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DEPARTMENT OF STATE
WASHINGTON

June 24, 1939.

In reply refer to
EA

My dear Mr. Dietrich:

With further reference to my letter to you of yesterday, I am enclosing a set of clippings which has been sent to the Department from the American Embassy in London, relating to Czechoslovak gold in London.

These clippings should be returned to this Department at your convenience.

Sincerely yours,

Leroy D. Stinebower
Office of the Adviser
on International
Economic Affairs

Mr. Frank Dietrich,
Care of Mr. Loehhead's Office,
Treasury Department.

PARLIAMENTARY DEBATES
House of Commons
25 May 1939.
London. Cols. 2541-2542.

NUMBER: /

2

CZECHO-SLOVAKIA (ASSETS,
GREAT BRITAIN).

Mr. A. Henderson asked the Chancellor of the Exchequer to what law, according to the protocols, the Bank of International Settlement is subject, and what action His Majesty's Government propose to take, in view of the fact that the board of the said bank, which contains two representatives of the Bank of England, has recently taken a decision with respect to the Czech gold, which constitutes a recognition that the German Government is the *de jure* Government of Bohemia and Moravia, contrary to the policy of His Majesty's Government?

Sir J. Simon: I would refer the hon. and learned Member to the convention respecting the Bank for International Settlements signed at the Hague in January, 1930 (Command Paper 3484) and the Constituent Charter granted by the Swiss Government to the bank in 1930 in accordance with that convention. No doubt the bank carries out banking transactions in accordance with what it understands to be its legal obligations, and I am not aware of any evidence that the transaction referred to in the question can properly be held to imply that *de jure* recognition had been granted to the incorporation of Bohemia and Moravia in the Reich. In any case, it is clear that there is no action which His Majesty's Government can usefully take in the matter.

CITY: LONDON

DATE: MAY 27 1939

M.P.S PROTEST AGAINST CZECH GOLD TRANSFER

CHANCELLOR TO SEEK ADVICE

'DAILY TELEGRAPH' DISCLOSURE

RELEASE NOT ACT OF TREASURY

BY OUR OWN REPRESENTATIVE
WESTMINSTER, Friday.

Strenuous and sometimes fierce debate arose in the House of Commons to-day on the subject of the transference of Czechoslovak gold from the Bank of England to the Reichsbank.

The transfer was announced by THE DAILY TELEGRAPH a week ago.

Mr. Lloyd George, renewing, on the adjournment, his attempt to pin responsibility upon the Government, was rebuffed in much of his argument by Sir John Simon.

The Chancellor of the Exchequer's subsequent pledge to consider "whether we have gone wrong" was interpreted by Mr. Churchill as a promise that all his energies would be used to prevent "a public disaster" in the handing over of the money concerned.

Though it was this topic which formed the kernel of discussion, the debate began upon the wider issue of recognition of Germany's absorption of Czechoslovakia.

RECOGNITION PROBLEM

Mr. A. V. ALEXANDER, speaking first from the National Front Bench, and Sir Archibald Sinclair, the Independent Liberal leader, following him, both devoted themselves to the recognition problem.

Mr. Alexander pronounced that the British Government should not even consider de facto recognition.

Sir A. Sinclair added that it would be inconsistent with the Government's policy, and would have a bad effect on German moderate opinion, which did not approve the Hitler régime.

Mr. GEORGE BARNETT, having advised that recognition should be withheld as long as possible, but could not be denied indefinitely, turned to the question of transference of assets. The handing over of Czech money to Germany through the Bank of International Settlements was an example of bank robbery. British and French representatives and capital should be withdrawn from the Bank of International Settlements to prevent recurrence of similar incidents.

Mr. PATRICK LAWRENCE asked whether the British representatives on the B.I.S. board, Mr. Montagu Norman and Sir Otto Niemöller, supported the transaction. No foreign Government would believe that they acted without the knowledge of the British Government.

LACK OF LIAISON

Mr. BOWEN thought the Bank for International Settlements was bound by statutes to hand over the money, but there had been a lack of liaison between the Bank directors and the Treasury.

The Bank had ceased to perform any useful function, and the sooner our deposits and directors were withdrawn the better.

Mr. G. STANLEY suggested that some day an independent Czech Government might demand repayment by the Bank of England of the £20,000,000 which it had surrendered.

Mr. R. BRANDE thought the Chancellor of the Exchequer had been badly tricked by the British directors of the B.I.S. They were trustees for the interests of the world, they should have delayed consent to the transfer till there had a legal decision from the Swiss courts.

"They might have passed through some 'legal empying,' but he would like to have seen it." The transference of the money was made to provide the maximum assets for Nazi armaments. It was the most equal form of financial appeasement.

Sir J. WANSLEY MILNE retorted that the Bank of England had no other course open to it but to follow the instructions received from the people who owned the money, the B.I.S.

"KEEP THEM HERE"

Mr. LLOYD GEORGE then burst into a speech of fiery vehemence which charged the Government and the Treasury with "apostasies" in the transfer of the assets. He being fierce retorts at Sir John Simon, who rose several times to interrupt him.

In particular, he charged the Government with misleading the House on the subject, and he demanded that, if the assets had not yet actually left the Bank of England, they should be retained in this country pending a court decision.

The incident had developed, he began, as the result of his intervention in last Friday's debate. He had read "in several newspapers," he had added, and was about to continue when the Chancellor of the Exchequer interrupted with the words, "The Daily Telegraph."

"That was the paper I happened to read," Mr. Lloyd George rejoined, "a highly reputable Conservative newspaper, and I thought it so startling that I diverted from the subject of my speech and summarised the statement from memory."

He had asked the Prime Minister for an explanation and "nobody now will say that the explanation was fair or straightforward." It was, in fact, he added, "very distasteful."

"A MARE'S NEST"

Mr. Chamberlain had stated, Mr. Lloyd George went on, that the story contained in THE DAILY TELEGRAPH was a "mare's nest." He had added that Herr Weizsäcker was not in London and that the Treasury had not agreed to release any assets to the Bank for International Settlements on any one else. Would anyone believe from this statement, Mr. Lloyd George asked, that £20,000,000 or, as he thought, nearly £30,000,000 of Czechoslovak assets which were deposited in the Bank of England, had been handed over to the

Reichsbank? Yet it occurred and the Chancellor knew about it.

In the days when he or Mr. Churchill, or even the Prime Minister was at the Treasury, the Bank of England would not have dreamed of entering into a transaction of this kind without seeing the Chancellor.

Five or six millions of gold belonging to the people of Czechoslovakia had, he continued, been transferred to the Reichsbank, which had no more right to it than a burglar who had captured beaver ponds, taken them to a bank, and asked for the cash.

It was known that they were stolen, that they were to be used to our detriment, that the whole transaction would be reopened when the legal claimants had a chance of bringing their case before a higher court.

NEST CAPTURED

"All these facts were left out of the explanation given by the Prime Minister," declared Mr. Lloyd George with a wealth of gesture. "It was all a 'mare's nest.' The nest has been captured, but the mare is in our stable, and for all I understand it is still there."

The question whether the Treasury had merely acquiesced or given assent was, he agreed, an important one. The Daily Telegraph had said they had agreed, but there was "not a great deal in that."

The main facts of the story were that millions of stolen money had been passed on to the robbers with the knowledge of two directors of the Bank of England, and the Treasury had taken no action. If the cash was still here, then the Treasury should reconsider its attitude.

Mr. Lloyd George expressed himself as being sure that war would be averted the moment agreement was signed with Russia, but added that peace could not be got on the basis of "building up recognition" of the German conquest. The Government should take steps and not allow the cash to go until there was a legal decision on it.

TREASURY NOT INVOLVED

Sir J. SIMON was first concerned to vindicate the Prime Minister and himself from the imputation of bad faith in denying Mr. Lloyd George's charges last week.

Mr. Lloyd George thought that what had been done had been done by the Treasury and under the Act requiring its consent to the release of Czech assets. That was not so.

Sir John admitted the existence of a feeling that the phrase "mare's nest" in the Prime Minister's denial was too strong. But he protested that the suggestion of his having released a large stock of assets was putting "a large rock's egg" in his nest.

The affair of the B.I.S. happened months ago.

Towards the end of March indirect information reached the Treasury that the B.I.S. were "taking steps to reach this gold." He was not informed by the Bank of England or by the Czech Legation.

"I never gave authority," Sir John added, "if it had been in my power I would have refused."

The B.I.S., he proceeded, was entirely non-governmental. Its directors were governors of central banks and leaders of industry but appointed by or associated with their Governments.

