of the situation, the Secretary would be available for calls at the time indicated, but unless the President wished to go into some of the details, he did not feel that it was necessary for the President to talk to him direct. If the President approved in principle, the Secretary would then talk to the French with the view to exploring the proposal with them before discussing it with Sir Frederick Phillips on Tuesday night. This would permit work being done by the various legal staffs involved while the Secretary was on the water, provided the French and the British agreed that the proposal was of interest.

W.F.

REB

GRAY

London

Dated August 22, 1938

Rec'd 2:20 p. m.

Secretary of State,
Washington.

804, August 22, 6 p. m.

FOR ASSISTANT SECRETARY OF THE TREASURY TAYLOR FROM
BITTERNORTH.

STRICTLY CONFIDENTIAL.

At the request of the Secretary of the Treasury I have arranged for Phillips to meet with him at Rouen tomorrow afternoon. Phillips and I leave by the night boat tonight and return Wednesday afternoon. Every effort will be made to effect this meeting without publicity, which in the circumstances, would certainly be both undesirable and harmful.

Although Daladier's radio address did not bring forth any editorial comment, the news articles which it occasioned in the British press have been favorable. The franc was somewhat bid after the opening but upon the announcement of the resignation of Ramadier and Frossard it turned. The French control held the rate and the volume of trading in London were not large.

Likewise

REB

2-804, From London, Aug. 22, 8p.m.

Likewise, the pressure on the dollar has been relatively moderate and very little was done in gold after the fixing of 214 bars. Phillips with whom I had a word on the telephone said that he felt the market was "pretty well paralyzed; no one understanding anything or doing very much of anything".

Over the weekend I had a conversation with Capodano, the London representative of the Bank of Italy, who was most anxious to know whether there was any factual basis for the tripartite stabilization--devaluation rumors. He was obviously hopeful that some such move was afoot and gave me the impression that his principals would welcome an opportunity to ease their own circumstances by a further depreciation of the lira.

JOHNSON

PEG

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: August 22, 6 p.m.

NO.: 1325

FROM COCHRAN

Last evening, after listening to Daladier's broadcast, I gave a summary thereof by telephone to Secretary Morgenthau at Rheims who was to talk at 10:00 p.m. with Assistant Secretary Taylor. I imagine the main points were thus transmitted and that today the press has cabled the full text.

The speech had a good reaction this forenoon and the market turned. The franc, after opening at 178.60, moved to .32 and at .45 some pounds were acquired by the stabilization fund. The market reversed and continued nervous when the resignations of the Ministers of Labor and Public Works were announced, even after these places were promptly refilled lest labor troubles develop. Some sterling was sold at .55. At 5:45 p.m. the stabilization fund had lost one and a quarter million pounds on balance. The fund also had to intervene in order to hold gains in forward rates. The marked tendency this evening was to await developments.

49,000,000 francs gold bars were invoiced today by the Bank of France to the Federal Reserve Bank of New York via the NORMANDIE.

BULLITT



TREASURY DEPARTMENT

PUBLIC HEALTH SERVICE

WASHINGTON

August 22, 1938

Memorandum for the Secretary of the Treasury.

In further reference to the nutrition studies, I have the following to report:

1. On July 20 the Acting Secretary of Agriculture advised that funds would be made available to prosecute the nutrition studies planned by the Bureau of Home Economics in the amount of \$30,000 but that no further funds would be available for the studies proposed by the Public Health Service.
2. The cooperative nutrition study in New York City is to be initiated on a reduced scale. For this purpose I have reduced other Public Health Service activities in order to make available the sum of \$10,000 for this purpose.
3. The brief spot study in Washington has been completed and is attached.

2. The cooperative nutrition study in New York City is to be initiated on a reduced scale. For this purpose I have reduced other Public Health Service activities in order to make available the sum of \$10,000 for this purpose.

3. The brief spot study in Washington has been completed and is attached.

I regret that I shall be out of the country attending the Pan American Sanitary Conference in Bogota when you return.

I hope you had a pleasant and restful vacation.

Thomas A. ...
Surgeon General

SUMMER DIETS OF FAMILIES ON RELIEF IN WASHINGTON

No data have been available to indicate the effects of the distribution of surplus commodities on the dietary of families receiving these foods. To obtain evidence on this point, the U. S. Public Health Service made a study during July, 1938, of the food consumption of 606 families in Washington, D.C. These families were of the following types:

<u>Family Type</u>	<u>Number of families</u>	
	<u>White</u>	<u>Colored</u>
From Public Assistance Division rolls (P.A.D.)	101	113
From W.P.A. pay roll list	91	115
Non-relief neighbors of the relief families	102	84

The food record obtained was for a two-day period preceding the visit to the family. At this season, conditions are most favorable for the consumption of a diet of good quality, well fortified with the so-called "protective foods", especially leafy and green vegetables, tomatoes and fruits. Average amounts of foods consumed during the two-day period by families of each type and by groups of families at several levels of weekly income per capita are the basis of the findings summarized here.

Adequate caloric or energy value was furnished by the foods used by both white and colored families in the W.P.A., P.A.D. and non-relief groups. The average food supply of the P.A.D. white families provided ten percent less calories than that of any other group, but the energy value was approximately adequate.

The caloric value of foods used by Negro families was very high, and adequate, on the average, for groups of families at every income, except for the very few families whose weekly income was less than \$1.34 per capita. There were six such Negro families, and these had from 1,800 to 2,000 calories per day per adult male (3,000 calories is adequate). This is a seriously deficient diet if continued over a long period.

White families of each type showed greater variation in the supply of calories at different income levels than did the Negro families. With weekly incomes of \$1.34 to \$2.67 per capita, white families used foods which furnished 2,200 to 2,300 calories; six percent of the W.P.A. and of the non-relief white families, 13 percent of the P.A.D. white families were in this income group. Only three white families had less weekly income per capita than \$1.34, and these had 2,000 calories or more per day per adult male.

The average consumption of various kinds of foods indicates that these families had a fairly good diet although not of the highest quality in all respects. The use of milk products at any income level was very much

lower than the amounts recommended for an adequate diet, and this is the most serious deficiency in the food supply of these families. This deficiency is greater for the Negro than for the white families. The consumption of leafy, green or yellow vegetables is nearly equal to or greater than the recommended amounts. The white families used adequate quantities also of tomatoes and citrus fruits and eggs, but colored families had less of these foods. The amount of meat, fats, and sugar in the diet is higher than that recommended for an adequate diet at minimum cost, and Negroes used relatively large amounts.

The diets of the two relief groups was no better in quality than that of the non-relief families of similar income, although 67 percent of the white and 73 percent of the Negro families in the P.A.D. group reported the use of some surplus commodities. The Public Assistance Division estimates that 90 percent of the eligible families call for their food allowance. W.P.A. families are eligible for surplus commodities only if there are more than four persons in the family. The percent of W.P.A. reporting the use of some surplus commodities was 25 percent for the white group and 28 percent for the Negro group.

During July, the commodities distributed were: Flour, rice, potatoes, butter, dried apples, fresh string beans, carrots and cabbage. Dried milk and a few other items appeared on the schedules; presumably, those were carried over from previous months.

The consumption of grain products and potatoes by white families in both relief groups was somewhat higher than that by the white non-relief families. For no other food group was this true. Furthermore, the caloric value of the diets of the P.A.D. families was lower than that of the non-relief families of similar income.

The results of the study can only be interpreted as suggesting that the money released for other expenditures by the use of surplus commodities was not used for the purchase of greater amounts of food. Apparently these families used the foods given to them, but did not change the dietary level to which they are adjusted. The income of most families was less than that estimated as necessary to provide an emergency standard of living, and no doubt the competitive needs of the family are very great. To improve the quality of the diets, it would seem that the surplus commodities distributed must be of the specific types likely to be used in insufficient amounts, and these must be given in sufficiently large quantities to insure provision of minimum needs for health protection.

August 24, 1932.

Dear Dr. Farran:

Your memorandum of August 22nd has reached the Secretary's office. It will be brought to his attention when he is again at his desk, and I am sure he will be most interested to read the report on the nutrition studies you have been making.

Sincerely yours,

H. S. Klets,
Private Secretary.

Dr. Thomas Farran,
Surgeon General,
Public Health Service,
Washington, D. C.

dbb

August 23, 1938

To: The Secretary
From: Mr. Magill

Conference with Admiral Land, Chairman of the Maritime Commission

Pursuant to Colonel McIntyre's request, I talked to Admiral Land this afternoon regarding the differences of opinion that had arisen between representatives of the Treasury and of the Maritime Commission on the subject of the power of the Coast Guard to designate a labor adviser in connection with the training school for the maritime service.

Admiral Land said that after a conference with the President at the White House on other matters, he had mentioned that this difference of opinion had arisen and was likely to injure the training program. The President did not comment at that time and Admiral Land assumed that the President was informed regarding the whole subject.

Admiral Land said that representatives of the Treasury and of the Commission had agreed on all of the details of the arrangements for the training of the Maritime personnel by the Coast Guard except for the labor adviser. The Admiral said that the Commission was perfectly willing for the Treasury to have a labor adviser if it wished, but that the Commission was unanimous to the effect that the determination of labor policies outside the training program was vested in them by Congress and hence they could not be delegated to any labor adviser. Admiral Land said that he felt the whole discussion regarding the labor adviser was making a mountain out of a molehill. The Coast Guard wanted to undertake the training of the maritime service and the Commission wanted them to do it. Admiral Land thought that there was probably "a negro in the woodpile," as he expressed it; he thought that the matter of the labor adviser had probably been advanced by Jackson and Pressman as a device to defeat the whole training project.

In conclusion, Admiral Land said he had two suggestions to make: (1) that the designation of a labor adviser be dropped; or (2) that the designation of a labor adviser be deferred until after January 1st when the Maritime Commission is to report to Congress on the training project. He said that unless the question could be straightened out, the Maritime Commission would be compelled to drop all plans for having the Coast Guard undertake the training and the Maritime Commission would conduct the training itself.

Admiral Land said that the Coast Guard was now cooperating actively in the preparation for the beginning of training on the 1st of September and there is nothing further which the Treasury could

- 2 -

do now to assist in the commencing of the training program except to settle the labor adviser question. I told him that all four members of the committee you had designated to handle negotiations were now out of town, but that I would speak to Mr. McReynolds on the subject upon his return tomorrow. Admiral Land said he realized that it might be necessary to defer further action until your return.

RM

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 23, 1933.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.FROM: L. W. Knoks

I called Bolton at 1:20 and in his absence spoke to Mr. Tong. Paris and London seem to be well pleased with the prompt way in which Daladier had filled the two vacancies in his cabinet yesterday. Now the market was awaiting further developments and it seemed to him there was a feeling of hope that Daladier might be able to apply the necessary financial measures with the same energy with which he had tackled the vacancies. The people seemed just a little more optimistic and to think that Daladier might now be able to achieve what yesterday almost seemed impossible. The French workmen as a whole didn't seem to appreciate the position fully. The trade unions were naturally unhappy. Daladier's speech to them had come as a veritable bombshell.

The franc had not been under great pressure today and the French fund probably didn't lose more than one-half million or one million pounds sterling. The franc for forward delivery was somewhat firmer primarily due probably to Cariguel's support although there had been evidence today of some short covering. Cariguel's operations in the forward franc were mostly confined to the Paris market.

Sterling still looked weak. There had been a small demand for dollars this morning for commercial account but that was satisfied by the arbitrage. At the moment the markets were dead.

Demand for gold in the afternoon was almost nil. As a matter of fact they had not noticed nearly as much hoarding today as there had

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 25, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.FROM L. W. Knoke

2

been last week. The demand for gold coin had fallen off substantially and the market was now an offered one with a premium at below 4 per cent as compared with close to 8 per cent last week. This change was due to the fact that new regulations in Paris over the weekend based on a law dated back to 1800 and subjecting to an 8 per cent tax all dealings in gold coin and jewelry, had been issued, and that now every buyer and seller of gold coins had to state his name and address at the time the transaction was closed. These regulations had rather upset the markets on the continent with the result that Amsterdam had turned a fairly heavy seller. Hoarders had gotten a little tired of paying the high premiums recently quoted on coins and were turning their attention to small bars (about 32 ounces each) which they were now getting specially made.

Politically the situation on the continent, if anything, was a little worse as a result of Franco's unsatisfactory answer to the nonintervention committee. Paris, however, appeared on the surface much calmer now than might have been expected.

LWK:KW

SOCIAL SECURITY BOARD
WASHINGTON, D. C.

August 24, 1938

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

Dear Mr. Secretary:

Following informal discussion between the officials of the Department of the Treasury and the Social Security Board, the Board now formally requests the Department of the Treasury to maintain, in banks which are a part of its depository system, balances which are sufficient to compensate the banks for services in connection with checks drawn upon benefit payment accounts in State unemployment funds which are also maintained therein. The purpose of such balances would be to eliminate the need for the direct payment of bank service charges out of funds granted by the Board to State unemployment compensation agencies for administrative expenses, or, in lieu thereof, the withdrawal from the Unemployment Compensation Trust Fund in the Treasury of amounts sufficient to compensate the banks in which the benefit payment accounts are maintained.

In view of the broad interest of the Federal government in promoting and sponsoring the social security program, which in effect is a cooperative arrangement between the States and the Federal government, it is believed that there is ample justification for the Treasury Department maintaining its funds, under the circumstances, for the maintenance of compensating balances in banks handling unemployment compensation funds. The proposal seems further justified, first, because of the aid which the proposed procedure will afford in the safeguarding and protection of the unemployment trust fund and in avoiding many legal, administrative, and accounting problems which are now encountered in the handling of unemployment compensation funds; and second, in order to avoid the possible violation by the Board, through necessity, of a policy of paying bank service charges, a method which is contrary to long established Treasury practice.

The advantages which would result if the Treasury Department adopted the proposal of the Board in this matter are as follows:

First, a minimum of unemployment compensation funds would be maintained in banks in States. Under the proposed procedure the agency and State funds would have no justification for maintaining any balances in unemployment compensation funds in excess of amounts required for

- 2 -

actual payment of benefits during a fixed period. Thus, there would be a gain to the unemployment trust fund and thereby to the State, by prevention of loss of interest to the fund through the retention of the monies in the fund until actually necessary for the paying of benefits.

Second, administrative procedure would be improved. The Treasury Department has the personnel trained in the technique which is necessary to handle the analysis of bank accounts and to make proper determination of balances to be maintained. It would be able to deal directly with the banks, whereas, the Board must, as a rule, deal with the banks through the State agencies. Also, a more effective control of balances would be provided.

Third, the proposed procedure would be desirable from a cost standpoint as it would eliminate the question of grants being made, from funds appropriated by Congress, to pay bank service charges.

Fourth, it would largely dispose of the problem of collateral security. First, by reducing the amount of unemployment compensation funds held in banks and, second, by eliminating, to a great extent the question involving State laws relative to collateral security.

The Board has adopted standards of proper administration which require State agencies to exercise authority wherever possible under State law to provide 100% collateral security for all unemployment compensation funds, or to provide at least the maximum security which is permissible under the State law and security equal to that provided for general State funds. However, in applying these standards, difficulties have arisen because of the question as to authority for pledging collateral where State laws do not require such protection or where State laws prohibit banks from pledging collateral to secure public deposits. For example, in Michigan, we have been advised that the State Banking Act prohibits banks from pledging collateral to secure public deposits. It is yet to be determined whether that prohibition extends to unemployment compensation funds. Meanwhile our funds are unsecured except as to collateral pledged prior to enactment of the State Banking Act. In Wisconsin it is questionable whether unemployment compensation funds can be collaterally secured in view of the State law which provides for the insurance of public deposits. The chief problem here, however, results from the fact that under the insurance plan the premiums required increase in direct proportion to the amount of the compensating balances carried; and the State agency has requested the Board to grant funds to pay these premiums.

- 3 -

The Board has for some time been considering the general question of responsibility with respect to the handling and safeguarding of unemployment compensation funds while such funds are not in the custody of the Treasury Department. In this connection, working in cooperation with officials of the Treasury Department, certain policies and procedures have been formulated and adopted by the Board, one of which is stated as follows:

"The Board hereby adopts the principle of compensating bank balances in lieu of the actual payment of bank service charges, following in this respect the practice of the United States Treasury with respect to Federal funds, and will accordingly not grant funds under Title III for the payment of bank service charges on either unemployment compensation or administration funds or for the compensation of banks for net losses which may be shown in bank analysis.

"However, when it appears that a satisfactory adjustment of balances to provide adequate compensation to the banks cannot be made on terms consistent with the requirements of the Social Security Act and the state law, all facts shall be submitted to the Board for consideration and determination of a method of compensation."

In accordance with the above-stated policy, an analysis was made in cooperation with the Treasury Department officials of the benefit payment account of the North Carolina Unemployment Compensation Commission with the Wachovia Bank and Trust Company and recommendation was made by the Board that a minimum balance of \$1,250,000 be maintained in the account to compensate the bank for its services in regard thereto. The Chairman of the North Carolina Commission complied with the recommendation of the Board, withdrawing funds from the unemployment trust fund in the amount and for the purpose stated. However, the Chairman questioned the legality of the procedure and secured from the Attorney General of North Carolina an opinion which held specifically that (1) "whatever is due the Wachovia Bank and Trust Company for its services in handling the benefit payment account is a matter of administration and should come from funds provided for that purpose" and (2) "you need not carry a balance in the Wachovia Bank which is greater than the amount of money needed to meet current withdrawals. Funds above that amount should be drawing interest in the Unemployment Trust Fund and thus inure to the benefit of the State."

- 4 -

This question has been submitted by the Board to its General Counsel who has concurred in the conclusion reached by the Attorney General of North Carolina, and has stated that under the North Carolina Unemployment Compensation law it is within the discretion of the Commission to determine the amounts to be requisitioned from the unemployment trust fund or to be re-deposited in the fund and that the maintenance of balances in excess of the requirement for payment of benefits solely for the purpose of compensating the bank is not proper under the State statute. The General Counsel has indicated that the policy adopted by the Board should be reconsidered so that costs necessary to compensate the banks for handling charges will be met from funds appropriated for the costs of proper administration of the State law and the burden of them will not indirectly be thrown upon the monies in the State unemployment compensation funds and cause loss thereto.

It is evident whatever policy is adopted with respect to the North Carolina situation should be uniformly applied in all States. Unless the Treasury Department can see its way clear to provide depository facilities through the maintenance of compensating balances of Treasury funds with banks handling unemployment compensation, it will be necessary for the Board to reconsider its present policy with a view to granting funds for the direct payment of bank service charges. That this involves, in addition to a radical change in existing Federal practice, is a granting of a considerable sum of money to cover bank service charges with respect to benefit payment accounts. At the present time with 28 States paying benefits, a total of about 4,000,000 checks are being written monthly. At 1 1/2¢ per check, which appears to be a minimum rate, bank service charges of about \$60,000 per month result. With all States paying benefits, this charge might be doubled or reach \$120,000 per month. From informal discussion of this question with Treasury Department officials, it appears that from an economic and policy standpoint it is more desirable to compensate the banks by balances maintained for that purpose rather than by outright payments of funds to cover such charges.

The Board will appreciate an early decision on this matter by the Treasury Department in order that it may reconsider its policy and dispose of the important question which has been raised in North Carolina.

Sincerely yours,

G. Allen Meyer
Chairman

Updated
(August 24, 1938)

My dear Mr. President:

You will recall that when I accepted appointment as Under Secretary of the Treasury in January 1937, I arranged for a leave of absence from Columbia University Law School to permit me to serve until September 1938. I, therefore, desire to submit my resignation as Under Secretary, to be effective as of September 15, next.

I have thoroughly enjoyed my service in the Treasury, and in particular the privilege of association with you, and with Secretary Morgenthau. The attainment of the ideals of a fair and adequate Federal tax system, coordinated with the revenue systems of the States; and of a tax administration organized to determine the citizen's liability promptly and economically, is a complex task, requiring planning on a broad front, and cooperation among many governmental agencies and officials. Problems of this sort cannot be quickly solved, or indeed solved once and for all, but they must be constantly attacked. I am glad to have had an opportunity to participate in the Treasury's work upon them.

If occasion arises when I may serve you again, I hope you will call upon me.

Faithfully yours,

The President,

The White House.

Handed to the President August 15. The President said that he would indicate at his press conference that I was leaving in September, but would give out this letter at some later date; and would date it then.

RM:cs

August 30, 1938

To: The Secretary

From: Mr. Magill

Since I took home the President's letter in response to my letter of resignation, I cannot give you a photostat of it at this time. As reported in the Journal of Commerce for August 25th, the letter read as follows:

"My dear Ross:

It is with very genuine regret that I accept your tendered resignation, effective as of September 15, 1938.

I want you to know how much I appreciate your giving the time you have, and your generous offer to serve again "on call." It has been grand having you work with us rendering such splendid service to the Government."

Rm

THE WHITE HOUSE
WASHINGTON

August 25, 1938

Dear Mr. Secretary:

I am sending herewith, for the files of the Department, the resignation of Honorable Maxwell Magill as Under Secretary of the Treasury, together with a copy of the President's letter accepting the resignation effective as of September 15, 1938.

Very sincerely yours,



M. H. McINTYRE
Secretary to the President

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

Enclosures

WHITE HOUSE
WASHINGTON

Hyde Park, New York,
August 22, 1938.

My dear Ross:

It is with very genuine regret that I accept your tendered resignation, effective as of September 15, 1938.

I want you to know how very much I appreciate your giving the time you have, and your generous offer to serve again "on call". It has been grand having you work with us rendering such splendid service to the Government.

With warmest personal regards,

Very sincerely yours,

(Signed) FRANKLIN D. ROOSEVELT

Honorable Roswell Magill,
The Undersecretary of the Treasury,
Washington, D. C.

THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

My dear Mr. President:

You will recall that when I accepted appointment as Under Secretary of the Treasury in January 1937, I arranged for a leave of absence from Columbia University Law School to permit me to serve until September 1938. I, therefore, desire to submit my resignation as Under Secretary, to be effective as of September 15, next.

I have thoroughly enjoyed my service in the Treasury, and in particular the privilege of association with you, and with Secretary Morgenthau. The attainment of the ideals of a fair and adequate Federal tax system, coordinated with the revenue systems of the States; and of a tax administration organized to determine the citizen's liability promptly and economically, is a complex task, requiring planning on a broad front, and cooperation among many governmental agencies and officials. Problems of this sort cannot be quickly solved, or indeed solved once and for all, but they must be constantly attacked. I am glad to have had an opportunity to participate in the Treasury's work upon them.

If occasion arises when I may serve you again, I hope you will call upon me.

Faithfully yours,

Samuel Hays

The President,

The White House.



OFFICE OF THE ADMINISTRATIVE
ASSISTANT TO THE SECRETARY

TREASURY DEPARTMENT

WASHINGTON

August 24, 1938.

MEMORANDUM FOR UNDERSECRETARY MAGILL:

After today's conference with Admiral Land on the Maritime service question, I consulted Assistant Secretary Gibbons over the telephone and he agreed that the attitude of the Chairman of the Maritime Commission, Admiral Land, with respect to the proposed regulations for the operation of the Maritime service by the Coast Guard seemed satisfactory. However, Mr. Oliphant, who was later consulted, expressed the wish to withhold approval of such regulations until after Secretary Morgenthau's return next week.

Wm. E. McReynolds.

Report of Conference in Office of Undersecretary Magill
3 p.m., Wednesday, August 24, 1938.

Present: Undersecretary Magill

Admiral Land, Chairman of the Maritime Commission

Mr. Geaslin, General Counsel for the Maritime Commission

Admiral Wessche

Mr. McReynolds

Mr. Magill stated that he had arranged for this meeting to discuss the possibility of an agreement between the Maritime Commission and the Treasury Department as to regulations under which the Coast Guard could be designated as the training agency for the new Maritime service. Admiral Land stated that he was at a loss to understand the basis of disagreement which has so far existed, concerning the authority of the Coast Guard to employ a labor adviser in connection with the operation of the Maritime service. Admiral Land stated that he had no objection personally to the Coast Guard employing one or more such labor advisers and said that he had so advised the President. However, the Maritime Commission has formerly voted to disapprove the employment of such an adviser from Maritime Commission funds. The Admiral stated that he recognized, and the Commission recognized the propriety and necessity for the Commandant of the Coast Guard to advise with and deal with representatives of organized labor on any questions that might arise with respect to the detailed operations of a training pro-

-2-

gram, if such program be turned over to the Coast Guard for execution. On the other hand, he felt, and the Commission felt, that on all questions of general policy involving the relationships with organized labor the contact should be with the Maritime Commission itself.

After discussion at length with regard to the type of questions that might arise and the jurisdiction over such questions, there did not appear to be any disagreement whatever between the Treasury's conception and that of Admiral Land as to which organization would exercise jurisdiction.

The conference adjourned with the understanding that Mr. McReynolds would consult Assistant Secretary Gibbons and General Counsel Oliphant and report back to Undersecretary Magill whether in their opinion there was further reason for withholding approval of the regulations proposed by the Maritime Commission.

Federal Surplus Commodities Corporation
Summary of Commodities Procured -
July 1, 1937 to August 24, 1938

246

(Figures in thousands)

Commodity	Unit	7/1/37 to 5/11/38	5/12/38 to 5/18/38	5/19/38 to 5/25/38	5/26/38 to 6/1/38	6/2/38 to 6/8/38	6/9/38 to 6/15/38	6/16/38 to 6/22/38	6/23/38 to 6/30/38	Total fiscal year ending 6/30/38	7/1/38 to 7/6/38	7/7/38 to 7/13/38	7/14/38 to 7/20/38	7/21/38 to 7/27/38	7/28/38 to 8/3/38	8/4/38 to 8/10/38	8/11/38 to 8/17/38	8/18/38 to 8/24/38	Total 7/1/38 to 8/24/38	
(1) Apples (Dried)	Pounds	14,774	-	-	-	-	-	-	-	14,557	-	-	-	-	-	-	-	-	-	(1)
(2) Apples (Fresh)	Bushels	5,658	2	-	-	-	-	-	-	5,665	-	-	-	-	-	-	-	-	-	(2)
(3) Apricots (Dried)	Pounds	2,990	-	-	-	-	-	-	-	2,990	-	-	-	-	-	-	-	-	-	(3)
(4) Beans (Dried)	Pounds	53,840	100	2,090	60	-	670	120	1,200	56,800	-	-	-	-	-	-	-	-	-	(4)
(5) Beans (Snap)	Bushels	-	-	9	6	-	-	10	-	33	5	4	8	9	3	4	1	1	35	(5)
(6) Beets (Fresh)	Bushels	-	-	-	-	-	-	-	8	11	6	7	18	13	9	5	6	5	69	(6)
(7) Butter	Pounds	9,992	514	663	1,451	1,734	887	192	-	15,035	-	-	-	-	-	-	-	-	-	(7)
(8) Cabbage	Bushels	676	214	38	58	3	-	-	-	990	26	40	31	45	62	36	30	66	336	(8)
(9) Cane Syrup	Gallons	-	-	-	-	-	-	54	133	237	107	-	-	-	-	-	-	-	107	(9)
(10) Carrots	Bushels	-	-	-	-	-	-	-	-	-	1	2	11	7	7	6	7	10	51	(10)
(11) Celery	Crates	193	3	-	-	-	-	-	-	196	-	-	-	-	-	-	-	-	-	(11)
(12) Corn (Whole wheat)	Books	-	-	-	-	-	-	-	408	408	-	-	-	-	3	11	7	3	24	(12)
(13) Cheese	Pounds	-	-	-	-	-	-	-	3,446	3,446	-	-	-	-	-	-	-	-	-	(13)
(14) Cider	Books	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	4	3	8	(14)
(15) Cotton Fabric	Yards	656	92	-	-	238	-	12	129	1,133	-	-	-	-	-	-	10	49	59	(15)
(16) Cottonseed oil	Pounds	9,780	-	-	-	-	-	-	-	9,780	-	-	-	-	-	-	-	-	-	(16)
(17) Eggs (Shell)	Cases	270	-	-	-	-	-	-	-	270	-	-	-	-	-	-	-	-	-	(17)
(18) Fish	Pounds	-	-	-	-	-	-	-	3,677	3,677	-	-	-	-	-	-	-	-	-	(18)
(19) Flour	Barrels	-	7	3	125	-	915	-	-	1,649	-	-	-	-	-	279	-	-	279	(19)
(20) Grapefruit	Boxes	272	48	38	42	19	10	-	-	401	-	-	-	-	-	-	-	-	-	(20)
(21) Grapefruit Juice	Cases	-	5	-	-	-	-	444	52	558	-	-	-	-	-	-	-	-	-	(21)
(22) Oranges	Tons	8	-	-	-	-	-	-	-	8	-	-	-	-	-	-	-	-	-	(22)
(23) Milk (Dry skim)	Pounds	8,642	-	-	7,540	-	-	5,000	-	21,580	-	-	-	-	-	-	-	-	-	(23)
(24) Milk (Fluid)	Quarts	9,013	482	495	478	497	510	514	511	12,497	497	515	523	528	525	538	530	531	4,187	(24)
(25) Onions	Pounds	3,000	-	-	-	-	-	-	-	3,000	-	-	300	25	8	11	22	16	382	(25)
(26) Oranges	Boxes	1,730	50	31	14	10	11	54	57	1,932	2	48	59	57	38	46	49	55	354	(26)
(27) Paper Bags	Bags	8,175	-	-	8,400	-	-	5,250	-	21,825	-	-	-	-	-	-	-	-	-	(27)
(28) Peaches (Dried)	Pounds	2,534	-	-	-	-	-	-	-	2,534	-	-	-	-	-	-	-	-	-	(28)
(29) Peaches (Fresh)	Bushels	-	-	-	-	-	-	8	-	8	2	4	-	-	-	-	-	-	6	(29)
(30) Pears (Fresh)	Boxes	318	-	-	-	-	-	-	-	318	-	-	-	-	-	-	-	-	-	(30)
(31) Peas (Canned)	Cases	927	-	-	-	-	-	-	-	862	-	-	-	-	-	-	-	-	-	(31)
(32) Peas (Dried)	Pounds	6,000	-	-	-	-	-	-	-	6,000	-	-	-	-	-	-	-	-	-	(32)
(33) Peas (Fresh)	Bushels	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(33)
(34) Potatoes (Sweet)	Bushels	440	-	-	-	-	-	-	-	440	-	-	-	-	-	-	-	-	-	(34)
(35) Potatoes (White)	Bushels	4,331	7	-	-	-	2	-	-	4,315	-	466	483	120	44	167	266	142	1,688	(35)
(36) Potato starch & fl.	Pounds	2,842	-	-	-	-	-	-	-	2,562	-	-	-	-	-	-	-	-	-	(36)
(37) Prunes (Dried)	Tons	24	-	-	-	-	-	-	31	55	-	-	-	-	-	-	-	-	-	(37)
(38) Raisins	Tons	-	-	-	-	-	-	-	15	15	-	-	-	-	-	-	-	11	-	(38)
(39) Rice (Milled)	Pounds	75,990	560	-	-	1,600	-	900	-	73,190	-	-	-	-	-	-	-	-	-	(39)
(40) Tobacco	Pounds	-	-	1,000	-	-	-	-	-	3,500	-	-	-	-	-	-	-	-	-	(40)
(41) Tomatoes (Canned)	Cases	50	-	-	-	-	67	170	64	50	3	-	-	-	-	7	18	22	145	(41)
(42) Tomatoes (Fresh)	Bushels	-	-	-	-	-	-	-	-	282	-	-	-	-	-	-	-	-	51	(42)