IMMUNITY BY PROTOCOL

All the Governments concerned gave to protocol complete immunity from all interference with the property assets held by the Bank.

It was, therefore, impossible for the Treasury to stop the transfer of assets unless they were prepared to break treaties.

British directors of the B.I.S. were not in close communication with the British Government. They never had been. The consent of the idea of the Bank was that it should not be concerned with political questions.

Whether the money had actually left London Sir John confessed he did not know. "I will consider immediately," he promised, "whether in this matter we have gone wrong."

But it, as he believed, the protocol required adherence to an order of the B.I.S. that could not be evaded except by breach of obligations.

Mr. Lloyd George asked whether the Treasury could raise the issue in one court to obtain legal opinion on the right to suspend payment until ownership was settled.

Sir John pronounced this quite a useful suggestion. His own opinion was that we were not free to interfere, but if the asset was here we should take any further steps that could be had.

The gold was not in the vaults of the Treasury. The Government as a Government had no more authority than any other person.

QUESTION OF RECOGNITION

In conclusion Sir John dealt briefly with the recognition of Germany's annexation of Czechoslovakia.

Other governments, including Russia and the United States, had withdrawn their legations and left consular representatives. The acceptance of a country's flag was de facto recognition. We were in consultation with other governments on the matter. No action would be taken before the House met again.

Administration of Czech balances in this country, blocked by the Act, might have to be dealt with unilaterally or by agreement from both sides. The amount of the assets had been exaggerated, the claims against them substantial.

Whether there would be any balance was more than doubtful.

Mr. Churchill in a few sentences made plain that he took Sir John's speech as a promise of searching endeavour to prevent the passing of the money to Germany, but declared himself still unable to understand how the matter had escaped the Chancellor.

"Here we are going about the country," he cried, "urging people to enlist and accept military conscription, here we are paying taxes on a gigantic scale to protect us, and at the same time £20,000,000 could be transferred to the Government of Germany for the purpose of increasing its armaments."

PAPER: DAILY TELEGRAPH

NUMBER: 3

CITY: LONDON

DATE: MAY 27 1939

THE CZECH GOLD

In the light of the fuller information imparted by Sir JOHN SIMON yesterday Ministers are completely cleared of the charges of disingenuousness which had been levelled against their attitude to the affair of the Czech gold. When, on Friday of last week, the Prime Minister described the whole matter as a "mare's nest" he was merely repeating in good faith what he had been told by the Treasury in reference to the disclosure made for the first time in THE DAILY TELEGRAPH that morning. We are now aware that what we then published was based on an incomplete knowledge of the facts; but it is sufficient to remark that not only the Prime Minister but the Chancellor himself were at that time completely uninformed, and that the truth, as since verified, was a matter of prime public interest. It has become plain that the gold in question was held on deposit in the Bank of England on behalf of the Bank for International Settlements and that the transfer of the gold to the Reichsbank was due solely to the initiative of the Bank for International Settlements, against which the British Government had no legal power to intervene.

It does, indeed, appear that Sir JOHN SIMON, in his desire to avoid any possible suspicion of interference with the independent jurisdiction of the Bank for International Settlements, had rather gone out of his way to keep himself in total ignorance of the actions of that institution. Somewhat curiously he derived such information as he had, not from the British representatives on the Bank, but casually from an undisclosed Continental source. He even now does not know, rather surprisingly, whether the gold is still in the country. That so complete a detachment on the part of the British Government is necessary to the proper functioning of the Bank for International Settlements roused doubts in the minds of many members of the House yesterday as to the further usefulness of the latter institution. The Bank was founded as a "Central Bank for Central Banks," with the express object of facilitating a totally non-political conduct of international financial transactions. This purpose has been defeated by the highly political and controversial action of the Bank in transferring the Czech gold to unauthorised claimants. If, as appears, the Bank is to become an instrument for aiding and abetting in aggression then the sooner its statutes are radically revised the better. Meanwhile, it is satisfactory that Sir JOHN SIMON is to seek further legal advice as to whether the Czech gold, if still within reach, might not after all be impounded on behalf of its rightful owners.

GOVERNMENT & CZECH GOLD RELEASE

CHANCELLOR TO TAKE LEGAL ADVICE

NO LARGE SURPLUS OF ASSETS LIKELY

The Government has undertaken to take further advice on the question whether it acted wrongly in refraining from interfering with the B.I.S. release of London-held Czech gold to Germany.

This promise was given by Sir John Simon in the course of the debate on the adjournment yesterday, but he warned Members that, in his view, the agreement with the B.I.S. was binding.

Both the Government and the British representatives on the B.I.S. faced strong criticism from all sides of the House.

The Czecho-Slovakia debate yesterday marked the climax of the wave of indignation that began a week ago with the disclosure in *The Financial News* of the release to Germany of some £6,000,000 of Czech gold held in London on account of the B.I.S. with the Bank of England. Intense feeling was also aroused by the revelation that negotiations are in progress between the Treasury and the German Government for the release of the Czech assets blocked in this country.

The Treasury and the Government, the Bank of England, Mr. Norman and Sir Otto Niemeyer, and above all the B.I.S., faced sharp criticism from all sides of the House. Experienced Parliamentarians declared that seldom has this Government, or any other, been subjected to so unanimous an attack. Hardly a single speaker supported it.

CRITICISM OF B.I.S.

M.P.s DEMAND WINDING-UP

The transfer of the £6,000,000 of Czech gold by the B.I.S. to the Reichsbank was strongly condemned by all speakers. Several of them demanded the winding-up of the B.I.S., or, alternatively, the resignation of the British directors and withdrawal of British deposits. Feeling in the House appeared to be particularly strong, and it is believed that the matter will be raised again after the Whitsun recess.

There was equally strong criticism of the attitude of the two British directors of the B.I.S., on the ground that they failed to make an effort to stop the transfer of the Czech gold, or even to report the matter to the Treasury. The fact that the Treasury had no control over the attitude of these directors was subject to much adverse comment, while the Government's contention that the Bank of England and the B.I.S. are private banking institutions was denounced by several speakers. The Socialists seized the opportunity to demand the nationalisation of the Bank as a means of terminating the present anomalous situation.

BANK & B.I.S. INSTRUCTIONS

Strong views were expressed by all speakers against the legalistic conception that characterised the Treasury's attitude in this matter. One of the speakers argued that, even on strictly legal grounds, there was a strong case for the Bank of England to disregard the instructions of the B.I.S. It was pointed out that if a banker knows that the holder of an account acts merely as a trustee for a third party, and if the holder of the account tries to convert the funds to another party, it is the duty of the bank to make enquiries before carrying out the instructions received.

THE "MARE'S NEST"

CHANCELLOR'S EXPLANATION

On the question of the Czech assets blocked in London, it was insisted that the surplus that would remain after settlement of British claims against Czecho-Slovakia should in no circumstances be handed over to Germany, or, what amounts to the same thing, to the German-controlled Czecho-Slovak National Bank.

There was, needless to say, much criticism of Mr. Chamberlain's "mare's nest" description of the reports about the Czech assets. And the Chancellor of the Exchequer spent some time in trying to explain how the incident arose. He also sought to explain away the contradiction between his statement on Tuesday and that of the Financial Secretary to the Treasury on Monday.

Dealing with the B.I.S. gold he reiterated the legalistic point of view, declaring that the Government had no power to prevent the transfer, owing to the immunity of B.I.S. assets under international agreements.

In reply to questions why the Government did not try to stop the transfer by instructing the British directors of the

B.I.S. to oppose it, Sir John Simon emphasised that the Government had no power over them and that the Bank for International Settlements had always been considered to be outside the Government's preserve. He insisted that the Government had not even powers to obtain information from the Bank upon whether the gold was still in London.

Nevertheless, Sir John Simon promised the House that he would take legal advice to ascertain whether the Government was wrong in thinking that it was not possible to block the Czech gold held in the name of the B.I.S. He expressed the view, however, that this was unlikely.

LONDON TALKS

VERIFYING U.K. CLAIMS

As for the London negotiations, Sir John Simon stated that their first object is to verify the British claims. He said that estimates published about the amount of blocked Czech assets were grossly exaggerated, and that no surplus is likely to be left over after the settlement of the Treasury's own claims and of British private claims. Should there be a surplus, however, he thought that it would be necessary to restore it to the Czecho-Slovak owners even at the risk of its being seized by the German authorities. On the political aspect of the problem, Sir John promised the House that the Government would make no move for the recognition of the German regime in Czecho-Slovakia before the reassembly of the House after Whitsun.

CITY'S FEARS

DOUBTS ABOUT LONG-TERM LOANS

When the details of yesterday's debate became known in the City, the first reaction was disappointment at the statement that, after all, there may be no surplus of Czech assets over claims. The absence of any direct reference to the Czech long-term loans in the Chancellor's list of British claims to be satisfied out of the Czech assets also aroused comment.

There are vague fears that the long-term loans may not be settled out of the Czech assets, and that the Government may make arrangements with the Germans to secure interest payment on the bonds out of the surplus of Czech exports to this country over Czech imports from this country. Any such arrangement would be considered most unsatisfactory.

Some comfort was derived from the possibility that the further enquiries may find a way of yet blocking the Czech gold held here on account of the B.I.S. Satisfaction over this was damped, however, by Sir John Simon's remark that, if there should be a surplus of blocked assets, it ought to be handed back to the Czechs, even at the risk of its being seized by the German authorities.

NO DEFENCE OF B.I.S. DIRECTORS

What aroused the most speculation in banking circles was the complete absence, in Sir John Simon's speech, of any attempt to defend the Bank of England, or Mr. Montagu Norman and Sir Otto Niemeyer, against the flood of criticisms directed against them during the debate. While the Chancellor of the Exchequer spent considerable time in defending Mr. Chamberlain, himself, and the Treasury against the attacks, he left the sharp attacks against the two British directors of the B.I.S. unanswered.

A full report of the Commons debate is given on page 5.

GERMAN PRESSURE

It is asserted by Berlin, says the Exchange, that the German Government brought pressure to bear on the B.I.S. to effect the transfer of the Czech gold to Germany. The British Government, it is asserted, has no legal grounds for preventing the transfer, but it is believed that the Government will continue to work with the Bank of England.

PAPER: FINANCIAL NEWS

NUMBER: 5

8

CITY: LONDON

DATE: MAY 27 1939

FINANCIAL APPEASEMENT

The question of recognition of the German conquest of Czecho-Slovakia and the fate of the Czech assets in this country occupied Parliament for 4½ hours yesterday to the exclusion of everything else—a significant tribute to the importance of facts which the Prime Minister saw fit to describe as a "mare's nest," when they were first reported in these columns. The substantial accuracy of these facts is now universally accepted, and this in itself is a gain of some importance in days when public men are too frequently tempted to use the Press as a scapegoat. But, apart from this, the position after yesterday's debate remains hardly more satisfactory than before. The Government's intentions both in respect of the recognition of Herr Hitler's "protectorate" and of the Czech balances in London are still obscure, and there is still room to fear that this obscurity may conceal the most deplorable type of diplomatic blunder. Speaker after speaker in yesterday's debate made plain the extreme distaste with which all parties in this country would view any Governmental action implying even *de facto*—much less *de jure*—recognition of the German invasion of Czecho-Slovakia. These strong feelings have a sound practical foundation. The whole policy of building the new peace front against aggression is but two months old, and it was only as a result of this invasion that the new policy was adopted. There are still some quarters, both at home and abroad, in which the sincerity of the Government's renunciation of "appeasement" is still doubted. There can be little doubt that any faltering, such as would be implied by recognition now, would multiply these suspicions with potentially dangerous results for the solidarity of the peace front. Fortunately, Parliament has intervened decisively during the past week and the Prime Minister has promised to take no action until it reassembles. When that time comes the Government will have no excuse for unawareness of the state of public feeling.

While the House of Commons yesterday left no doubt of its strong political objection to recognition of the present state of affairs in Czecho-Slovakia, it was no less outspoken on the financial questions involved. It is a remarkable fact that, out of nine speakers drawn from nearly all parties, not one could be found to approve either the handing over of £5,000,000 of gold to the Reichsbank or the "informal talks" about the fate of the Czech assets covered by the Czechoslovakia (Restrictions on Banking Accounts, &c.) Act. In the matter of the £6,000,000 held by the Bank of England on behalf of the Bank for International Settlements, Sir John Simon was able to defend his own and the Treasury's inaction by reference to the strict provisions of the protocols of 1930 and 1936. This was the "legalistic" defence which members expected from the Chancellor. But in the matter of the Czech assets now blocked in London, Sir John had not even the defence of the law. Laymen, both in the City and elsewhere, find it difficult to understand why these assets should be the subject of negotiation at this time. In the absence of better explanations than have so far been forthcoming they will be apt to conclude that these negotiations are only the prelude to "appeasement" on a wider front. The Government would be well advised to bow to public opinion, and let the Treasury think again.

TRANSFER OF CZECH ASSETS AGAIN BEFORE COMMONS

"MARE'S NEST" STATEMENT: SIR JOHN SIMON'S EXPLANATION

SETTLEMENTS BANK DIRECTORS CRITICISED

The question of the transfer of Czech assets was raised during the debate on the motion for the adjournment in the House of Commons yesterday, when Mr. A. V. Alexander (Lab., Sheffield) drew attention to the question of the recognition of the former company of Czechoslovakia.

Mr. George Broadbent (Con., Bolderston) said the Bank for International Settlements was not performing a useful function in the present state of Europe. He agreed with the view that Czech assets were being hoarded over under duress.

Mr. Patrick Lawrence (Lab., Edinburgh E.) said he did not dispute that Mr. Montagu Norman and Sir Otto Niemeyer were on the B.I.S. not as direct representatives of the Government but as representatives of the Bank of England, but that was not to say that they were not bound to consult with the Government before taking any action on the B.I.S.

The Prime Minister's statement that the whole story was a "mare's nest" was obviously untrue, and when he said the only mistake that had been made were small amounts for refugee Czechs, Czechoslovakia, he passed a picture which was entirely contrary to the facts.

LACK OF CO-OPERATION

Mr. Buckley (Cons., Aberdeen E.) said what they had a right to complain of was the evident lack of liaison between the British directors on the B.I.S. and the Treasury.

He suggested it was time the B.I.S. was wound up and the British directors withdrawn.

Mr. Wiggins (Lab., Lambeth N.) said the Bank for International Settlements held money in London in trust for the Czechoslovak people. In these circumstances he believed the Bank in England were running a serious danger, if not actually committing a breach of trust, and he was informed by legal friends that the matter was open to considerable doubt. In view of the danger that might be thought the Government should have held the money up pending action in the courts of law, or they might have come to Parliament and asked for directions. Neither the Bank nor the Treasury seemed at all anxious to prevent the transfer of money. These chief concerns had been to prevent the matter being made public.

GOLD STILL HERE?

He indicated that the gold was still actually in the Bank of England, and if the Government absolutely wanted to act in the direction he was certain the House would then to act, it could still prevent that gold reaching the vaults of the Reichsbank, by giving certain guarantees to the Bank of England and by bringing in legislation as in the past.

There was a serious danger that one of these days an independent Czechoslovakia might go to the Bank of England to get the money and get the money back.

Under these circumstances the National Council of Czechoslovakia might have a good case and would demand that that money should be refunded.

It might well be that as a result of this transaction the Bank of England would no longer be looked upon as the safest place in the world.

BANK'S POSITION MISREPRESENTED

Mr. Lloyd George (Lib., Carmarthen Borough) said that it was generally admitted now that £1,000,000 or better £2,000,000 of assets deposited in the Bank of England have been handed over to the Reichsbank. He was amazed, he added, at the way in which the position of the Bank had been misrepresented.

It is untrue as if it were ordinary general banking. That was not the attitude adopted by the Bank of England or the Treasury in the days when I and others were at the Treasury. If there was anything involving a great principle or a matter of policy, such as liability on anything involving foreign affairs, the Bank was constantly in touch with us.

The Reichsbank had no more right to the Czech gold than a burglar who stole another burglar's and took them to the bank and asked for cash.

"LEGAL QUIBBLES"

"It is nonsense," he continued, "to treat this matter with legal quibbles. You know they are atoms. You know they are going to be used to your detriment. You know the whole transaction will be exposed again when the legal statement may have a chance of getting his case to a higher court. All these facts were left out in the explanation of the Prime Minister."

He believed the truth was here now. Would the Chancellor say so?

Mr. Lloyd George, continuing, urged that the Government, if it was found that the gold was still here, should reconsider its attitude.

The transfer of £1,000,000 was substantial recognition of the conquest of Czechoslovakia. The Treasury had acquiesced. Acquiescence was only a cowardly way of agreeing. This was one of the questions which should be part of a general settlement.

The Government should say now that this money should not go until we have a legal decision. This was not an ordinary banking transaction, but a plain case of property perpetrated by aggression which should be asked by what right the Government should give a court in the world should give the verdict.

MR. CHAMBERLAIN'S POSITION

Mr. John Simon, replying to the debate, said that the Prime Minister did not desire the expressions, levied on him.