August 25, 1938.

Treasury Department, Division of Research and Statistics.

Weekly figures reported by Federal Surplus Commodities Corporation are based on telegraphic reports and are unreviewed.
Fiscal year totals have been revised to include all contract cancellations and other adjustments.

Regraded Unclassified

LE HAVRE, FRANCE.--SECRETARY MORGENTHAU SAILED ON THE NORMANDIE
TODAY FOR THE U.S.

8/24--R1106A

10.30
- MORGENTHAU SAILS FOR U S

LE HAVRE FRANCE - SECTY OF TREASURY
MORGENTHAU SAILED ON THE S S NORMANDIE TODAY
FOR THE UNITED STATES - THE SECTY HAS BEEN
VACATIONING IN EUROPE

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AUG 24 1938

FEDERAL RESERVE BANK
OF NEW YORK

248

OFFICE CORRESPONDENCE

DATE August 24, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

FROM L. W. Knobe

Bolton called at 10 o'clock this morning. Daladier's speech had made a good effect but fundamentally it had, of course, caused no improvement. The French had had to support their currency yesterday to the tune of one million pounds; today ^{Cairnes} he was supporting to some small extent, not very much. Meanwhile dealers and bankers and various financial groups in London were waiting and hoping but with no great conviction because they had been disappointed so many times in the past. They were waiting for two things: firstly, did Daladier really mean what he said and would he have the necessary firmness to carry through; secondly, how would the French workmen take Daladier's new plans. Daladier's difficulty is, of course, that of a man who is trying to rule the country with minority support; the future was most uncertain and as far as he, Bolton, was concerned he felt that the present situation had no stability at all. Meanwhile things had died down since the beginning of the week; his dollar sales today had amounted to only 1 1/4 million; some gold had come out of hoarding and his own sales had been light (100 or 200 bars a day which was a very great reduction from last week).

Bolton then stated that he had put \$5,000,000 of gold on the Aquitania for shipment to New York or Ottawa at his option; if prior to the arrival of the Aquitania in New York he were short of dollars to any extent he would sell the gold to us. If, on the other hand, he didn't need dollars he would send it on to Ottawa. He would let us know definitely by Monday, that is the day before the Aquitania is

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 24, 1928.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

E

scheduled to dock here. If he didn't need the gold in New York to create dollars this shipment would provide a convenient method for him to get some gold in Canada without a great deal of comment. If successful he would probably make more such shipments in the future. The gold is consigned to the Cunard Steamship Company. If it is to be sold in New York the bills of lading will be endorsed to us by the Cunard Steamship Company. Bolton wanted to know whether we were still giving advances against gold and I answered that he would get an advance (up to about 98%) probably the day the gold reached the Assay Office if delivery was not made too late in the day. I assured him that we would use our best efforts to expedite matters.

N.B. At 11:15 Mr. Osborne called from Ottawa to say that Bolton had spoken to him about this Aquitania shipment and it had occurred to him that both the Bank of Canada's and the Bank of England's interest would be served if in case the Bank of England decided to let the gold continue to Ottawa we would earmark the Aquitania gold in New York for account of the Bank of Canada and the Bank of Canada in turn would earmark the same number of ounces in Ottawa for account of the Bank of England. This would, firstly, avoid any comment as to the British shipping gold to Ottawa and, secondly, the British would presumably, and the Bank of Canada surely, save shipping charges once the Bank of Canada decided to hold part of its gold stock in New York. I answered that the advantages to both were obvious and Osborne stated that he would get in touch with Bolton, possibly by cable. He wanted to know what the charges would be if later on the Bank of Canada instructed us to sell its earmarked gold and I explained that the only charges as far as we were concerned would be out-of-pocket expenses such as cost of trucking from our vaults to the Assay Office, which I thought was only in the neighborhood of \$20 a million dollars. The Assay Office

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 24, 1938.

TO: CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM: L. W. KnekeBANK OF ENGLAND.

3

would make the usual handling charge of 1/4% and its customary charges for melting, etc., according to a tariff of which the Bank of Canada has a copy.

I inquired of Bolton as to the political situation on the continent. He thought it was terribly difficult to tell. The Germans seem to have taken their position and were now waiting and hoping that the Czech matter would ultimately work out to their advantage. They didn't seem to intend to take drastic steps. In case of a Cabinet or other crisis in France, however, they might become more aggressive. Cariguel had become very philosophical about everything. He realized it was purely a political situation and was sitting back and doing as he was told. Should Daladier not succeed in his latest efforts it seemed to him, Bolton, that there were very few alternatives to exchange control and/or further devaluation.

LWK:KW

P. S. Referring to the regulations issued over the weekend which imposed an 8% tax on dealings in gold coin, Bolton stated that there had been a tremendous raid on coin dealers in France and that 18 of them had been deported.

JR

GRAY

London

Dated August 24, 1938

Rec'd 1:40 p.m.

Secretary of State,
Washington.

814, August 24, 6 p.m.

FOR TREASURY.

242 bars were sold at the fixing at 142 shillings 6 pence which was parity at \$4.88. Information from exchange market sources indicates that about 170 bars were supplied by the authorities. Gold demand after the fixing was very small and the price remained around 142 shillings 5½ pence with the authorities offering at that price. The dollar remained steady at \$4.88 until the middle of the afternoon when it strengthened to about \$4.88½. Little business was done and selling was thought to have been largely from New York. With the French control operating occasionally the franc has been held around 178-3/8 and the three months forward discount about 3-3/4. A slight revival in the demand for coins is reported.

JOHNSON

VWC:HPD

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO ME.



HEADQUARTERS

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 24 August, 1938.

SECRET

From: Secretary of the Treasury.
To : Acting Secretary of the Treasury Taylor.

STRICTLY CONFIDENTIAL. Spent Tuesday afternoon and evening with Phillips who was very much interested in proposal. We informed him that Rueff, Butterworth and Cochran were crossing with me on Normandie to England. Phillips said tell Rueff to come to London as he wanted to discuss this proposal with him. Rueff is going on to London and Cochran is returning to Paris.

I am instructing Cochran and Butterworth to cable me via Washington. Keep me advised daily on franc and sterling.

Signed Morgenthau

SECRET

ADDRESS THE COMMANDANT, U. S. COAST GUARD
AND REFER TO HIM.



HEADQUARTERS

SECRET

TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 25 August, 1938.

From: Secretary of the Treasury.
To : Acting Secretary of the Treasury Taylor.

Will not be ready to meet with Open Market Committee until Thursday, September 1. My present intention is to make public offering on Wednesday, September 7. Inform Burgess.

Have Burke and plane Newark Monday morning for flight to Washington. Inform Mrs. Klotz.

Signed Morgenthau.

SECRET

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: August 25, 1938

NO.: 1347

FROM COCHRAN

This forenoon I returned from Southampton to which port I accompanied Secretary Morgenthau, at his request, on the NORMANDIE after visiting him on the 23rd in Rouen.

The French stabilization fund lost 1,000,000 pounds on Tuesday, 750,000 on Wednesday, and 900,000 today (Thursday). The spot rate has been moved to 178.35 and three months against sterling to 3.75. There is continuing demand for sterling, but the market is not upset. There is uncertainty today as to whether the Prime Minister may so weaken on the statement he made Sunday as to impair the good possibilities of his program or whether labor and political troubles may become more serious. In addition, nervousness has developed from London on the basis of a report from one of Runciman's returned advisers, said report being allegedly discouraging.

BULLITT

EA:DJW

REB

GRAY

London

Dated August 25, 1938

Rec'd 4 p. m.

Secretary of State,
Washington.

820, August 25, 6 p. m.

FOR ASSISTANT SECRETARY OF THE TREASURY TAYLOR
FROM BUTTERWORTH.

STRICTLY CONFIDENTIAL.

As reported in the Secretary of the Treasury's telegram of yesterday I crossed the channel with him on the NORMANDIE arriving in London 11:00 o'clock last evening.

Two. Observations of Phillips' unconnected with the main body of his discussion with the Secretary of the Treasury and not covered by him may be of interest.

One. Phillips referred in passing to Italy and indicated that Italy was hard pressed and would like very much to devalue the lira further. In this connection reference is made to the last paragraph of my 804, August 22, 6 p. m. reporting a conversation with Capodano the Bank of Italy's representative in London.

Two.

REB

2-#820, From London, Aug. 25, 6p.m.

Two. Phillips referred to Rist's recent article criticising the policy of the British Government for sterilizing its gold resources. He expressed the view that the position which Rist occupied as the creator of the Poincare franc and severe critic of recent French Governments (#) gave him "a dangerous influence" because the authorities in power would find it convenient to silence him if not obtain his active support. And blaming the foreigner was always an easy way out. Phillips then went on to point out that during the period when the British equalization fund was gaining gold British had an adverse balance of payments which meant that its liabilities were increasing faster than its gold resources and therefore it was "nonsense" to talk about the adverse effects of sterilizing gold in such circumstances. He said he hoped to get hold of Rist sometime soon and have it out with him and it is interesting that Phillips was so vehement about the matter.

The lull in the foreign exchange market has continued today. The franc has been steady at 178.35 and the dollar \$4.88 1/8-3/8 the volume of dealings being small.

REB

3-#820, From London, Aug. 25, 6p.m.

small. Likewise the forward franc rates remained the same as yesterday, one month's at one and five-sixteenths, three months' at three and three-quarters; I should think that the Bank of England on behalf of the Bank of France had to do very little. The demand for gold continued unabated, 363 bars being dealt in at fixing and some dealings thereafter. The one-half pence premium was maintained. Gold coins were easier, the sovereign at 34 shillings 10 pence and the dollar 7 shillings one penny. Two of the bullion dealers with whom I talked made the same comment apropos of the continued demand for gold despite reduced foreign exchange dealings namely that the gold hoarding movement was changing its character and was not so much geared to immediate panic fears but was taking on the complexion of a distrust of currencies for various reasons from a long range viewpoint.

JOHNSON

NPL

EMB

(#) Apparent omission

C O P Y

From: Treasury Attache Jacobson,
Shanghai, China

Date: August 25, 1938

For the Secretary. Current situation week ended August 24th.

Exchange firmed somewhat during week apparently due to sub rosa support from certain quarters call money rose from 3% to 6% during middle of week but later dropped back share market continued its previous advance during early part of week but later turned easy. Statistics for all China show that in June as compared with May the number of vessels entered and cleared decreased by 8.2% but tonnage increased by 2.3%. In June as compared with May trade of Hongkong showed imports down 9/10% exports down 19.7% and total trade down 13.5%. As compared with June 1937 imports were up 14.9% exports were down 4.9% and total trade was up 6.2%. Chairman of Shanghai British Chamber of Commerce states that British investments in China which before outbreak of hostilities were estimated at 300 million pounds sterling have now fallen in value to between 150 million and 180 million pounds sterling. Two coded sections follow direct to Alder.

August 26, 1938

Cochran's report of the suggestion to operate in French franc forwards, which was discussed by the Secretary while abroad

PERSONAL AND STRICTLY CONFIDENTIAL

Paris, August 26, 1938.

My dear Mr. Secretary:

Upon my return from Southampton yesterday I dictated the attached memorandum, which I hope you will find brings your journal up to the English port. Neither this memorandum nor the present letter enters any record here and both are addressed directly to you personally.

Reading back the memorandum, together with my letter of August 20 in which I outlined my plan to you, I find so many points needing clarification or reconciliation that I believe I should mention them at this time, even before we receive any further reaction from the French and the British, so that you and your assistants will have them before you, along with the memorandum.

(1) My plan envisaged no collateral. The idea was to have a contract between State Treasuries, supplemented by the signatures of the two Banks which act as their
Fiscal . . .

The Honorable Henry Morgenthau, Junior,
Secretary of the Treasury,
Washington, D. C.

Fiscal Agents. It is our gold that I am anxious to put to work. If France has gold to spare for collateral it could realize thereon without any Tripartite Agreement. Furthermore, I would let France have the choice as to whether francs were to be redeemed in gold or dollars. This would protect us against a decline in the franc and still give France a chance of retaining her gold in certain circumstances. When you demand the choice, it would appear that you are hedging against a depreciation in the dollar.

(2) The usual practice when the French Control buys forward francs is for it, the day the operation takes place, to buy sterling, if the latter is not already in its portfolio, (or dollars as the case may be) to cover this item, and to yield gold at once to pay for such foreign exchange. If the French Fund let the American Fund operate in its stead in such a purchase, the French Control presumably would want to cover at once and this would mean promptly losing gold, so nothing would be gained. Even if it risked not buying the currency at once, it would most likely have to designate the gold collateral so definitely for this purpose that it would have to be deducted from its statement of actual holdings, and again no purpose would be served by the American Fund substituting itself for the French in the forward purchasing.