The debate that took place had started early and the minutes had been given that the question would be raised. Mr. Lloyd George's speech indicated that money had been transferred under the Act restricting the transfer of Czech assets. Had he not known that there was a special reference involved, he would have followed the Prime Minister.

The Prime Minister merely repeated what was given to him and which he was completely without blame.

Mr. John said that in the time he did not think the phrase "mare's nest" was too strong. There was no question of the hoarding assets under the terms of the Act.

This matter had not just been begun. It had been discussed in the House of Commons for the end of March that the B.I.S. was to transfer assets to Germany.

As far as I know, and I think know to the Government, the Government did not know that the B.I.S. was doing

or was intending to take steps, to transfer this gold."

NO POWER TO ACT

When he realized what was happening, he at once thought it right to make a statement as to what the facts were, as far as they knew them. He had not been asked for his authority or anything of the sort in any case he would have had no power to refuse.

Referring to the nature and structure of the Bank for International Settlements, the Chancellor said it was formed as the result of treaties and protocols signed by the Government of the countries situated in Europe. It was given a degree of national immunity. It was entirely non-governmental and directors who were governors of banks and representatives of industry were not appointed by the British Government and were not accountable to the British Government in any sense.

Disputes about questions of interpretation must be referred to the International Council at The Hague. The Government concerned with the treaties or protocols given to the Bank for International Settlements completely immunity from all forms of restriction or interference.

COMPLETE IMMUNITY

It was expressly stipulated that it should have complete immunity both with regard to the property of the bank itself and the property and assets held by the bank on account of others. Having entered into treaties, it was right, he suggested, to assume that the Treasury was not blame for not being aware of this transfer.

In view of these immunities it was not of the question for H.M. Government to interfere with transfer of the assets of the Bank for International Settlements.

Referring to Mr. Lloyd George's view that the British directors of the Bank for International Settlements ought to be in close communication with the British Government, Sir John said that it was in fact, after Lord Snowdon returned from The Hague, that the articles of association were drawn up, and the bank set up. It was the result of the arrangement that the bank should have no concern with the politics of Europe.

That was the reason why the directors of the bank had consistently taken the view that the business of the bank did not concern the British Government.

LEGAL ADVICE NOT TAKEN

He would, however, immediately state the best advice he could as to whether the Government had gone wrong in this matter, but he believed that the problem involved an absolute assurance that the B.I.S. could give orders to the Bank of England that would have to be obeyed.

Mr. Lloyd George: "I hope he will not raise the question in that way. What I would ask is that he should enquire whether it is competent for the Treasury to raise the issue in any court in order to obtain an opinion as to the right to suspend payment until the question of ownership is finally settled."

Mr. Wedgwood Benn (Lab., Gorton) asked if the Chancellor could tell them how the House rose whether the gold was actually in the vaults of the Bank of England.

In reply, the Chancellor said he was not aware in what prison the Treasury had a right to ask the Bank of England what it had in its cellars. It could not happen with an ordinary bank, but the Bank of England was in a somewhat different position.

CONSUL AT PRAGUE

On the question of consular representation in Prague, the German Government had required that after May 25 diplomatic representatives in Prague should not enter the extra-territorial rights hitherto allowed to them.

As regards the legation, we were withdrawing our Minister. Certain other countries, notably the U.S.A. and the U.K., had already withdrawn their legations under similar notice and left for the time being consular representatives to look after their interests.

One legation was closed on Thursday and British interests in Bohemia and Moravia were in charge of a vice-consul.

The German Government stated that consular representatives in three provinces would cease to be recognised and not after June 25 unless in the meantime the Council claimed the competence of the German Government. No doubt that was the usual recognition of German authority.

So far as proceeded with, we had been able to secure the protection of British interests in various centres, without making any case recognition of the new power.

CZECH BALANCES

Referring to the administration of Czech balances, he said that if they could get American scheduled claims which had been secured by agreement, this would be preferable to unilateral administration.

The popular impression that there was a large amount of assets blocked here might be found to be an exaggeration, he added, but we had lost money in the old Czechoslovakian issue, and we must get it back, and a considerable sum was wanted for refugees.

Whether there would be any balance at all seemed more than doubtful from the figure he had said, but he could not say whether or not it was possible. Then the question would be, if there was, whether it should be decided to say that we would not allow that balance to go to various institutions and persons in Czechoslovakia because we had strong reasons for believing that if it reached them it would be taken from them.

ATTITUDE WELDED

Mr. Winston Churchill (Cons., Epping) congratulated the Chancellor on his position, good temper and readiness to answer questions. He was glad to hear that Mr. John Simon was going in endurance to prevent £2,000,000 of gold being handed over to Nazi Germany.

At a time when they were urging people to enter and to accept new forms of military conscription and when they were paying taxes on a gigantic scale in order to produce themselves their own armaments, he was vulnerable and liable-averse if they allowed £2,000,000 of gold to be transferred to a Government which was trying to increase the armaments.

"I cannot understand how this escaped the vigilance of the Chancellor," he added, but, except for what he has said, I hope he will do his utmost with his best level as he committed to see that this money does not go into the hands of those who have over-grown and dominated the Czech Republic."

The House then rose.

The Czech Gold

Yesterday's debate on the gold of the Czech National Bank held in this country did something to clear up the mystery of what last week was officially only a "mare's nest" of Mr. Lloyd George's discovery. That unfortunate phrase is now disowned, and the Prime Minister has been dutifully exonerated from responsibility for it by Sir John Simon; but this strange chapter is not at an end, and the House will undoubtedly return to it immediately after the Whitsuntide recess. It was clear yesterday that all parties and all shades of opinion are deeply disturbed at the possibility of handing over to Germany £5,000,000 to which her Government has no shadow of right. The same view was expressed in speech after speech, and it is a natural and just view. The invasion of Czecho-Slovakia by Germany was a crime which has been vigorously denounced by all, and not with least vigour by the Prime Minister. The Government has not recognised it, and there is general agreement that no steps towards recognising it should be taken. To do anything which might imply recognition would be directly opposed to the whole trend of our foreign policy. That much is clear.

There remain, however, three things about this history to be cleared up: how did the possibility of transfer arise, how far has it got, and how can it be prevented from going any farther? According to Sir John Simon, the Treasury heard "quite indirectly"—that is to say, neither from the Bank of England nor from any Czech representatives—that the Bank for International Settlements proposed to take steps to recall the gold. If it had been in his power he would have refused to let the transfer take place, but it was not in his power, and the transfer was agreed to without, as far as can be seen, any protest on the part of Mr. Montagu Norman or of Sir Otto Niemeyer, the Bank of England's representatives on the Bank for International Settlements. Where the gold is now is not known; at any rate, Sir John Simon has no knowledge and is not sure that he has the right to ask. It is a very odd business. Sir John Simon is, of course, perfectly justified in pointing out that the Bank for International Settlements is, by its constitution, carefully guarded from governmental interference. But the

Bank is now a very different body from what it was when it was set up as an instrument of international recovery ten years ago. It has given way to German pressure in this case, and it is much to be hoped that, as Mr. Lloyd George suggested, the Chancellor and his advisers will be able to find some way of getting over the legal difficulties and so prevent this country from assisting in what was not too strongly called the "robbery" of the Czech people. The incident brings up sharply the relations between the Bank of England and the Government. What is incredible is that for two months after the transfer of the gold was first mooted the British Government had apparently only an "indirect" knowledge of what was on foot and the general public no knowledge at all. It is possible that the Government in one of its not infrequent moments of startling obtuseness failed to realise the anger such a proposal would cause if it were known. It apparently failed to reply with any "indirect" protests and has actually begun conversations with German representatives over the Czech assets now blocked in London by statute, conversations that are admittedly linked up with "de facto" recognition of the German conquest. The Germans may excusably have believed that there would in the end be no obstacle to full recognition and a full transfer of all Czech assets. Neither course should now be possible.

There Must Be Control

WHO decides Britain's foreign policy and financial policy? Mr. Montagu Norman or the Government?

In the past year or two the Treasury seemed to be increasing its control over the Bank of England little by little. We flattered ourselves that Mr. Norman had begun to recognise the British constitution under which the will of the people is expressed in Parliament.

But this confidence proves to have been premature. The astounding affair of the Czech gold surrendered to Germany shows that Mr. Norman is still taking decisions of high policy into his own hands and weaving a cobweb of legal quibble and financial mysteries around his operations.

★ ★ ★

Mr. Norman never told the Government that the Bank for International Settlements was proposing to hand over the gold to Germany.

The Government does not even know officially whether Mr. Norman, on the Board of the Bank at Basel, favoured the transfer, or opposed it.

Sir John Simon has to tell the House that he does not even know where the gold is, and does not think he has the right to ask Mr. Norman.

★ ★ ★

So, in face of the united demand for international justice from the British Parliament, the Chancellor of the Exchequer has to explain humbly and apologetically that he has no power to ask the Governor of the Bank to do what Parliament wants.

Could there be a more conclusive proof of the validity of Labour's claim that the Bank, under the Governor, should be made openly and officially servant of the British public?

That claim is now shown to be not merely valid but urgent. No section of the British public can tolerate the situation in which Mr. Montagu Norman carries on with the policy of appeasement, when even Mr. Chamberlain claims to have given it up.

MR. NORMAN IN CZECH GOLD UPROAR

By DOUGLAS JAY, "Daily Herald" City Editor

AN extraordinary situation has been created by Sir John Simon's speech in the House of Commons yesterday on the £5,000,000 of Czech gold, which the Bank of England has been ordered to transfer to Germany.

Everyone in the City who ought to know believes that the gold is still in the bank's vaults.

In Parliament yesterday nearly every speaker demanded that the Government should take immediate steps to prevent the gold finding its way to Germany.

Mr. Wedgwood Benn said that if the gold was still in the Bank of England's vaults, Sir John should send the Serjeant-at-Arms to fetch it.

NO CONTROL

Sir John made almost no attempt to defend Mr. Montagu Norman, Governor of the Bank of England.

Instead he protested that, for all sorts of technical legal reasons, he could not control Mr. Norman in this matter at all.

Sir John told the House that he would like to prevent the Nazis getting the gold. But he added, to the growing astonishment of the Members, that he did not even know where the gold was, and did not think he had power to ask Mr. Norman to tell him.

SILENCE

Most surprising of all, Sir John said that Mr. Norman was not in the habit of telling the Treasury about the affairs of the Bank for International Settlements which recently granted powers to transfer the £5,000,000 to the credit of the Reichsbank.

Faced with a unanimous demand for further action, Sir John promised to re-examine the legal question and see whether the Treasury could not call upon the Bank of England to withhold the gold after all.

Many legal and financial experts believe that this is the proper course, and that the Reichsbank should be forced to sue the Bank of England in the British courts, if it wishes to get the gold.

Sir John's next move is awaited with very great interest in Parliament, in the City, and throughout the country.

LOMBARD STREET

SURRENDER OF CZECH GOLD: GOVERNMENT'S FURTHER ADMISSION

MONDAY EVENING.

During the course of the debate on the Czech assets last Friday, the Chancellor of the Exchequer made an admission which escaped the attention it deserved. He confessed that the Treasury know, since the end of March, about the action taken by the German authorities to gain possession of the Czech gold deposited in London in the name of the Bank for International Settlements. On the other hand, our information is that the actual transfer did not take place until early in May. This means that the Treasury had ample time to take legal advice, obtain all the necessary information from the Bank of England, and to take the necessary steps for stopping the transaction.

Had the Treasury obtained its information in May only, at the same time as the Press did, it would have had a legitimate excuse for doing nothing on the ground that there was no time to take action. As it is, Sir John Simon's confession amounted to an admission that, even though he had more than a month at his disposal, he preferred to abstain from doing anything beyond "considering the matter," presumably within his own department. It would appear that he did not even take legal advice, judging by the fact that on Friday he promised to do so. It seems, therefore, that his claim that he was as anxious as anybody to stop the transfer if possible was mild exaggeration. The Government will have to give very concrete evidence of its desire to stop the transfer in order to make good its inaction between March and May. In the absence of such evidence it will be generally assumed that the Treasury deliberately abstained from taking the necessary steps, in pursuance of its policy of "financial appeasement."

IS THE GOLD STILL HERE?

According to Sir John Simon's own admission, although he obtained his information from unofficial quarters towards the end of March, he did not attempt to obtain official confirmation from Mr. Norman. Not even after the uproar caused by the disclosures in the Press and the Premier's categorical denial of these disclosures did the Treasury consider it necessary to obtain the real facts. What is more, even though the Chancellor of the Exchequer knew since May 22 that the question would be raised on the adjournment on May 26, he did not deem it necessary to ascertain whether the gold was still here, or even whether he had any right to ask the Bank of England for information. This, at any rate, was what the House was asked to believe.

The Chancellor's statement conveyed the impression that, not only had he no desire to take action to prevent the transfer, but that he had no desire even to be informed about the situation. Even if there is no law under which the Bank could be compelled to part with information, it is

clearly absurd to suggest that the Bank is entitled to withhold information on any subject if the Government demands it. During the last few months the Government addressed repeated requests to all banks, and even though it had no legal right to demand the execution of its requests all banks willingly complied with them. Is it admissible that the Government should be entitled to expect loyal co-operation in the public interest from any bank except the Bank of England?

POLITICAL BANKING

Sir John Simon's contention that the B.I.S. is a strictly non-political body must have caused mild amusement among those who have followed the bank's activities. From the moment of its foundation it has been a centre of political activities, and, as one Conservative speaker remarked during the debate on Friday, "a hotbed of political intrigues." The transfer of the Czech gold was agreed upon, not on legal considerations, but purely as a result of political pressure from Berlin. We understand that the pressure was resisted by French interests, who wanted to await the ruling of a law court, but they received no support whatever from the British side.

Indeed, it seems reasonable to suppose that the British directors actually supported the German claim for the immediate surrender of the Czech gold. Otherwise, the French general manager, M. Auboin, supported by the French directors, would have put up a better fight against the surrender. When in October and November, 1937, Mr. Norman and Sir Otto Niemeyer insisted upon the appointment of a German general manager, M. Fournier threatened to withdraw the French deposits from the bank, which would have forced the bank to liquidate. Presumably the reason why Paris did not decide to take such a firm line on the present occasion was that the French authorities did not wish to disturb the relations between Paris and London, relations which have become much closer since 1937.

THE LONDON NEGOTIATIONS

The Government's defence of the London negotiations with the German representatives in London, on the ground that such negotiations are necessary in order to ascertain how far the British claims against Czecho-Slovakia are genuine, does not carry much conviction. Surely, it is possible to verify the claims with the aid of documentary evidence, without having to enlist the assistance of the German Ministry of National Economy, and even the German Foreign Office. The presence of the latter's representatives conveys the impression that the London discussions are not perhaps confined to technical questions, as the House was led to believe on Friday.

Sir John Simon stated that if there should be an excess of Czech assets over British claims the surplus will have to be released, even if this means surrender to the German authorities, since the Government has no right to retain these assets. The predominant majority of the Czech owners of assets here would prefer, however, that their assets should remain blocked, so as to be out of the reach of the German authorities. It is the latter and not the owners of the assets who are presumably pressing for a general release, after satisfaction of the British claims. It is to be hoped that no arrangement will be made by which the Treasury will have to part with information about the names of Czech holders of assets in London.

MAY 30 1939

M.P.S AND CZECH GOLD RELEASE

MORE QUESTIONS TO MINISTERS

Further questions about the release to the Reichsbank of the £6,000,000 of Czech gold held in London on account of the Bank for International Settlements will be asked in the House of Commons when Parliament reassembles after the Whitsuntide recess.

In the debate on the adjournment on Friday, which was fully reported in The Financial News, both the Government and the British representatives on the board of the B.I.S. (Mr. Norman and Sir Otto Niemeyer) were strongly criticised from all quarters of the House.

The Chancellor of the Exchequer then promised that the Government would take legal advice on the question whether it had acted wrongly in refraining from interfering with the release of the gold.

LEGAL ASPECT OF AFFAIR

Members want further information regarding the legal aspect of the affair, and are anxious to be enlightened as to the exact position in the matter of the B.I.S., the Bank of England and the Reichsbank. Ministers will be urged to take measures whereby in future they will be provided with full information when the transfer of assets of this nature is in question.

Colonel Burton, the Conservative member for the Sudbury Division of Suffolk, has given notice to ask the Chancellor of the Exchequer "whether he will consider the advisability of suggesting to the Bank for International Settlements or other holders of gold or specie for the account of Czecho-Slovakia that such gold or specie shall be retained in this country and the capital and/or income therefrom should be applied to the service of interest on loans and redemption of obligations of the late Czecho-Slovak Government."

Other members intend to put down questions later.

LAST WEEK'S FIRE OF QUESTIONS

In addition to the long discussion in Parliament on Friday, Ministers were interrogated at great length by members on Monday and Tuesday.

The Financial News dealt with the affair on Wednesday and Saturday in leading articles entitled "Mare's Nesting" and "Financial Appeasement."