(3) I think Phillips entirely correct in his belief

that . . .

that our two Funds acting as ever-ready and dependable counterparts for forward francs would tend to increase rather than decrease sales thereof.

(4) Offering this market for forwards would tend to increase the number of francs in circulation and thus make control of the franc even more difficult.

(5) Purchasing forwards is in my opinion much more risky than buying spots, and if you are willing to go fifty-fifty with the British on all forward franc operations, the majority of which will likely be against sterling, you will then be chancing future pound rates, in addition to your francs, and nothing has so far been said about comparable guarantees from the British to us.

(6) Buying spots as offered by the market would not involve the creation of new francs. If we tried to lower the dollar and raise the franc, such would be the case, but the plan would be simply to take such spot offerings as might be necessary to hold 179, except that in certain circumstances the rate might, in a strong tendency, be permitted to go around 175 for strategic reasons.

(7) The principal objection which I see to my plan is that by substituting ourselves as a buyer of spot francs which need not be redeemed by the French for three months, there might be some tendency on the part of the French to desist from necessary measures of

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economic self-help. Our periodic consultations could be used to check up on this. I think we are more warranted in taking this chance now than ever before. Daladier has taken a decisive step toward adjusting the 40 hour working limit, which is the prime essential if France is going to speed her production sufficiently to hold the franc at 179. This is the principal economic factor involved. With French industry so little rationalized in comparison with that of Germany, the United States, Scandinavia, and other world market competitors, there remains need for more than 40 hours of work per week if France is to hold her own. As pointed out in my letter of August 20, the French situation has improved, and I believe the French people have had such a bitter lesson from the French new-deal that most of them would rather get back to work than experiment further.

(8) The policies of the Daladier Government merit support. My belief is that strength in the franc could now be engineered in such a manner as to set-back speculators and improve the position of both the Government and the country. For France to be strong during the next three months is vital to the peace of Europe. Rightly or wrongly, we have supported the democracies so generously by our public speeches that it would be extremely difficult for us to avoid becoming entangled in any war between Germany, France and Great Britain. The next three months will probably tell whether Germany

is . . .

is bluffing on a grand scale and will be satisfied with what she can get through such bluffing, or whether she will precipitate a war to gain her aims. In the meantime, the democracies, with all their gold, should put up a better front than they are. By keeping the franc strong now we risk only a little, compared with what a war might cost us. My belief is that the actual sums which we would have to pay out for francs would not be large, once the speculators sensed a turn, but it is to be hoped that any arrangement which we might make will come soon enough to relieve the French Stabilization Fund from taking gold from the Bank of France. Such a step now would be interpreted as a real weakness on the part of the franc and failure of Daladier's program.

(9) To any questioners on the principle of buying spot francs or on the Johnson Act, you could simply say that (to quote Section 10 (a) of the Gold Reserve Act of 1934) "for the purpose of stabilizing the exchange value of the dollar" you have dealt in certain foreign currencies, including the franc. You may hold the dollar stable against gold by fixing a price of \$35 per ounce, but you may have to deal in currencies themselves if you are going to stabilize the value of the dollar in exchange with the principal world currencies. If the British and French start to lowering their currencies unfairly we should reserve to ourselves the right to buy these currencies, rather than let ourselves be forced

- 6 -

into the alternatives of submitting to such unfair practice or of changing our own gold price.

Again apologizing for not having presented this plan more clearly at Strasbourg, and hoping that there may still be found in it something of use to you, I am,

Faithfully yours,



H. Merle Cochran.

Enclosure:

1. Memorandum dated August 25, 1938.

Paris, August 26, 1938.

M E M O R A N D U M

About 7 o'clock on Sunday evening, August 21, Secretary Morgenthau's Aide, Lieutenant MacKay, telephoned me at my home from the Hotel Lion d'Or, Rheims. He said that the Secretary desired that I listen in to Prime Minister Daladier's broadcast at 8 p.m. and then telephone a summary thereof to the Secretary at 9.30. At 10 p.m. the Secretary was to talk with Assistant Secretary Taylor.

When Daladier spoke at 8 o'clock, I took down a comprehensive summary in English. This I telephoned to the Secretary at 9.30 p.m. He thought Daladier had given a clear and forceful statement along common sense lines.

The Secretary stated that he had thought over the proposition which I had mentioned to him at Strasbourg and that he had valued it enough to cable it to Washington. The three people whose individual opinions he had sought had unanimously agreed that the idea was good. The Secretary stated that he would speak to Wayne Taylor at 10 p.m. and that efforts would be made to procure the President's approval some time Monday. I was directed to obtain a provisional appointment with Minister of Finance Marchandau for early on Tuesday morning. If
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the President approved the proposition, I was to be instructed to that effect on Monday night, and then to advance the idea to Marchandeau on Tuesday morning. If the French Ministry of Finance was interested in the proposal, I was to proceed to Rouen where I could be with the Secretary when he would put the proposition to Sir Frederick Phillips. The Secretary stated that he had let Washington know that the idea was mine and he said that when I talked with the French he desired that I should let them know of the origin of the idea. At the close of our conversation it was agreed that the Secretary would call me on Monday night at or after 8 o'clock.

At 11 o'clock on Monday morning, August 22, Lieutenant MacKay telephoned me from Rheims to say that they had received no mail from me there. I replied that the mail which had been received in Paris on Saturday had been forwarded to the Grand Hotel at Amiens, as the Secretary had directed me. None was to be forwarded to Rheims. Monday's mail was to be sent to the Hotel de la Poste at Rouen. Lieutenant MacKay said that the Secretary now desired that no mail be forwarded on Monday. Any that came on that day or later should be brought by me to Rouen or sent by some one to the Normandie at Le Havre.

Upon an appointment which I had requested, Rueff received me at the Ministry of Finance at 12.30 noon,

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August 22. I asked him for a tentative early appointment for Tuesday morning with Minister Marchandau. I did not disclose the nature of the subject which I might desire to discuss but let Rueff know simply that I had put up an idea to the Secretary at Strasbourg which the latter thought might be found by Washington and himself sufficiently interesting to talk to the French about. Rueff stated that he would telephone me at my home during the luncheon hour to confirm that Minister Marchandau would be available the next morning. Rueff said that he would be dining at home that night and that if I cared to get in touch with him after my contemplated conversation with the Secretary that this would be possible and entirely agreeable to him. He joined in my desire that everything be treated ultra-confidentially. While with Rueff we talked of the resignations which had just been announced of two members of the Cabinet and of the fact that de Monzie had already been selected to succeed Frossard as Minister of Public Works. He said no one had yet been chosen for the Labor post, which was the more difficult one to fill. I saw Couve de Murville in the corridor, who expects no Cabinet crisis now. He said a Cabinet crisis in present circumstances would bring war. At 2.10 Rueff telephoned me at my home to say that 9.15 the following morning had been found agreeable by his Minister for an interview, but that either one or both of them would see me on Monday night . . .

night after my talk with Secretary Morgenthau if I requested it by telephone through Rueff.

During the day I kept in touch with the market, and at 5.45 in the afternoon talked by telephone with Cariguel at the Bank of France. He said the reaction to Daladier's broadcast had been satisfactory in the morning but that the trend had reversed after the two resignations were announced since the market feared this might incite new labor troubles or cause serious political difficulties. While the Control had gained a little sterling in the forenoon, they had lost 1 1/4 million pounds on balance for the day. This information was incorporated in my cablegram 1325, of August 22, 6 p.m.

At 9.35 p.m., August 22, Secretary Morgenthau telephoned me at my apartment. I summarized my above cablegram. I also guardedly let him know that Bonnet had expressed the opinion to the Ambassador that Parliament would not be called in special session and that no major political crisis would arise. I added that my Ambassador thought, however, that the Left group might cause so much trouble that a special session of Parliament would be required. I reported how Couve de Murville felt in the circumstances. I told the Secretary of the arrangements which I had made with Minister Marchandeau through Rueff. I added that Feis was in town, planning to sail on the Manhattan Wednesday, but that I had not spoken of my

plan . . .

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plan or of subsequent developments with either him or the Ambassador. I thought it wise to consider the whole proposition as simply a confidential perfecting of the Tripartite technique which would require no broadcasting and which was still subject to much discussing before anything definite could be formulated. The Secretary agreed. I told him of the train schedule which would permit me to get to Rouen at any time on Tuesday that he might suggest after I had seen Marchandau. The Secretary then informed me that the President had agreed to the plan in principle. I asked the Secretary if there had been any changes made by him or Washington upon the proposition as I had originally suggested it to him at Strasbourg. The Secretary replied that the only change was that the President required that the \$100,000,000 which the French Treasury or the Bank of France held with the Federal Reserve Bank at New York should be put up as collateral for the franc transactions into which we might enter. It was understood that the contract under which we would operate would have to be signed by both the French Treasury and the Bank of France.

The Secretary instructed me to leave for Rouen on the 1.15 train Tuesday afternoon, and suggested that I reserve a room in advance at the Hotel de la Poste. I was to bring with me all mail for his party. He asked that I get in touch with the French Line officials and make sure that instructions be issued to the Purser on

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the Normandie to assure priority being given the Secretary's incoming and outgoing messages. The Secretary told me to be prepared to stay overnight in Rouen. The Secretary told me that the plan would, of course, involve the British going in with us. I agreed that the scheme would necessarily require intervention by the British since the French franc is sold much more against sterling than against the dollar. I raised the question as to whether I should inform the Ambassador in the premises, and the Secretary replied that it was enough that he himself had obtained the President's approval to the proposition. I told him that I would arrive in Rouen at 3 p.m.

At 9.45 p.m. I telephoned Rueff at his home and told him that the idea which I had mentioned had gone sufficiently far to warrant the interview. It was agreed, therefore, that I should call at his office at 9 a.m. on Tuesday morning to explain the proposition to him and that at 9.30 the Minister would receive us.

At 10 p.m. I telephoned the Hotel de la Poste at Rouen from my apartment and reserved a room for my arrival at 2.38 on Tuesday afternoon.

At 9 a.m. on Tuesday morning, August 23, I called on Rueff as agreed. I summarized my idea to him as I had advanced it to the Secretary at Strasbourg, with the addition of the very specific requirement that official French funds in New York should be put up as

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collateral to cover any transactions that might be involved.

At 9.30 a.m. Rueff and I were received by Minister Marchandean. We jointly set forth the idea which I had suggested to the Secretary at Strasbourg. In summary this was the plan:

That the United States Stabilization Fund would buy spot francs should the French Stabilization Fund be hard pressed, that is, when the latter's gold and foreign exchange reserves were actually or believed by the market to be running low, or when the situation was otherwise more than could be coped with by the French Control alone. In the ordinary course of events the French Fund would use its own resources in such operations, and day-to-day clearing thereof through gold would be pursued. When the United States operated it would have to be through the French agencies. There might arise occasions when, to give the market a psychological shock, Paris American bankers would operate directly and conspicuously, but always with the approval of the French Control.

No demand for redemption of the spot francs which we purchased would be made before the expiration of 90 days from purchase. If conditions so developed that the outlook for holding the

franc . . .

franc at the level which had been maintained was hopeless, and it was so decided by the three parties to this new plan, that is, the British, French and ourselves, the francs would be redeemed and the currency cut to such a level as the Tripartite consulting parties agreed upon. If the situation had markedly improved and funds had been repatriated, the obligations should be promptly liquidated. If the situation was still uncertain, then the parties thereto should consider extension of their operations. Any such decision would take into consideration the degree of effort toward self-improvement that had been made by France. Redemption should be made in gold, calculated on the basis of the currency values at the date the operations were entered into, or, at the option of the French, in dollars of a number equivalent to that of the dollars which had actually been spent for francs.

The contract would be between the French Treasury and the Bank of France on the one side, and the United States Treasury and the Federal Reserve Bank of New York on the other side. Collateral would have to be put up by the French to cover the equivalent, in gold value, of the operations entered into. As such collateral, the gold now held by the Bank of France with the Federal Reserve Bank at New York was cited.

I stressed that this conversation was simply one to learn whether the French Ministry of Finance was interested in the general idea of our coming to their assistance, provided the British did likewise, in the above-described manner. I explained thoroughly that I had talked only for a few minutes with Secretary Morgenthau on this subject at Strasbourg; that he had subsequently seen fit to submit the matter to Washington; that we had since then had no face-to-face conversations on the subject; that I had not even given the Secretary a tentative memorandum in the premises; that I was not willing to put any of the points of the plan on paper while at the Ministry; and that the whole question would have to be gone over carefully when I visited the Secretary at Rouen (provided the French were sufficiently interested in the plan to warrant my going to Rouen) and by the Secretary's technical staff after he returned to Washington.

If the French were interested, I told Messrs. Marchandean and Rueff that I would so inform Secretary Morgenthau at Rouen and that the Americans would put up the proposition to the British. The idea was conceived by us. The French would not approach the British in the meantime. We could enter into the plan only if the British did likewise. It would be simply an extension of Tripartite technique and would require certain technical arrangements. There should be no public

statement . . .

statement, and no publicity while the scheme was being tried out with France. If it succeeded, then the question could be decided as to whether it was adaptable for extension to the other three parties in our Tripartite Agreement and even for further extension to new members. I recalled that when our Tripartite Agreement had been worked out, with Messrs. Auriol and Blum, there had been no leaks and the favorable reception that followed had been all the greater for this reason. I made the point that it was of particular interest to the French themselves that their currency should show greater strength without anyone being aware of a new plan or of any official measures which might be taken to support the franc. In my talk with Rueff before going to see the Minister, I particularly warned against disclosures of information. I mentioned the articles in the London Times of last week in regard to Secretary Morgenthau's European trip and to the fact that the British had refused to go along in a Tripartite declaration. I explained that I had discussed the plan only with the Secretary, and that my colleague in London was not even aware of it. Rueff said that if they let Monnick, their Financial Attaché in London, know about it, the latter would promptly telephone President Roosevelt his personal thanks.

When I first explained the plan, Marchandau seemed to sense some possibility of our wanting to push back the

franc . . .

franc. I told him the idea was not to improve the rate, even though it might for strategic reasons be pushed back to around 175 to the pound, but was to assure stability. When we finished our conversation the Minister seemed quite genuine in his appreciation of our endeavoring to think up something to help his Government in this serious situation. He asked that I convey his personal thanks to Secretary Morgenthau and again to say how much he had enjoyed the Secretary's visit to France. In my presence he gave instructions to Rueff to have his officials in Rouen and Havre call on the Secretary. In our preliminary conversation, as well as in the tri-cornered talk, Rueff thoroughly understood the advantages which would come to them through such a plan as I outlined.

After returning to my office, I arranged to depart for Rouen at 1.15. Miss Soelberg, my secretary, visited the French Line and was given full assurance that Secretary Morgenthau's messages on the Normandie would be accorded priority, both in and out.

The Secretary called me at noon from Amiens. In answer to his query, I told him that I had talked for almost an hour with Messrs. Marchandeau and Rueff and that they were very much interested in the plan. The Secretary instructed me to telephone Rueff, which I did as soon as our conversation terminated, to ask him to be ready to come down to confer with the Secretary

if . . .

if this might prove desirable after I had visited with Secretary Morgenthau at Rouen. Rueff said that he would be at the Ministry of Finance all afternoon and at his home after 7.30, so that he could depart Wednesday morning if we gave him short notice.

I left Paris at 1.15 p.m., August 23, and arrived at Rouen at 2.38.p.m. Shortly after reaching my room at the Hotel de la Poste, the Secretary called me to his suite where I told him of the arrangements which had been made tentatively with Rueff. Secretary Morgenthau and I then went for a walk. In the holy atmosphere of two cathedrals we refrained from talk of money changing, reserving this subject for the more appropriate setting provided by the park which forms the back yard of the town hall. It developed very early in our conversation that the Secretary had cabled a plan to Washington which dealt with operations in forward francs. I told the Secretary that at Strasbourg I had not mentioned forward francs or future operations of any sort. My plan as advanced to him was based solely on spot operations. He was thinking in forward francs, while I was thinking in spot francs which we were to hold for three months. I admitted that the French situation as I had pictured it to him was requiring both forward and spot transactions by the French Stabilization Fund. I made the point that the spot offers of francs are many times more important than future sales. I thought that intervention such as I proposed over a period of three months would

so improve the spot franc that the forward market would follow. I observed that the French Control apparently is able at present to control the forward market rather well with its own resources. The Secretary remarked that he had frequently seen the forward discount on francs go to an exorbitant rate where outside intervention would have been a great help. I readily admitted this point but argued that intervening in futures alone was not sufficient and that if the French ever required our help in times of stress it would be in the spot market. The Secretary said that he had never once thought of going into the spot market, since the call for assistance therein might be unlimited, and since there would be no profit in it as there would be in the forward market. I told him that the consideration of profit had not entered into my plan for achieving international currency stability. Nevertheless, we could if we wished, and if it did not tend to interfere with current French official plans for their own money market, deposit our spot francs with the B.I.S. and obtain interest therefrom. The Secretary answered that he had to consider the profit side and that it was largely through demonstrating to Congressional Committees his ability to make a profit on operations of the Stabilization Fund that he obtained their support and their approval for him to continue to manage the Fund as originally legislated. The Secretary added that, in answer to

repeated queries from Congressional Committeemen, he had told them that he did not buy spot francs. I felt that the legislation setting up the Stabilization Fund gave him that authority.

I was very sorry that I had not explained the proposition with sufficient clarity and detail at Strasbourg. I told the Secretary that it had never occurred to me that evening when we discussed the matter after dinner at the Maison Rouge that he would base a cable thereon. I told him that if I had anticipated such a development I would have asked his permission to stay over in Strasbourg until I could have drawn up a precise written memorandum in the premises. It was agreed, however, that we both had the same purpose in mind. The Secretary thought that the forward proposition would offer real assistance and it was better to go ahead with it. He did not favor the spot franc plan and would take no steps in favor thereof without consulting his people after his arrival in Washington, and he thought that even then the chances were strongly against any favorable action. I simply remarked that I had prepared the detailed letter which he had requested upon my plan and that I would deliver it to him before he sailed.

We returned to the Hotel where the Secretary had arranged to meet Sir Frederick Phillips, who had arrived earlier in the day from London in accordance with plans made while the Secretary was at Cap d'Antibes. Butterworth had come over from London with Phillips.

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under the Secretary's instructions. The original idea had been for the Rouen meeting to be attended by the Secretary, Phillips and Butterworth. The Secretary told me that he would have Phillips and Butterworth to tea. Later I should join them for dinner. Between times he might take a walk with Phillips alone. I went to my room to go over some papers and to be available whenever the Secretary might call me.

I telephoned Cariguel at 5.45 p.m. and learned that the Fund had lost 700,000 pounds in a comparatively quiet day, against 1 1/4 million on Monday. Both the spot and forward rates had slightly improved.

At 6.30 Butterworth came to my room and said that the Secretary, who was then taking a walk with Phillips, had asked me to telephone Rueff to come down to Havre the next morning, prepared to cross on the Normandie with the Secretary from Havre to Southampton. I immediately got Rueff at his Ministry and he agreed to the trip. It was arranged that he should try to get a Normandie ticket for me as well as for himself. Before we went down to dinner with the Secretary and Phillips, Butterworth wrote up some of his notes while in my room. Since I have not yet seen these notes, my memorandum gives no account of the afternoon's conversations with Phillips, except as revealed in the dinner talks.

At the dinner, attended by only the four of us, Sir Frederick Phillips early in the conversation asked

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me what my forward franc proposition was. I referred him to the Secretary for this, but explained the spot plan rather briefly, along the lines hereinabove described in my conversation with Messrs. Marchandean and Rueff. I told him that I had found the French officials interested. I had insisted that our conversation was entirely exploratory and that nothing could be done until I had had further consultations with the Secretary, and unless the British came in on the proposition to make it a Tripartite matter. Phillips was of the opinion that the legislation under which his Fund was set up would not permit holding of spot francs. He said the British Fund was originated for assuring stability of the pound. I told him that stability was a matter of relations and that it seemed reasonable to undertake stabilizing operations which involved the three major currencies, including the franc.

Phillips then returned to the question of forward operations. I told him that there had been a misunderstanding between the Secretary and myself, since we had talked over the matter quite hurriedly, but that I understood that Secretary Morgenthau himself had explained the forward proposition. I then went into some detail to explain wherein I thought the French situation had somewhat improved and had now reached a stage where with some assistance the franc might be held, confidence restored and the country generally put on a better monetary and financial basis, with consequent improvement in its

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international status. Phillips seemed to think that a franc at around 220 was perhaps inevitable. He said that if they put on exchange control it would probably go to that depth behind the screen of such control. Considering the gold reserves of the Stabilization Fund, he did not think the French could hold the franc at its present level more than three weeks or a month and that it would then move in the direction of 220 to the pound. I emphasized the gravity of a French monetary crisis within the next three months and gave this as the reason why I had advanced a suggestion to the Secretary at this time which I had not thought of doing in the past, when the franc was at a level where it could not possibly be held indefinitely in the circumstances, and when outside political conditions had not been so threatening to all of us, and particularly to France, as they are at present. I told Phillips that I was convinced that the belga would follow the franc if the latter shortly moved far beyond 179, and that this would institute a whole series of currency changes.

Phillips wondered whether there might not be a marked tendency to sell forward francs if such large purchasers as our two Funds were always in the market to take them. He also was uncertain as to whether the French had any official gold in London which would be offered as collateral. Secretary Morgenthau intimated that he might look into the possibility of the British

sharing the collateral which the French could put up with us.

Phillips summarized in his own words the Secretary's forward franc proposition and stated that he would go back to London that night and talk it over with his Treasury people as well as with the officials of the Bank of England who operated the British Equalization Fund.

The Secretary made the point that it was the British Treasury which owned the Equalization Fund. Phillips agreed, but said that the Treasury just outlined the general policies, and left the day-to-day technical management to the Bank of England. Phillips suggested that we let Rueff know when he came down the next morning that Phillips would be glad to see him in London, to talk over the American proposition, if Rueff would come on there from Southampton.

Before Phillips departed Butterworth questioned him about economic conditions in the United Kingdom which drew forth some interesting comments on their second rearmament plan.

After Phillips had left, the Secretary told us something of his talk alone with him. The principal point was that when the Secretary had spoken of the general apprehension that if 4.86 should be passed, there would be considerable pressure upon sterling which might make it go much lower, Phillips had insisted that

sterling . . .

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sterling could well be held at around 4.80, and that he did not share this general apprehension incidental to a possible breaking of the 4.86 level. The Secretary had told Phillips that his latest reports from America indicated a lack of interest there in the French monetary crisis.

At 9.42 on Wednesday morning, August 24, Butterworth, MacKay and I proceeded to Havre by railway and boarded the Normandie. Butterworth and I remained in MacKay's cabin until called into the Secretary's suite for luncheon at one o'clock. Rueff was already there with the Secretary. The four of us lunched together. The two Morgenthau boys were also present. The conversation during luncheon was of a general character. After luncheon the Secretary explained to Rueff that the proposition which he was in a position to present to him, speaking for the Government of the United States of America, was different from that which I had outlined to the Minister and Rueff, due to a misunderstanding resulting from lack of time to go into the matter thoroughly. He said that the motives were the same: of giving France such assistance as we could at the present time, if the matter proved of interest to the French Ministry of Finance.

The Secretary stated he had been favorably impressed by the general situation in France, as he had seen it during his five weeks' visit, and also by the strong

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statement which the Prime Minister had broadcast on Sunday night. He thought that the French had devalued the franc as far as could be justified and he believed that any further move downwards might gain France unfair advantages at the expense of such countries as Belgium. Rueff admitted that the economic situation apparently required no further devaluation, but he said that the Treasury situation also had to be considered. He, Rueff, had been opposed to lowering the franc beyond 162. He thinks now that he had been mistaken on this point, however, since the depreciation to 179, which had taken place in May, 1938, had brought back an important amount of capital to France and had given the Government a respite of several months, requiring no drawing on the Bank of France.

The Secretary thought that in the circumstances it might be possible for the United States, through its Stabilization Fund, to be of some assistance to France in preventing a further depreciation of the currency. The Secretary briefly summarized his plan. It was for the United States and the British Stabilization Funds to purchase jointly forward francs (he referred specifically to three months francs). The French would be required to put up collateral in the United States, such as the gold now held in the Federal Reserve Bank at New York by the Bank of France. The redemption of the francs would be, at the choice of the United States

Stabilization Fund, in either gold or dollars. The Secretary explained that he would not be willing to undertake such operations unless the British came in on a fifty-fifty basis. He said that he would reserve the right to end the system at any time.

Rueff stated that his Minister of Finance had been very appreciative of our approach. He, Rueff, thanked the Secretary warmly for inviting him to this conference and for having presented a plan which might be of real help to France. Rueff made a few notes during the conversation and asked if he might summarize his understanding to the Secretary. Rueff was of the opinion that three considerations were involved: (1) the suggestion of the Secretary broadened the general basis of cooperation under the Tripartite Agreement; (2) by going into the forward franc, the technique of the operations of the Stabilization Funds would be extended beyond the spot market; (3) the point as to just what material assistance would thereby be given France was not yet clear in Rueff's mind. Rueff thought the plan worth considering on the first two points alone and asked the Secretary to help him better understand the third point.

The Secretary advanced the argument that if the American and British Stabilization Funds were willing to take care of the forward market for the franc, that would leave the French Stabilization Fund that much more free resources for operating on the spot market. Rueff assumed that the United States would require gold in

New York as collateral up to the extent of the operations which the United States Fund might carry on in forward francs. The Secretary confirmed this. Rueff made the point, therefore, that if the French thus had to hypothecate gold to cover three months franc operations carried out for American account, this would be identical with the plan they now follow of taking or calculating out of the gold which they have in their Stabilization Account the amount which must be utilized for repaying commitments which they have entered into on the forward market. Rueff failed to see, therefore, how this scheme would actually broaden the possible extent to which the market could be controlled, or how the French gold resources would go any further than under the present practice. Rueff said that he would like to think this over and asked permission to withdraw to another room for a while. The Secretary agreed to this and let Rueff know that the sense of the proposition had been communicated to the British Treasury and that Sir Frederick Phillips had been sufficiently interested therein to let him know that he would be glad to have Rueff come on to London from Southampton to discuss the question at the Treasury if Rueff saw fit. It was not disclosed to Rueff that Sir Frederick Phillips had been in Rouen. He presumably gained the impression that the communication was through Butterworth. Rueff was visibly surprised, but agreed. He planned to telephone the French Minister

of Finance from Southampton to inform him in the premises if this was feasible.

After Rueff went into another room the Secretary talked with Butterworth and me for a moment. He thought Rueff would recommend acceptance of the offer, but he told us not to endeavor to sell the idea to him. I left the Secretary's suite to visit the Purser's office. Just as I was returning, I had word that the Secretary wanted me to join Rueff who had asked for me. Butterworth and I then talked with Rueff who was still anxious to clarify point 3 abovementioned, that is, just what the material benefit would be to the French Stabilization Fund under the proposed arrangement. There was little that we could add to the Secretary's statement.

The three of us went on deck for a promenade but shortly met the Secretary and returned to the suite for another conference. Rueff told the Secretary that he had thought the matter over and had discussed it a little further with Butterworth and myself. He then repeated the three points and asked if he had understood them correctly. The Secretary had nothing further to add. It was understood that Rueff would go on to London and after consultation with Sir Frederick Phillips return to Paris and inform his Minister in the premises, for such decision as the French might choose to make.

The Secretary took advantage of the occasion to emphasize his constant desire to be of real and friendly help to France. He stated, however, that the last

depreciation . . .

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depreciation of the franc and the manner in which it had been carried out had disappointed him very much, and had placed him in a difficult position. He mentioned particularly that we had not been given ample notice in advance and that there had been a failure to carry out the terms to which we had adhered. Rueff argued that these questions of devaluation or depreciation arise invariably at a time when there is much confusion in the Government and when it is absolutely impossible to tell any distance in advance what is going to happen. He said that he always got in touch with me as soon as there was anything which could possibly be communicated to us. He said that even though Daladier has now given his definite undertaking to hold the franc stable and not to resort to exchange control, it remains to be seen whether, in spite of these promises, and Daladier's unquestioned sincerity in the premises, the franc can actually be held.

Rueff raised the general question of stabilizing currencies. The Secretary dismissed this with the remark that the dollar was stable and had been since gold was fixed at \$35 per ounce in January, 1934. When the Secretary asked Rueff who had started the recent rumors of devaluation under the Tripartite, Rueff said he had no idea, but observed that they had increased during the Secretary's visit to France.

There was some general conversation about the prosperity . . .

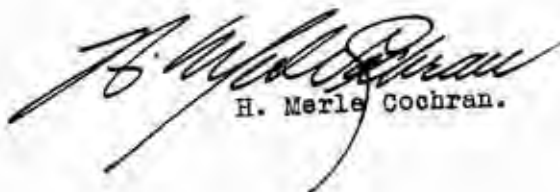
prosperity in the towns which the Secretary had visited and particularly with respect to the crowded condition of the hotels. The Secretary asked certain questions about French credit to industry, particularly 5 and 10 year loans to business, which elicited statements from Rueff in regard to operations of the Crédit National and the Banque Populaire. The Secretary asked me to draw up reports on the working of these two institutions.