CZECH DEBTS TO U.K. HOLDERS

JUNE 17 THE FINAL DATE FOR CLAIMS

The Treasury to-day announces that June 17 is the final date for lodging the information in regard to certain Czecho-Slovakian financial obligations due to British holders, asked for in a Bank of England announcement on April 3. After that date no forms will be accepted unless the reasons for the delay are satisfactory to the Treasury.

The information was required from holders in regard to financial obligations held by them at the close of business on March 14. The request did not, of course, imply that the Treasury accepts any responsibility for obtaining satisfaction in regard to such obligations.

The necessary forms, obtainable from the Bank and its branches, or through any other bank in the U.K., should be sent, when completed, to the Chief Cashier's Office, Bank of England, in envelopes marked "Czecho-Slovak obligations."

CLAIMS ADMISSIBLE

The financial obligations in question are: Loans issued by the Czecho-Slovak Government, by any public authority in Czecho-Slovakia or by any corporation incorporated before March 15 last, under

BANK AND CZECH GOLD

GOVT. TO ADOPT NEW LINE OF DEFENCE ?

It is understood that as a result of an exchange of views between the Treasury and the Bank of England on Friday, the Government is likely to change its line of defence in face of the criticisms directed against the Treasury's attitude in the matter of the surrender of Czech gold by the B.I.S.

Throughout Friday's debate the main argument with which Sir John Simon sought to convince the House that the Treasury was unable to prevent the transfer of the £6,000,000 of Czech gold by the B.I.S. was that the assets held by the B.I.S. enjoy immunity against being seized.

There is reason to believe that the Government will adopt a totally different method of defence after the reassembly of Parliament, and that henceforth the main argument will be that the Bank of England has no knowledge about the existence of any Czech gold in its vaults, beyond the amount which is held in the name of the Czecho-Slovak National Bank and which is blocked under the Czecho-Slovakia (Restriction on Banking Accounts, &c.) Act.

DISCLAIMER BY BANK?

The Government will maintain that the Bank of England disclaims possessing any information about the ownership of gold held here in the name of the B.I.S., and that, this being the case, no action could be taken either now or earlier for the seizure of the "alleged" Czech deposits in London, whose existence is "unproven."

The explanation of the impending change in the method of defence lies in the fact that the protocol concerning the immunity of the B.I.S. assets binds the Government only and not the Bank of England, and that the Government would be attacked on the ground of having failed to induce the Bank of England to block the gold on its own initiative.

FRENCH CRITICISM OF B.I.S.

FROM OUR OWN CORRESPONDENT

PARIS, May 30.—In French official circles extreme reserve is maintained concerning the Czech gold surrender, and comments are refused. Nevertheless, it is understood in financial quarters that reports that French representatives on the B.I.S. board opposed the transfer to Germany are correct.

Strong criticism of the B.I.S. board is expressed in banking circles. It is considered that the board's decision was on the principle that the situation of Czecho-Slovakia was unchanged by that country's annexation and consequently that Germany, owing to the simple use of force, was entitled to exercise Czecho-Slovakia's rights abroad. It is felt also that the B.I.S. should have submitted the question to The Hague Tribunal, especially since the B.I.S. itself originated the Young Plan which provided for numerous arbitration proceedings.

LOMBARD STREET

BANK OF ENGLAND DISCLAIMS KNOWLEDGE OF CZECH GOLD!

TUESDAY EVENING.

Following the debate on the Czech assets in the House of Commons on Friday, the Treasury has been constantly conferring with the Bank of England. The Bank has apparently found a new explanation for the conduct of the B.I.S. And the Bank now takes a totally different line from that of the Chancellor of the Exchequer in his reply to questions on May 23, and also in his statement last Friday. The Treasury's "strong suit" is that the Government was debarred from taking any action under the Hague Agreement of 1930 and the Brussels Protocol of 1936, by virtue of which the Government granted immunity to B.I.S. assets against seizure and confiscation. Whether or not this defence is watertight as far as the Treasury is concerned, it certainly does not cover the Bank of England. The latter was no party to the agreements, which were between the B.I.S. and the Government.

Accordingly, the view adopted among international lawyers is that it was not for the Treasury but for the Bank of England to prevent the surrender of the Czech gold to Germany, by refusing to carry out the instructions of the B.I.S. pending a ruling by the Court. The Treasury, it is argued, is to be blamed only in so far as it failed to use its considerable influence first, to induce the British directors of the B.I.S. to resist the German demand for the surrender of the assets, and secondly, to induce the Bank of England to refuse to comply with the instructions received from the B.I.S.

HITCH IN THE DEFENCE

The line of defence adopted by the Bank of England was elaborated to meet this line of attack. It consists of a simple disclaimer of knowledge of the existence of any Czech assets in its vaults, beyond those held in the name of the Czecho-Slovak National Bank, which are already blocked under the Czecho-Slovakia (Restrictions on Banking Accounts, &c.) Act. The Bank of England maintains that it has no knowledge whatever of the ownership of the gold held on account of the B.I.S., and that, in the absence of information about the existence of a Czech gold deposit among the gold holdings under the name of the B.I.S., it would not be in a position to refuse instructions by the B.I.S. concerning the transfer of part of its gold holdings. Adoption of this line of defence would make it likely that, after the re-assembly of the House, less would be heard about the immunity of Czech gold held by the B.I.S. than about lack of knowledge of its very existence.

Ingenious as this defence may appear, it has one very obvious flaw. Two of the directors of the Bank of England are on the board of the B.I.S. Admittedly, directors sometimes do not claim to possess encyclopaedic knowledge of the innumerable details of business on whose

boards they sit. Sir Otto Niemeyer, however, is chairman of the B.I.S., while Mr. Montagu Norman is one of the creators and the Pooh-Bah of the bank.

BANKING SECRECY PLEA UNTENABLE

It is therefore not an unreasonable presumption that both Mr. Norman and Sir Otto Niemeyer might be cognisant of the ownership of the B.I.S. gold deposits in London—at all events, so far as important accounts, such as that of the Czecho-Slovak National Bank, were concerned. Nor is it possible to plead that the identity of the owners of the deposit had to be concealed, as a banking secret, in the interest of the owners. The Czecho-Slovak National Bank itself never sought to hide the fact that part of its London gold deposit was held under the name of the B.I.S. In the present situation it is obviously against the interests of the National Bank that its ownership should be concealed under the plea of banking secrecy.

In these conditions, it may be doubted whether action in Parliament will persuade the Bank of England to admit knowledge of the existence of the Czech gold—unless, of course, the strength of Parliamentary pressure is great enough to compel the Treasury to bring equally strong pressure on the Bank of England. If so, the public feeling aroused by this affair is unlikely to die down.

IS THE B.I.S. NON-POLITICAL?

Even among those who are inclined to accept the Treasury's defence of its policy, there is a growing resentment against the attitude taken by the B.I.S., which in many quarters is regarded as the "villain of the piece." The fact that the Chancellor of the Exchequer has repeatedly emphasised his inability to obtain information about that bank from its British directors is also subject to much adverse criticism. Sir John Simon's explanation that such a result is inevitable, owing to the essentially non-political character of the B.I.S., fails to carry conviction. The Chancellor of the Exchequer can hardly have overlooked the well-known fact that one of the German directors of the B.I.S., Herr Funk, is a member of the German Government.

It is difficult to imagine that, out of enthusiasm for the principle of independent Central Banking, Herr Funk, the director of the B.I.S., conceals the knowledge acquired at Basle from Herr Funk, the German Minister of National Economy—or from any other German Government department. Thus, while the British Government is left in the dark (unless it happens to obtain information indirectly from unspecified continental sources) the German Government receives full information through the presence of one of its members at the board meetings at Basle. Is not a non-political bank which counts Herr Funk among its directors a contradiction in terms?

P. E.

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SURRENDER ORDER FOR CZECH GOLD

BALE, Tuesday.

THE Bank for International Settlements announced to-day that it had "been forced" to authorise the handing over to Germany of £6,000,000 deposited by the Czechoslovak National Bank in the Bank of England.

The authorisation came under an official demand "from the new administration of the Czech National Bank," the Bank for International Settlements stated.

City Puzzled

The Bank of International Settlements said that their only part of the transaction was to verify the signature on the Czech Bank's request for the money.—Associated Press.

The City of London is still much puzzled about the present whereabouts of the Czech gold (says *The Daily Mail* City Editor). Neither the Bank of England returns nor the bullion export figures disclose any shipment to Switzerland or Germany.