Speaking with me alone, the Secretary offered to let me proceed to London with Rueff, but I suggested that it would be preferable for Rueff and Butterworth to go together to London, and Rueff see Phillips alone. Thereafter Phillips would probably tell Butterworth the results of the meeting and I would ask Rueff to inform me upon his return and after he had reported to his Minister.

The Secretary told me to telephone him on board the Normandie if the French sought any further explanations. If the French reached some decision, this should be cabled through the usual channels. This would thereby inform the Embassy here, and the Department of State in Washington, as to what is underway. No other reports or explanations for the present are contemplated, this being merely a confidential study of extension of technique of the Tripartite arrangement. The Secretary told me that he might want both Butterworth and me to visit the United States after conditions quieted down . . .

down on this side.

Rueff, Butterworth and I left the Normandie at Southampton Water and proceeded by tender to the pier. Rueff agreed to let me know what happened in London upon his return to Paris. I left Rueff and Butterworth at the Customs and proceeded to the ferry pier whence I sailed from Southampton at 11.15 p.m., arriving back in Paris at 9.50 this morning. I immediately telephoned to Madame Rueff and reported her husband's absence, and to the Minister of Finance to explain Rueff's visit to London. The Minister said he would be glad if I could come over to talk with him personally but I ventured the opinion that it would be preferable to await Rueff's return and his report. I would then be glad to come over anytime the Minister asked it.



H. Merle Cochran.

PERSONAL AND STRICTLY CONFIDENTIAL

Paris, August 26, 1938.

My dear Mr. Secretary:

Upon my return from Southampton yesterday I dictated the attached memorandum, which I hope you will find brings your journal up to the English port. Neither this memorandum nor the present letter enters any record here and both are addressed directly to you personally.

Reading back the memorandum, together with my letter of August 20 in which I outlined my plan to you, I find so many points needing clarification or reconciliation that I believe I should mention them at this time, even before we receive any further reaction from the French and the British, so that you and your assistants will have them before you, along with the memorandum.

(1) My plan envisaged no collateral. The idea was to have a contract between State Treasuries, supplemented by the signatures of the two Banks which act as their

Fiscal . . .

The Honorable Henry Morgenthau, Junior,

Secretary of the Treasury.

Washington, D. C.

Fiscal Agents. It is our gold that I am anxious to put to work. If France has gold to spare for collateral it could realize thereon without any Tripartite Agreement. Furthermore, I would let France have the choice as to whether francs were to be redeemed in gold or dollars. This would protect us against a decline in the franc and still give France a chance of retaining her gold in certain circumstances. When you demand the choice, it would appear that you are hedging against a depreciation in the dollar.

(2) The usual practice when the French Control buys forward francs is for it, the day the operation takes place, to buy sterling, if the latter is not already in its portfolio, (or dollars as the case may be) to cover this item, and to yield gold at once to pay for such foreign exchange. If the French Fund let the American Fund operate in its stead in such a purchase, the French Control presumably would want to cover at once and this would mean promptly losing gold, so nothing would be gained. Even if it risked not buying the currency at once, it would most likely have to designate the gold collateral so definitely for this purpose that it would have to be deducted from its statement of actual holdings, and again no purpose would be served by the American Fund substituting itself for the French in the forward purchasing.

(3) I think Phillips entirely correct in his belief

that . . .

that our two Funds acting as ever-ready and dependable counterparts for forward francs would tend to increase rather than decrease sales thereof.

(4) Offering this market for forwards would tend to increase the number of francs in circulation and thus make control of the franc even more difficult.

(5) Purchasing forwards is in my opinion much more risky than buying spots, and if you are willing to go fifty-fifty with the British on all forward franc operations, the majority of which will likely be against sterling, you will then be chancing future pound rates, in addition to your francs, and nothing has so far been said about comparable guarantees from the British to us.

(6) Buying spots as offered by the market would not involve the creation of new francs. If we tried to lower the dollar and raise the franc, such would be the case, but the plan would be simply to take such spot offerings as might be necessary to hold 179, except that in certain circumstances the rate might, in a strong tendency, be permitted to go around 175 for strategic reasons.

(7) The principal objection which I see to my plan is that by substituting ourselves as a buyer of spot francs which need not be redeemed by the French for three months, there might be some tendency on the part of the French to desist from necessary measures of

economic . . .

economic self-help. Our periodic consultations could be used to check up on this. I think we are more warranted in taking this chance now than ever before. Daladier has taken a decisive step toward adjusting the 40 hour working limit, which is the prime essential if France is going to speed her production sufficiently to hold the franc at 179. This is the principal economic factor involved. With French industry so little rationalized in comparison with that of Germany, the United States, Scandinavia, and other world market competitors, there remains need for more than 40 hours of work per week if France is to hold her own. As pointed out in my letter of August 20, the French situation has improved, and I believe the French people have had such a bitter lesson from the French new-deal that most of them would rather get back to work than experiment further.

(8) The policies of the Daladier Government merit support. My belief is that strength in the franc could now be engineered in such a manner as to set-back speculators and improve the position of both the Government and the country. For France to be strong during the next three months is vital to the peace of Europe. Rightly or wrongly, we have supported the democracies so generously by our public speeches that it would be extremely difficult for us to avoid becoming entangled in any war between Germany, France and Great Britain. The next three months will probably tell whether Germany

is bluffing on a grand scale and will be satisfied with what she can get through such bluffing, or whether she will precipitate a war to gain her aims. In the meantime, the democracies, with all their gold, should put up a better front than they are. By keeping the franc strong now we risk only a little, compared with what a war might cost us. My belief is that the actual sums which we would have to pay out for francs would not be large, once the speculators sensed a turn, but it is to be hoped that any arrangement which we might make will come soon enough to relieve the French Stabilization Fund from taking gold from the Bank of France. Such a step now would be interpreted as a real weakness on the part of the franc and failure of Daladier's program.

(9) To any questioners on the principle of buying spot francs or on the Johnson Act, you could simply say that (to quote Section 10 (a) of the Gold Reserve Act of 1934) "for the purpose of stabilizing the exchange value of the dollar" you have dealt in certain foreign currencies, including the franc. You may hold the dollar stable against gold by fixing a price of \$35 per ounce, but you may have to deal in currencies themselves if you are going to stabilize the value of the dollar in exchange with the principal world currencies. If the British and French start to lowering their currencies unfairly we should reserve to ourselves the right to buy these currencies, rather than let ourselves be forced into . . .

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into the alternatives of submitting to such unfair practice or of changing our own gold price.

Again apologizing for not having presented this plan more clearly at Strasbourg, and hoping that there may still be found in it something of use to you, I am,

Faithfully yours,

H. Merle Cochran.

Enclosure:

1. Memorandum dated August 25, 1938.

Paris, August 25, 1936.

M E M O R A N D U M

About 7 o'clock on Sunday evening, August 21, Secretary Morgenthau's Aide, Lieutenant Mackay, telephoned me at my home from the Hotel Lion d'Or, Rheims. He said that the Secretary desired that I listen in to Prime Minister Daladier's broadcast at 8 p.m. and then telephone a summary thereof to the Secretary at 9.30. At 10 p.m. the Secretary was to talk with Assistant Secretary Taylor.

When Daladier spoke at 8 o'clock, I took down a comprehensive summary in English. This I telephoned to the Secretary at 9.30 p.m. He thought Daladier had given a clear and forceful statement along common sense lines.

The Secretary stated that he had thought over the proposition which I had mentioned to him at Strasbourg and that he had valued it enough to cable it to Washington. The three people whose individual opinions he had sought had unanimously agreed that the idea was good. The Secretary stated that he would speak to Wayne Taylor at 10 p.m. and that efforts would be made to procure the President's approval some time Monday. I was directed to obtain a provisional appointment with Minister of Finance Marchandeau for early on Tuesday morning. If

the . . .

the President approved the proposition, I was to be instructed to that effect on Monday night, and then to advance the idea to Marchandeau on Tuesday morning. If the French Ministry of Finance was interested in the proposal, I was to proceed to Rouen where I could be with the Secretary when he would put the proposition to Sir Frederick Phillips. The Secretary stated that he had let Washington know that the idea was mine and he said that when I talked with the French he desired that I should let them know of the origin of the idea. At the close of our conversation it was agreed that the Secretary would call me on Monday night at or after 8 o'clock.

At 11 o'clock on Monday morning, August 22, Lieutenant MacKay telephoned me from Rheims to say that they had received no mail from me there. I replied that the mail which had been received in Paris on Saturday had been forwarded to the Grand Hotel at Amiens, as the Secretary had directed me. None was to be forwarded to Rheims. Monday's mail was to be sent to the Hotel de la Poste at Rouen. Lieutenant MacKay said that the Secretary now desired that no mail be forwarded on Monday. Any that came on that day or later should be brought by me to Rouen or sent by some one to the Normandie at Le Havre.

Upon an appointment which I had requested, Rueff received me at the Ministry of Finance at 12.30 noon,

August . . .

August 22. I asked him for a tentative early appointment for Tuesday morning with Minister Marchandau. I did not disclose the nature of the subject which I might desire to discuss but let Rueff know simply that I had put up an idea to the Secretary at Strasbourg which the latter thought might be found by Washington and himself sufficiently interesting to talk to the French about. Rueff stated that he would telephone me at my home during the luncheon hour to confirm that Minister Marchandau would be available the next morning. Rueff said that he would be dining at home that night and that if I cared to get in touch with him after my contemplated conversation with the Secretary that this would be possible and entirely agreeable to him. He joined in my desire that everything be treated ultra-confidentially. While with Rueff we talked of the resignations which had just been announced of two members of the Cabinet and of the fact that de Monzie had already been selected to succeed Frossard as Minister of Public Works. He said no one had yet been chosen for the Labor post, which was the more difficult one to fill. I saw Couve de Murville in the corridor, who expects no Cabinet crisis now. He said a Cabinet crisis in present circumstances would bring war. At 8.10 Rueff telephoned me at my home to say that 9.15 the following morning had been found agreeable by his Minister for an interview, but that either one or both of them would see me on Monday night . . .

night after my talk with Secretary Morgenthau if I requested it by telephone through Rueff.

During the day I kept in touch with the market, and at 5.45 in the afternoon talked by telephone with Cariguel at the Bank of France. He said the reaction to Daladier's broadcast had been satisfactory in the morning but that the trend had reversed after the two resignations were announced since the market feared this might incite new labor troubles or cause serious political difficulties. While the Control had gained a little sterling in the forenoon, they had lost 1 1/4 million pounds on balance for the day. This information was incorporated in my cablegram 1325, of August 22, 6 p.m.

At 9.35 p.m., August 22, Secretary Morgenthau telephoned me at my apartment. I summarized my above cablegram. I also guardedly let him know that Bonnet had expressed the opinion to the Ambassador that Parliament would not be called in special session and that no major political crisis would arise. I added that my Ambassador thought, however, that the Left group might cause so much trouble that a special session of Parliament would be required. I reported how Couve de Murville felt in the circumstances. I told the Secretary of the arrangements which I had made with Minister Marchandeau through Rueff. I added that Feis was in town, planning to sail on the Manhattan Wednesday, but that I had not spoken of my

plan . . .

plan or of subsequent developments with either him or the Ambassador. I thought it wise to consider the whole proposition as simply a confidential perfecting of the Tripartite technique which would require no broadcasting and which was still subject to much discussing before anything definite could be formulated. The Secretary agreed. I told him of the train schedule which would permit me to get to Rouen at any time on Tuesday that he might suggest after I had seen Marehandeau. The Secretary then informed me that the President had agreed to the plan in principle. I asked the Secretary if there had been any changes made by him or Washington upon the proposition as I had originally suggested it to him at Strasbourg. The Secretary replied that the only change was that the President required that the \$100,000,000 which the French Treasury or the Bank of France held with the Federal Reserve Bank at New York should be put up as collateral for the franc transactions into which we might enter. It was understood that the contract under which we would operate would have to be signed by both the French Treasury and the Bank of France.

The Secretary instructed me to leave for Rouen on the 1.15 train Tuesday afternoon, and suggested that I reserve a room in advance at the Hotel de la Poste. I was to bring with me all mail for his party. He asked that I get in touch with the French line officials and make sure that instructions be issued to the Purser on

the Normandie to assure priority being given the Secretary's incoming and outgoing messages. The Secretary told me to be prepared to stay overnight in Rouen. The Secretary told me that the plan would, of course, involve the British going in with us. I agreed that the scheme would necessarily require intervention by the British since the French franc is sold much more against sterling than against the dollar. I raised the question as to whether I should inform the Ambassador in the premises, and the Secretary replied that it was enough that he himself had obtained the President's approval to the proposition. I told him that I would arrive in Rouen at 3 p.m.

At 9.45 p.m. I telephoned Rueff at his home and told him that the idea which I had mentioned had gone sufficiently far to warrant the interview. It was agreed, therefore, that I should call at his office at 9 a.m. on Tuesday morning to explain the proposition to him and that at 9.30 the Minister would receive us.

At 10 p.m. I telephoned the Hotel de la Poste at Rouen from my apartment and reserved a room for my arrival at 2.38 on Tuesday afternoon.

At 9 a.m. on Tuesday morning, August 23, I called on Rueff as agreed. I summarized my idea to him as I had advanced it to the Secretary at Strasbourg, with the addition of the very specific requirement that official French funds in New York should be put up as

collateral . . .

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collateral to cover any transactions that might be involved.

At 9.30 a.m. Rueff and I were received by Minister Marchandeau. We jointly set forth the idea which I had suggested to the Secretary at Strasbourg. In summary this was the plan:

That the United States Stabilization Fund would buy spot francs should the French Stabilization Fund be hard pressed, that is, when the latter's gold and foreign exchange reserves were actually or believed by the market to be running low, or when the situation was otherwise more than could be coped with by the French Control alone. In the ordinary course of events the French Fund would use its own resources in such operations, and day-to-day clearing thereof through gold would be pursued. When the United States operated it would have to be through the French agencies. There might arise occasions when, to give the market a psychological shock, Paris American bankers would operate directly and conspicuously, but always with the approval of the French Control.

No demand for redemption of the spot francs which we purchased would be made before the expiration of 90 days from purchase. If conditions so developed that the outlook for holding the

franc . . .

franc at the level which had been maintained was hopeless, and it was so decided by the three parties to this new plan, that is, the British, French and ourselves, the franc would be redeemed and the currency cut to such a level as the Tripartite consulting parties agreed upon. If the situation had markedly improved and funds had been repatriated, the obligations should be promptly liquidated. If the situation was still uncertain, then the parties thereto should consider extension of their operations. Any such decision would take into consideration the degree of effort toward self-improvement that had been made by France. Redemption should be made in gold, calculated on the basis of the currency values at the date the operations were entered into, or, at the option of the French, in dollars of a number equivalent to that of the dollars which had actually been spent for francs.

The contract would be between the French Treasury and the Bank of France on the one side, and the United States Treasury and the Federal Reserve Bank of New York on the other side. Collateral would have to be put up by the French to cover the equivalent, in gold value, of the operations entered into. As such collateral, the gold now held by the Bank of France with the Federal Reserve Bank at New York was cited.

I stressed that this conversation was simply one to learn whether the French Ministry of Finance was interested in the general idea of our coming to their assistance, provided the British did likewise, in the above-described manner. I explained thoroughly that I had talked only for a few minutes with Secretary Morgenthau on this subject at Strasbourg; that he had subsequently seen fit to submit the matter to Washington; that we had since then had no face-to-face conversations on the subject; that I had not even given the Secretary a tentative memorandum in the premises; that I was not willing to put any of the points of the plan on paper while at the Ministry; and that the whole question would have to be gone over carefully when I visited the Secretary at Rouen (provided the French were sufficiently interested in the plan to warrant my going to Rouen) and by the Secretary's technical staff after he returned to Washington.

If the French were interested, I told Messrs. Marchandeau and Rueff that I would so inform Secretary Morgenthau at Rouen and that the Americans would put up the proposition to the British. The idea was conceived by us. The French would not approach the British in the meantime. We could enter into the plan only if the British did likewise. It would be simply an extension of Tripartite technique and would require certain technical arrangements. There should be no public

statement . . .

statement, and no publicity while the scheme was being tried out with France. If it succeeded, then the question could be decided as to whether it was adaptable for extension to the other three parties in our Tripartite Agreement and even for further extension to new members. I recalled that when our Tripartite Agreement had been worked out, with Messrs. Auriol and Blum, there had been no leaks and the favorable reception that followed had been all the greater for this reason. I made the point that it was of particular interest to the French themselves that their currency should show greater strength without anyone being aware of a new plan or of any official measures which might be taken to support the franc. In my talk with Rueff before going to see the Minister, I particularly warned against disclosures of information. I mentioned the articles in the London Times of last week in regard to Secretary Morgenthau's European trip and to the fact that the British had refused to go along in a Tripartite declaration. I explained that I had discussed the plan only with the Secretary, and that my colleague in London was not even aware of it. Rueff said that if they let Monnick, their Financial Attaché in London, know about it, the latter would promptly telephone President Roosevelt his personal thanks.

When I first explained the plan, Marchandeau seemed to sense some possibility of our wanting to push back the franc .

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franc. I told him the idea was not to improve the rate, even though it might for strategic reasons be pushed back to around 175 to the pound, but was to assure stability. When we finished our conversation the Minister seemed quite genuine in his appreciation of our endeavoring to think up something to help his Government in this serious situation. He asked that I convey his personal thanks to Secretary Morgenthau and again to say how much he had enjoyed the Secretary's visit to France. In my presence he gave instructions to Rueff to have his officials in Rouen and Havre call on the Secretary. In our preliminary conversation, as well as in the tri-cornered talk, Rueff thoroughly understood the advantages which would come to them through such a plan as I outlined.

After returning to my office, I arranged to depart for Rouen at 1.15. Miss Soelberg, my secretary, visited the French Line and was given full assurance that Secretary Morgenthau's messages on the Normandie would be accorded priority, both in and out.

The Secretary called me at noon from Amiens. In answer to his query, I told him that I had talked for almost an hour with Messrs. Marchandeau and Rueff and that they were very much interested in the plan. The Secretary instructed me to telephone Rueff, which I did as soon as our conversation terminated, to ask him to be ready to come down to confer with the Secretary

if this might prove desirable after I had visited with Secretary Morgenthau at Rouen. Rueff said that he would be at the Ministry of Finance all afternoon and at his home after 7.30, so that he could depart Wednesday morning if we gave him short notice.

I left Paris at 1.15 p.m., August 23, and arrived at Rouen at 2.38 p.m. Shortly after reaching my room at the Hotel de la Poste, the Secretary called me to his suite where I told him of the arrangements which had been made tentatively with Rueff. Secretary Morgenthau and I then went for a walk. In the holy atmosphere of two cathedrals we refrained from talk of money changing, reserving this subject for the more appropriate setting provided by the park which forms the back yard of the town hall. It developed very early in our conversation that the Secretary had cabled a plan to Washington which dealt with operations in forward francs. I told the Secretary that at Strasbourg I had not mentioned forward francs or future operations of any sort. My plan as advanced to him was based solely on spot operations. He was thinking in forward francs, while I was thinking in spot francs which we were to hold for three months. I admitted that the French situation as I had pictured it to him was requiring both forward and spot transactions by the French Stabilization Fund. I made the point that the spot offers of francs are many times more important than future sales. I thought that intervention such as I proposed over a period of three months would

so improve the spot franc that the forward market would follow. I observed that the French Control apparently is able at present to control the forward market rather well with its own resources. The Secretary remarked that he had frequently seen the forward discount on francs go to an exorbitant rate where outside intervention would have been a great help. I readily admitted this point but argued that intervening in futures alone was not sufficient and that if the French ever required our help in times of stress it would be in the spot market. The Secretary said that he had never once thought of going into the spot market, since the call for assistance therein might be unlimited, and since there would be no profit in it as there would be in the forward market. I told him that the consideration of profit had not entered into my plan for achieving international currency stability. Nevertheless, we could if we wished, and if it did not tend to interfere with current French official plans for their own money market, deposit our spot francs with the B.I.M. and obtain interest therefrom. The Secretary answered that he had to consider the profit side and that it was largely through demonstrating to Congressional Committees his ability to make a profit on operations of the Stabilization Fund that he obtained their support and their approval for him to continue to manage the Fund as originally legislated. The Secretary added that, in answer to

repeated . . .

repeated queries from Congressional Committeemen, he had told them that he did not buy spot francs. I felt that the legislation setting up the Stabilization Fund gave him that authority.

I was very sorry that I had not explained the proposition with sufficient clarity and detail at Strasbourg. I told the Secretary that it had never occurred to me that evening when we discussed the matter after dinner at the Maison Rouge that he would base a cable thereon. I told him that if I had anticipated such a development I would have asked his permission to stay over in Strasbourg until I could have drawn up a precise written memorandum in the premises. It was agreed, however, that we both had the same purpose in mind. The Secretary thought that the forward proposition would offer real assistance and it was better to go ahead with it. He did not favor the spot franc plan and would take no steps in favor thereof without consulting his people after his arrival in Washington, and he thought that even then the chances were strongly against any favorable action. I simply remarked that I had prepared the detailed letter which he had requested upon my plan and that I would deliver it to him before he sailed.

We returned to the Hotel where the Secretary had arranged to meet Sir Frederick Phillips, who had arrived earlier in the day from London in accordance with plans made while the Secretary was at Cap d'Antibes. Butterworth had come over from London with Phillips.

under the Secretary's instructions. The original idea had been for the Rouen meeting to be attended by the Secretary, Phillips and Butterworth. The Secretary told me that he would have Phillips and Butterworth to tea. Later I should join them for dinner. Between times he might take a walk with Phillips alone. I went to my room to go over some papers and to be available whenever the Secretary might call me.

I telephoned Cariguel at 5.45 p.m. and learned that the Fund had lost 700,000 pounds in a comparatively quiet day, against 1 1/4 million on Monday. Both the spot and forward rates had slightly improved.

At 6.30 Butterworth came to my room and said that the Secretary, who was then taking a walk with Phillips, had asked me to telephone Rueff to come down to Havre the next morning, prepared to cross on the Normandie with the Secretary from Havre to Southampton. I immediately got Rueff at his Ministry and he agreed to the trip. It was arranged that he should try to get a Normandie ticket for me as well as for himself. Before we went down to dinner with the Secretary and Phillips, Butterworth wrote up some of his notes while in my room. Since I have not yet seen these notes, my memorandum gives no account of the afternoon's conversations with Phillips, except as revealed in the dinner talks.

At the dinner, attended by only the four of us, Sir Frederick Phillips early in the conversation asked

me . . .

me what my forward franc proposition was. I referred him to the Secretary for this, but explained the spot plan rather briefly, along the lines hereinabove described in my conversation with Messrs. Marchandean and Rueff. I told him that I had found the French officials interested. I had insisted that our conversation was entirely exploratory and that nothing could be done until I had had further consultations with the Secretary, and unless the British came in on the proposition to make it a Tripartite matter. Phillips was of the opinion that the legislation under which his Fund was set up would not permit holding of spot francs. He said the British Fund was originated for assuring stability of the pound. I told him that stability was a matter of relations and that it seemed reasonable to undertake stabilizing operations which involved the three major currencies, including the franc.

Phillips then returned to the question of forward operations. I told him that there had been a misunderstanding between the Secretary and myself, since we had talked over the matter quite hurriedly, but that I understood that Secretary Morgenthau himself had explained the forward proposition. I then went into some detail to explain wherein I thought the French situation had somewhat improved and had now reached a stage where with some assistance the franc might be held, confidence restored and the country generally put on a better monetary and financial basis, with consequent improvement in its international . . .

international status. Phillips seemed to think that a franc at around 220 was perhaps inevitable. He said that if they put on exchange control it would probably go to that depth behind the screen of such control. Considering the gold reserves of the Stabilization Fund, he did not think the French could ~~hold~~ the franc at its present level more than three weeks or a month and that it would then move in the direction of 220 to the pound. I emphasized the gravity of a French monetary crisis within the next three months and gave this as the reason why I had advanced a suggestion to the Secretary at this time which I had not thought of doing in the past, when the franc was at a level where it could not possibly be held indefinitely in the circumstances, and when outside political conditions had not been so threatening to all of us, and particularly to France, as they are at present. I told Phillips that I was convinced that the belga would follow the franc if the latter shortly moved far beyond 179, and that this would institute a whole series of currency changes.

Phillips wondered whether there might not be a marked tendency to sell forward francs if such large purchasers as our two Funds were always in the market to take them. He also was uncertain as to whether the French had any official gold in London which would be offered as collateral. Secretary Morgenthau intimated that he might look into the possibility of the British

sharing . . .

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sharing the collateral which the French could put up with us.

Phillips summarized in his own words the Secretary's forward Franco proposition and stated that he would go back to London that night and talk it over with his Treasury people as well as with the officials of the Bank of England who operated the British Equalization Fund.

The Secretary made the point that it was the British Treasury which owned the Equalization Fund. Phillips agreed, but said that the Treasury just outlined the general policies, and left the day-to-day technical management to the Bank of England. Phillips suggested that we let Rueff know when he came down the next morning that Phillips would be glad to see him in London, to talk over the American proposition, if Rueff would come on there from Southampton.

Before Phillips departed Butterworth questioned him about economic conditions in the United Kingdom which drew forth some interesting comments on their second rearmament plan.

After Phillips had left, the Secretary told us something of his talk alone with him. The principal point was that when the Secretary had spoken of the general apprehension that if 4.66 should be passed, there would be considerable pressure upon sterling which might make it go much lower, Phillips had insisted that

sterling . . .

sterling could well be held at around 4.80, and that he did not share this general apprehension incidental to a possible breaking of the 4.86 level. The Secretary had told Phillips that his latest reports from America indicated a lack of interest there in the French monetary crisis.

At 9.42 on Wednesday morning, August 24, Butterworth, MacKay and I proceeded to Havre by railway and boarded the Normandie. Butterworth and I remained in MacKay's cabin until called into the Secretary's suite for luncheon at one o'clock. Rueff was already there with the Secretary. The four of us lunched together. The two Morgenthau boys were also present. The conversation during luncheon was of a general character. After luncheon the Secretary explained to Rueff that the proposition which he was in a position to present to him, speaking for the Government of the United States of America, was different from that which I had outlined to the Minister and Rueff, due to a misunderstanding resulting from lack of time to go into the matter thoroughly. He said that the motives were the same: of giving France such assistance as we could at the present time, if the matter proved of interest to the French Ministry of Finance.

The Secretary stated he had been favorably impressed by the general situation in France, as he had seen it during his five weeks' visit, and also by the strong

statement . . .

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statement which the Prime Minister had broadcast on Sunday night. He thought that the French had devalued the franc as far as could be justified and he believed that any further move downwards might gain France unfair advantages at the expense of such countries as Belgium. Rueff admitted that the economic situation apparently required no further devaluation, but he said that the Treasury situation also had to be considered. He, Rueff, had been opposed to lowering the franc beyond 162. He thinks now that he had been mistaken on this point, however, since the depreciation to 179, which had taken place in May, 1936, had brought back an important amount of capital to France and had given the Government a respite of several months, requiring no drawing on the Bank of France.

The Secretary thought that in the circumstances it might be possible for the United States, through its Stabilization Fund, to be of some assistance to France in preventing a further depreciation of the currency. The Secretary briefly summarized his plan. It was for the United States and the British Stabilization Funds to purchase jointly forward francs (he referred specifically to three months francs). The French would be required to put up collateral in the United States, such as the gold now held in the Federal Reserve Bank at New York by the Bank of France. The redemption of the francs would be, at the choice of the United States

Stabilization . . .

Stabilization Fund, in either gold or dollars. The Secretary explained that he would not be willing to undertake such operations unless the British came in on a fifty-fifty basis. He said that he would reserve the right to end the system at any time.

Rueff stated that his Minister of Finance had been very appreciative of our approach. He, Rueff, thanked the Secretary warmly for inviting him to this conference and for having presented a plan which might be of real help to France. Rueff made a few notes during the conversation and asked if he might summarize his understanding to the Secretary. Rueff was of the opinion that three considerations were involved: (1) the suggestion of the Secretary broadened the general basis of cooperation under the Tripartite Agreement; (2) by going into the forward franc, the technique of the operations of the Stabilization Funds would be extended beyond the spot market; (3) the point as to just what material assistance would thereby be given France was not yet clear in Rueff's mind. Rueff thought the plan worth considering on the first two points alone and asked the Secretary to help him better understand the third point.

The Secretary advanced the argument that if the American and British Stabilization Funds were willing to take care of the forward market for the franc, that would leave the French Stabilization Fund that much more free resources for operating on the spot market. Rueff assumed that the United States would require gold in

New York as collateral up to the extent of the operations which the United States Fund might carry on in forward francs. The Secretary confirmed this. Rueff made the point, therefore, that if the French thus had to hypothecate gold to cover three months franc operations carried out for American account, this would be identical with the plan they now follow of taking or calculating out of the gold which they have in their Stabilization Account the amount which must be utilized for repaying commitments which they have entered into on the forward market. Rueff failed to see, therefore, how this scheme would actually broaden the possible extent to which the market could be controlled, or how the French gold resources would go any further than under the present practice. Rueff said that he would like to think this over and asked permission to withdraw to another room for a while. The Secretary agreed to this and let Rueff know that the sense of the proposition had been communicated to the British Treasury and that Sir Frederick Phillips had been sufficiently interested therein to let him know that he would be glad to have Rueff come on to London from Southampton to discuss the question at the Treasury if Rueff saw fit. It was not disclosed to Rueff that Sir Frederick Phillips had been in Rouen. He presumably gained the impression that the communication was through Butterworth. Rueff was visibly surprised, but agreed. He planned to telephone the French Minister of . . .

of Finance from Southampton to inform him in the premises if this was feasible.