It may be that the Czech gold has been sold by Germany in London and converted into dollars, but those who follow the bullion market believe that the £6,000,000 is still in the Bank of England.

Dr. Beyen on Czech Gold

The plain and straightforward statement made to the Agence Economique by Dr. Beyen, the president of the B.I.S., should serve to clear away much of the political fog which has surrounded the transfer of the Czech National Bank's gold deposit. Clearly Dr. Beyen, as the head of the executive, is the person who is best qualified to speak concerning something which was essentially a routine banking question. He confirmed the view expressed here that the B.I.S., on receiving properly signed instructions from the National Bank regarding the disposal of the gold deposit, had no obligation under Swiss law to question the circumstances in which the instructions were given, and that being so the B.I.S. was obliged to carry out the instructions in the absence of Governmental authority to do otherwise.

Dr. Beyen also made it clear that neither the British Government nor the Bank of England could do anything to prevent the B.I.S. from disposing of the gold in accordance with its own decision. In practice the case might possibly have been put in even stronger terms than these, for the B.I.S. is certainly not under any obligation to state for whose account, whether its own or that of a third party, any gold with the Bank of England is deposited. Even if, however, the gold were specifically earmarked the Government, and consequently the Bank of England also, are bound by treaty to respect the complete immunity of B.I.S. deposits of any kind.

Criticism of the B.I.S.

At the same time, the very inevitability of the transfer has caused some people to question whether a concern, whose constitution makes such a position possible, is in itself desirable. And it is significant that in responsible and to some extent authoritative sections of the French Press suggestions have been made that the B.I.S. should not continue in its present form. On that question, plenty of arguments can be advanced on both sides. But it is not easy to attach any overwhelming weight to the main argument put forward against the existence of the B.I.S.—the argument that an aggressor country might be enabled thereby to get possession of any gold deposited with the B.I.S. by its victim's central bank. In comparison with the other losses, material and otherwise, suffered by such a victim, this specific item might appear somewhat trivial; and at the present time official policy envisages rather more solid support for the victims of aggressions than blocking their gold deposits *post eventum*. It is scarcely an argument which would justify the liquidation of the B.I.S. if that institution can still be shown to serve a useful financial purpose.

Statutes of the Bank

It is clear enough that the main purpose served at present by the B.I.S. is that of providing a valuable meeting-place for central bank directorates. Developments during the decade since it was established have largely prevented it from fulfilling its originally intended practical functions. But that does not mean that it may not be well worth while to keep the organization—which clearly would not be easy to re-establish—in existence. Moreover, if it is ever to carry out the practical tasks for which it was designed, the far-reaching immunities which it enjoys must be preserved. That need not, naturally, preclude the possibility of amendments to Protocols and the Statutes of the Bank to deal with the specific difficulties which have been revealed, though agreement on such amendments might no doubt be embarrassing to seek and difficult to obtain.

At the same time, it is not only theoretical arguments that will decide the future of the B.I.S. For it is quite obvious that a decision on the part of only a few countries to withdraw their deposits from the B.I.S. might make it impossible for the bank to continue in business indefinitely. The indignation and uneasiness caused by the Czecho-Slovak affair might well make a number of countries unwilling to make use of the bank's facilities unless the conditions under which it works are altered as to make it impossible for anything of the kind to recur.

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17

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CZECH GOLD IN BRITAIN

“ £16,000,000 LEFT ”

From Our Own Correspondent

ROME, Wednesday.

The “Resto del Carlino,” organ of the Fascist party, states that the German Government has obtained complete satisfaction over the Czech gold deposited in Britain.

The Bank for International Settlements has ordered the Bank of England to hand over £6,000,000 deposits to the Reichsbank. The British Government could not object because the operation was quite legitimate.

But the newspaper adds that there is still £10,000,000 in Britain which belongs to the former Czechoslovak Government, besides £6,000,000 belonging to Czech private depositors. The British Government, it says, has laid an embargo on these two deposits.

TALKS SUSPENDED

By Our City Editor

It was learnt yesterday that the talks which have been taking place between the British Treasury and Herr Rueter, of the English section of the German Foreign Office, have been indefinitely suspended.

These talks which related to the future of the Czech assets in London, excluding the £6,000,000 of gold held by the B.I.S., were essentially preliminary in character. Their aim was to explore the possibility of setting off the Czech assets held in London against the sterling liabilities of the old Czechoslovak State.

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TRANSFER OF CZECH GOLD EXPLAINED

'NO PRESSURE EXERTED'

From Our Own Correspondent

PARIS, Wednesday.

An interview with Dr. Beyen, president of the Bank for International Settlements at Basle, on the transfer of Czech gold to the Reich is published to-day in the "Agence Economique et Financiere."

According to the Basle correspondent of the paper, Dr. Beyen said that the question was a purely technical one for the B.I.S. No pressure was exerted on it from any quarter whatsoever.

The B.I.S., he said, had only to examine whether the order given was valid. Neither the British Government nor the Bank of England could prevent it from dealing with the gold deposited in London.

Swiss legislation did not require the B.I.S. to examine the legitimacy of the orders given to it by the National Bank of Czechoslovakia.

"Dr. Beyen remarked that it was naturally not the business of the B.I.S. to determine whether pressure had been exerted by Germany on the National Bank of Czechoslovakia, and in any case it had not the means of so doing," the paper adds.

Until now no claims had been made on the holdings of the National Bank of Czechoslovakia. It was not incumbent upon the B.I.S. to negotiate on this subject with any German institution. Any attempt at political pressure would have been stopped immediately by the B.I.S."

B.I.S. AND CZECH GOLD TRANSFER

"PURELY TECHNICAL," SAYS PRESIDENT

In an interview given to the Basle correspondent of the Paris Agence Economique et Financière, Dr. Beyen, president of the Bank for International Settlements, is reported to have said he regretted that the question of the surrender of £6,000,000 of Czech gold from the Bank of England had become a political one.

He affirmed that it was a purely technical matter for the B.I.S. and that no pressure had been exercised from any quarter. He said that neither the British Government nor the Bank of England could prevent the B.I.S. from using the gold deposited in London in whatever way it desired, nor was the B.I.S. bound by Swiss law to examine in any special way the legitimacy of orders given by the National Bank of Czecho-Slovakia to the B.I.S.

PRESSURE FROM GERMANY?

Dr. Beyen pointed out that the gold did not belong to the B.I.S. and there was no question for examination whether there had been pressure from Germany on the National Bank of Czecho-Slovakia. Nor were the orders passed by that bank to the B.I.S. subject to question.

The Agence Economique et Financière adds an editorial note, according to Reuter, that it is understandable that public opinion should be shocked by the transfer, which is apparently of a regular nature.

It would be better to liquidate this institution, continues the paper, than let it be in a position to carry out transactions which it would certainly be more difficult for the Reichsbank to achieve without it.

See also "Lombard Street," page 6.

LOMBARD STREET

THE B.I.S. BREAKS ITS SILENCE: DR. BEYEN'S APOLOGIA

WEDNESDAY EVENING.

It is nearly a fortnight since the first news of the surrender of the Czech gold by the B.I.S. to Germany. During that time—and more particularly since the confirmation of the news by H.M. Government on May 22, the Bank for International Settlements has been sharply criticised from all sides. To-day, for the first time, the bank, through its president, Dr. Beyen, has attempted to refute the criticisms. Dr. Beyen is reported to have expressed regret that the question of the transfer of Czechoslovak gold from the Bank of England had been given political significance. Lest this statement, however, should be interpreted as suggesting repentance for the decision to make the transfer for political considerations, Dr. Beyen hastened to add that the transaction was purely a technical matter, and that no pressure had been exercised from any quarter whatsoever.

If these words are to be interpreted literally, we must assume that the B.I.S. was so anxious to oblige Berlin that it carried out Germany's wish without even being pressed to do so. Actually, Dr. Beyen does less than justice to his bank by suggesting that it cheerfully sacrificed the interests of its client, the Czechoslovak National Bank, in this way, despite the fact that the instructions sent from Prague were obviously given under duress.

INDECENT HASTE

Dr. Beyen is reported to have declared, further, that under Swiss law the B.I.S. was under no obligation to examine the legitimacy of the orders given and to go into the question of possible duress. It might have been presumed as obvious, without any special examination, that the Czechoslovak National Bank would not, of its own free will, have given instructions so obviously contrary to its own interests. The President argues that it was not the *duty* of the B.I.S. to consider this aspect, but does not pause to consider whether the B.I.S. had the *right* to part with the gold. Yet, there is some evidence that even the B.I.S. was not altogether satisfied with the legitimacy of the German domination over the National Bank. The voting right represented by the 4,000 shares held by the National Bank was exercised at the shareholders' meeting, not by the Reichsbank but provisionally by Dr. Beyen.