After Rueff went into another room the Secretary talked with Butterworth and me for a moment. He thought Rueff would recommend acceptance of the offer, but he told us not to endeavor to sell the idea to him. I left the Secretary's suite to visit the Purser's office. Just as I was returning, I had word that the Secretary wanted me to join Rueff who had asked for me. Butterworth and I then talked with Rueff who was still anxious to clarify point 3 abovementioned, that is, just what the material benefit would be to the French Stabilization Fund under the proposed arrangement. There was little that we could add to the Secretary's statement.

The three of us went on deck for a promenade but shortly met the Secretary and returned to the suite for another conference. Rueff told the Secretary that he had thought the matter over and had discussed it a little further with Butterworth and myself. He then repeated the three points and asked if he had understood them correctly. The Secretary had nothing further to add. It was understood that Rueff would go on to London and after consultation with Sir Frederick Phillips return to Paris and inform his Minister in the premises, for such decision as the French might choose to make.

The Secretary took advantage of the occasion to emphasize his constant desire to be of real and friendly help to France. He stated, however, that the last

appreciation .

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depreciation of the franc and the manner in which it had been carried out had disappointed him very much, and had placed him in a difficult position. He mentioned particularly that we had not been given ample notice in advance and that there had been a failure to carry out the terms to which we had adhered. Rueff argued that these questions of devaluation or depreciation arise invariably at a time when there is much confusion in the Government and when it is absolutely impossible to tell any distance in advance what is going to happen. He said that he always got in touch with me as soon as there was anything which could possibly be communicated to us. He said that even though Daladier has now given his definite undertaking to hold the franc stable and not to resort to exchange control, it remains to be seen whether, in spite of these promises, and Daladier's unquestioned sincerity in the premises, the franc can actually be held.

Rueff raised the general question of stabilizing currencies. The Secretary dismissed this with the remark that the dollar was stable and had been since gold was fixed at \$35 per ounce in January, 1934. When the Secretary asked Rueff who had started the recent rumors of devaluation under the Tripartite, Rueff said he had no idea, but observed that they had increased during the Secretary's visit to France.

There was some general conversation about the prosperity . . .

prosperity in the town which the Secretary had visited and particularly with respect to the crowded condition of the hotels. The Secretary asked certain questions about French credit to industry, particularly 5 and 10 year loans to business, which elicited statements from Rueff in regard to operations of the Credit National and the Banque Populaire. The Secretary asked me to draw up reports on the working of these two institutions.

Speaking with me alone, the Secretary offered to let me proceed to London with Rueff, but I suggested that it would be preferable for Rueff and Butterworth to go together to London, and Rueff see Phillips alone.

Thereafter Phillips would probably tell Butterworth the results of the meeting and I would ask Rueff to inform me upon his return and after he had reported to his Minister.

The Secretary told me to telephone him on board the Normandie if the French sought any further explanations. If the French reached some decision, this should be cabled through the usual channels. This would thereby inform the Embassy here, and the Department of State in Washington, as to what is underway. No other reports or explanations for the present are contemplated, this being merely a confidential study of extension of technique of the Tripartite arrangement. The Secretary told me that he might want both Butterworth and me to visit the United States after conditions quieted

down on this side.

Rueff, Butterworth and I left the Normandie at Southampton Water and proceeded by tender to the pier. Rueff agreed to let me know what happened in London upon his return to Paris. I left Rueff and Butterworth at the Customs and proceeded to the ferry pier whence I sailed from Southampton at 11.15 p.m., arriving back in Paris at 9.50 this morning. I immediately telephoned to Madame Rueff and reported her husband's absence, and to the Minister of Finance to explain Rueff's visit to London. The Minister said he would be glad if I could come over to talk with him personally but I ventured the opinion that it would be preferable to await Rueff's return and his report. I would then be glad to come over anytime the Minister asked it.

H. Merle Cochran.

JR

PLAIN

London

Dated August 26, 1938

Rec'd 2:45 p.m.

Secretary of State,
Washington.

824, August 26, 6 p.m.

STRICTLY CONFIDENTIAL. FOR THE ASSISTANT SECRETARY
OF THE TREASURY, ^{Taylor} FROM BUTTERWORTH.

/ I saw Phillips today who said that Rueff had returned to Paris last evening. Rueff apparently maintained the same attitude he took on the NORMANDIE, namely, that he felt sure Marchandeau would welcome the suggestion as it would (a) augment the Tripartite Agreement and (b) add a new technique of cooperation; but (c) that the material advantages, as far as the French were concerned, were more "formal than real". Phillips said that he and Rueff had discussed the whole question and reached agreement (1) that Rueff should take up the matter with his Minister who after all had had no information to date and (2) that at the same time the Bank of England and the Bank of France should discuss the technical aspects of any such arrangement.

Phillips

-2- #824, August 26, 6 p.m., from London.

Phillips also said that it was evident from his conversation with Rueff and his own talks with the Bank of England that there need not be any difficulty about security and in fact he had found that the Bank of France did have **SOME** gold on earmark in London.

Phillips raised the question of the avoidance of publicity which he said Rueff had gathered from the Secretary of the Treasury was a sine qua non and he said that he had been advised that "directly that kind of operation appears, the market will at once know that something is on and be able to tell who is doing it." I said that my impression was the Secretary had felt strongly that no public declaration should be made but obviously one could not prevent the market from forming its own estimate of the character of any projected operations.

I shall of course report further developments.

JOHNSON

HPD

REB

PLAIN

London

Dated August 26, 1938

Rec'd 3:20 p. m.

Secretary of State,
Washington.

825, August 26, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

Preoccupation with the franc situation may obscure the basic problem of the pound-dollar rate. It may be of interest to examine the position as seen from London particularly as I understand from the Secretary of the Treasury that in reply to a statement he made to Phillips to the effect that he would be disturbed to see the dollar-sterling rate fall below \$4.86 as he felt that such a decline would have important consequences in precipitating the exodus of funds, Phillips said very emphatically that he realized that opinion was fairly widely held but that he disagreed with it decidedly and he saw no reason why dire things should happen if the rate went to \$4.80.

It seems to me that this statement may mean one of two things. (A) that the British would rather like to see sterling go that far and therefore would not anticipate

REB

2-#825, From London, Aug. 25, 8p.m.

anticipate that it would break confidence or (B) was looking ahead to a time when some more definite arrangement might have to be negotiated between the two countries and therefore did not want £4.86 to become in effect a bottom level. Two questions arise in this connection if (A) is correct. (1) Are the British right in their estimation of the situation and (2) would the drop to the £4.80 level in view of the extent of the sterling area be an eventuality which would be one of such importance to us that discussions on general objectives with the British might be considered desirable.

The situation which is developing seems to me to point to definite dangers if the pound is allowed to go beyond £4.86 and Phillips' apparent complacency in viewing such an eventuality seems quite possibly unjustified. My reasons for this view are as follows. British Government revenue is declining though for the present fiscal year the total receipts may not fall short of estimates because income-tax will be assessed on the good-profit year 1937-38. But the prospect of sharply curtailed

REB

3-#825, From London, Aug. 26, 6p.m.

curtailed revenue especially from this source in the coming fiscal year will soon have to be taken into account. Expenditure is rising not only for armament costs and the problem of balancing the next budget even with the help of such borrowing as the government is likely to consider advisable will arise next April and the financial community will anticipate this problem several months before it has actually to be dealt with. A threat to confidence in sterling with a budget problem approaching and an adverse trade balance increasing could not be contemplated by the city with equanimity. Incidentally the emphasis laid on the importance of balancing the budget before the gold standard was abandoned in 1931 was the principal factor which maintained confidence in the new situation then faced.

A sharp upturn in British industrial and trade activity in the next six months would do much to ease the problem but there is so far no evidence that such a recovery is likely. In spite of the fact that building remains at a fairly high level, armament activity continues to stimulate specialized industries and internal trade remains relatively steady the outlook for general recovery is

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4-#825, From London, Aug. 26, 6p.m.


is by no means good because Great Britain's dependence on exports is so great and the depression in her basic export industries continues to become more acute. In any case a time-lag of at least six months after any marked United States recovery must be expected before a revival in the demand for primary products and the restoration of purchasing power in Britain's principal export markets produces any appreciable increase in the volume of British exports. Unemployment in the principal export trades which account for 40 percent of total unemployment will continue to be a drag on the whole economic body for a comparatively long period and the snow-balling effect will reduce profit margins and tax receipts while the expenses of the social services will be augmented and the trade balance will remain adverse.

At present British business men do not lack confidence in sterling or in the government's ability to deal with the coming problems. Industrial investment is practically at a standstill because prospects of profitable trade simply are not there. Depression in the basic export industries not only precludes any new investment

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5-#825, From London, Aug. 26, 6p.m.

investment in these industries but also slows down economic activity in consumers goods, construction, distributive trades, et cetera, and makes business men avoid expansion in their industries even if they cater predominantly for the home market. The hesitancy of capital to seek industrial investment does produce a plethora of funds which will tend to make government borrowing cheap and will create conditions conducive to recovery unless (repeat unless) there should be a break in confidence in the future of sterling and consequent exodus of capital to New York. British confidence in sterling may be strong but the attitude of foreigners may make or break a given resistance.



The London short term position with the possibilities of the withdrawal of hot money and perhaps even also funds of central banks of such parts of the sterling area as Scandinavia makes it imperative from the British point of view to maintain long-term confidence in sterling. Even though the exchange equalization account may have adequate reserves against withdrawal of short-term overseas balances any sensational exodus of capital arising from a break in confidence in sterling would

be a

REB

6-825, From London, Aug. 26, 6p.m.

be a very different thing from a withdrawal of funds arising from the return of confidence for example in the franc, because it might carry also an outflow of British capital and might gain rapidly in momentum and accentuation of the flight to gold would also occur.

In view of the above and of the undoubted psychological resistance which would help to maintain a rate at the old parity level and which would not be true of any new level it seems to me that Phillips' complacency in viewing such an eventuality is quite possibly only apparent. If matters were allowed to ride until the soundness of such a view were put to the test a situation might develop which would require drastic action and the United States would probably have to take a very large amount of gold. Although the United States would probably also have ^{to continue} to take some millions of gold in order to hold the rate ^{around} the old parity the amount would be very much less than if anything approaching a flight movement were allowed to develop.

In short the maintenance of confidence in sterling is imperative and of course the British Treasury will not wish it to be impaired. But it is possible that they may
test

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7-#825, From London, Aug. 26, 6p.m.

test the staying power of confidence by allowing the rate to dip below the old parity level a few times and if it proves not costly to bring it back they may let it dip increasingly lower until the idea of a lower rate becomes gradually accepted. If on the other hand danger signals appear as soon as a level below \$4.86 is touched they would then either have to pay heavily to hold \$4.86 or it would become imperative to give to sterling some new stability that would command confidence. In such an eventuality speedy action in which the United States would have to share might be necessary.

The present critical European situation also suggests a few thoughts on the probable policy of Britain in the face of such a European crisis as might really lead to war. It seems logical to expect that sterling would be allowed to drop quickly to a considerable extent after which a new level would be held to give confidence for a period at least. With considerable resources for wartime purchases in the United States in the form of dollar assets and of gold a depreciation in sterling would not greatly impair immediate purchasing power there. Many raw materials would also be available in the

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8-7825, From London, Aug. 26, 6p.m.

in the Empire and other sections of the sterling area. Furthermore, foreign sterling funds in London would thereby be somewhat reduced in terms of goods and services.

JOHNSON

WWC

08/26/44

8:25 PM

RECEIVED

RECEIVED

REB

PLAIN

London

Dated August 26, 1938

Rec'd 3:50 p. m.

Secretary of State,
Washington.

826, August 26, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

In connection with my 825, August 26, 6 p. m., it may be of interest that today's editorial in the FINANCIAL NEWS on "Tripartite Troubles" analyses the agreement and its results and concludes as follows:

"It must frankly be admitted nevertheless that the broader achievements of the Tripartite Pact have been far from spectacular. During the period of its operation the franc has depreciated steadily from 105 to 179 to the pound. Dollars have fluctuated against sterling between limits of 5.03 7/16 and 4.87 1/4, while the price of gold has moved between 139S. 3 1/2D. and 142S. 9D. Although this may seem to represent a fair degree of stability in retrospect that stability has never been of a kind on which the business community could place great reliance at any particular moment, the period has seen a succession of currency scares due partly to political unrest

RED

2-#826, From London, Aug.26, 7p.m.

unrest but in great measure to rumours of a change in the dollar price for gold. It is fair to suggest that if in fact the dollar has been held fairly stable that is due not to the Tripartite Agreement but to the fact that domestic considerations have never been sufficiently powerful to induce the United States administration to undertake a unilateral change in the dollar parity. That the agreement should have failed to secure real stability was perhaps inevitable. Although each of the participating governments affirmed its desire to promote exchange stability each reserved its right to "take into full account the requirements of internal prosperity". In the last resort those objectives are incompatible exchange stability which is to command any confidence implies that somebody must be prepared to deflate some time. In fact, of course, nobody is prepared nowadays to deflate in order to maintain an exchange parity and in the case of America that reservation is expressed in the "twenty-four hour" basis of its gold price -- the most dislocating factor in recent exchange history. Hence the true importance of the Tripartite Agreement lies not in its technical but in its political implications.

It

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It is probably true that until recently the effect of the agreement was to keep the franc over-valued in relation to the dollar and to a less extent in relation to sterling and that the agreement still prevents the over-valuation of sterling against the dollar from being corrected. In the near future this country's adherence to the agreement is likely to be tested to the uttermost for there is little doubt that the defence of sterling at its present dollar value will entail the loss of further large quantities of gold. No doubt it is true that currency depreciation is not the best means of correcting our adverse balance at a time when large imports of materials are needed for rearmament. The best course may well be to continue financing our import surplus by drawing on our overseas investments and if necessary a large part of our gold reserve. Even if that were not so it might be worth while to suffer considerable inconvenience rather than to break away from the agreement since the latter affords a means of preserving the political solidarity of the democratic nations. But it may seem regrettable to

REB

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to some that American views on exchange rates are relatively rigid and that the securing of the political benefits of the agreement should consequently be a matter left so largely to this country."

JOHNSON

WWC

GW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 1354

DATE: August 26, 1938, 7 p.m.

FROM COCHRAN.

To hold the rate at 178.34 it was necessary for the French stabilization fund, on a calm market, to yield only 120,000 pounds today. However, the fund had to provide 130,000 pounds in addition for Treasury needs. Thus the day's losses were 250,000 pounds.

BULLITT

EA:EB