In broadly similar cases, banks have frequently, in order to safeguard their clients' interests, refused to execute instructions, pending a ruling by the Law Courts of their countries. Even to this day, no action has ever been brought in England by the German authorities to obtain the surrender of the substantial Austrian assets which are held by certain British banks. The B.I.S. did not follow precedent, but acted in indecent haste, in its clients' interests.

IS LIQUIDATION ADVISABLE?

Few tears would be shed if, as a result of the Czech gold affair, the B.I.S. were forced into liquidation. A glance at the figures of the balance-sheet and monthly return shows that the bank is moribund and utterly lacks vitality. The ambitious schemes attached to it at the outset have come to nothing. At present, it fulfils no functions which could not be performed equally well by non-political banking institutions. Its turnover, apart from the renewal of frozen credits, is almost negligible, and may decline further after the Czechoslovak affair.

A first step towards the liquidation of an unfortunate experiment in monetary internationalism would be the determination of the guarantee which secured immunity for B.I.S. assets. This would remove practically the only inducement for Central Banks to keep part of their gold in London in the name of the B.I.S. France would undoubtedly follow Britain's example. In that case, B.I.S. deposits would retain their immunity only in one or other of the States bordering on Germany. Such a proposition would hardly be attractive. Few people would be confident that any German army of aggression would respect the immunity of B.I.S. assets.

GROWING STORM

Though some quarters are suggesting that there has been over-much discussion of the surrender of the Czech gold deposited in London, a great deal more is likely to come. Public interest, far from abating, continues to grow in strength. Last week the majority of daily newspapers confined themselves to reproducing Parliamentary replies and debates on the subject, without comment. This week, however, the question is definitely "news," and comment is almost uniformly critical. In the foreign Press, also, especially the French Press, the matter is receiving its share of attention.

Several M.P.s have declared their intention of pursuing the question further. There is widespread anxiety to refute the arguments used by Sir John Simon during last Friday's discussion. Unless some action calculated to satisfy Parliamentary opinion results from the legal advice taken by the Treasury, the question may be a thorny one for the authorities.

P. E.

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CZECH GOLD: IT GETS ODDER

By DOUGLAS JAY, "Daily Herald" City Editor

INDIGNATION about the recent transfer of £5,000,000 of Czech gold from the Bank of England to Germany via the Bank of International Settlements has been further increased by a statement from Dr. Beyen, Dutch President of the B.I.S., made yesterday in Basel.

Dr. Beyen says that the transfer of gold was regarded by the B.I.S. as a purely "technical" measure and not "political" at all.

Contradiction

This attitude is in flat contradiction with that of the British Government, which refused to release sterling assets held by Czechs on the grounds that the Nazi seizure of Prague was illegal.

The position of Mr. Montagu Norman and Sir Otto Niemeyer (directors of both the Bank of England and the B.I.S.) has thus become odder than ever.

The City wants to know, and Parliament will want to know, whether they accept the view of the British Government or that of Dr. Beyen.

Disagreement

Dr. Beyen's pronouncement has strengthened the general belief that there is a serious disagreement between the Treasury and the Bank of England over the whole matter.

When Parliament reassembles there will be a strong demand that Sir John Simon should call on Mr. Norman to raise the matter again at the B.I.S. on the understanding that if the B.I.S. refuses to reverse its decision, the Bank of England would withdraw from its participation in the B.I.S.

Should Mr. Norman resist such a request from the Chancellor, the question of the relation between the Bank of England and Parliament would arise in an acute form.

CZECH ASSETS TOTAL

£14,500,000 SO FAR

BRITISH CLAIMS OUTLINED

By our *POLITICAL CORRESPONDENT*

WESTMINSTER, Monday.

In the House of Commons to-day SIR JOHN MELLOR (C. Tamworth) asked the Chancellor of the Exchequer if he would state the aggregate amount of the assets so far ascertained to be subject to the Czecho-Slovakia (Restrictions on Banking Accounts, etc.) Act and of claims against such assets.

He also inquired whether he had now obtained sufficient particulars to enable him to form an approximate estimate of the total amount covered by the Act.

CAPT. H. CROOKSHANK, Financial Secretary to the Treasury, said the estimated amount of the assets so far ascertained to be subject to the Act and available for meeting claims was between £14,000,000 and £15,000,000. The claims included the repayment to the Treasury of the advance of £6,000,000, the transfer to the Czech Refugee Trust Fund of the unexpended balance of the Free Gift—namely, £3,750,000—claims from British holders in respect of bank balances, etc., amounting to about £3,500,000, and in respect of bonds with a face value of about £2,500,000. Claims had also been received from British holders in respect of participation in industry, real estate, etc., which could not conveniently be expressed as a capital sum.

A notice had been issued in the Press that 17th June was the final date for registering claims and that no forms would be accepted after that date unless the reasons for the delay were satisfactory to the Treasury. Until all the claims had been received and until they had been examined the figures given could not be regarded as even an approximately accurate estimate of the claims of British holders.

CHANCELLOR ON THE CZECH GOLD

THE BANK'S POSITION

Further questions on the Czech gold were put to the Chancellor of the Exchequer in the House of Commons to-day.

MR. GREENWOOD (Lab., Wakefield), asked if the Chancellor could now give the result of the inquiries he undertook to make and of the advice he intended to seek on the subject of Czecho-Slovakian assets entrusted to the Bank for International Settlements and alleged to be deposited with the Bank of England.

SIR JOHN SIMON replied: In the debate which took place ten days ago on the motion for the adjournment it was assumed by several speakers that the Bank of England, when dealing with gold or cash balances held by it to the order of the Bank for International Settlements, would be aware of the party to whom such assets belonged and, in particular, that gold entrusted by the National Bank of Czecho-Slovakia to the Bank for International Settlements and deposited by the latter with the Bank of England would be held by the Bank of England with the knowledge that it belonged to the National Bank.

As soon as the debate was over I made inquiries of the Bank of England as to the facts, and it is plain that the assumption to which I have referred is incorrect.

The Bank of England states that it holds from time to time amounts of gold in safe custody for the Bank for International Settlements and holds such gold to the order of the Bank for International Settlements, but that the Bank of England has no knowledge whether gold so held is in fact the absolute property of the Bank for International Settlements or is held by the latter in whole or in part for the account of others.

The Bank of England is therefore not aware whether gold held by it at any time in the name of the Bank for International Settlements is the property of the National Bank of Czecho-Slovakia. The same situation exists as regards cash balances held by the Bank to the order of the Bank for International Settlements.

U.K. CANNOT STOP TRANSFER

Now that the correct position is understood, a good many questions which were raised in the debate are disposed of. But in addition to making inquiry of the Bank of England I at the same time sought the advice of the Law Officers on a number of points. What I am about to say is in accordance with their advice.

H.M. Government are precluded by the terms of the Protocols of 1930 and 1936 from taking any steps by way of legislation or otherwise to prevent the Bank of England from obeying the instructions given to it by its customer the Bank for International Settlements to transfer gold as it may be instructed. The Czecho-Slovakia (Restrictions on Banking Accounts, etc.) Act, 1939, does not operate to prohibit the Bank of England from making such a transfer without the consent of the Treasury. Even if it did it would be a breach of Treaty obligations to withhold Treasury consent.

There is no validity in any of the suggestions made in the recent debate that the Bank of England would be entitled to refuse to obey the instructions given to it by the Bank for International Settlements. And there are not means by which the Treasury could obtain a ruling of the Courts as to whether they have the power to prevent the Bank of England from making a transfer when ordered to do so until the question of the true ownership of the gold is finally determined.

SETTLEMENTS BANK RETURN FOR MAY

QUESTION OF CZECH GOLD

From OUR OWN CORRESPONDENT

BASLE, 5th June.

The return of the Bank for International Settlements for May, just issued, shows a decline in the balance-sheet total by Swiss Frs.13,000,000 (about £650,000 at current rates) to Frs.576,379,193 (£28,819,000).

On the assets side, gold in bars increased by Frs.21,000,000 (£1,050,000), but cash is Frs.11,000,000 (£550,000) less, sight funds Frs.15,000,000 (£750,000) down and investments Frs.17,000,000 (£850,000) lower. Among liabilities, short-term and sight deposits decreased by Frs.18,000,000 (£900,000).

None of the changes is big enough to account for the surrender of the Czech assets to the German Reichsbank. The same can be said about the B.I.S. balance-sheets covering March and April.

If the transaction in question went through with the Czech assets must have become evident from either of the last three monthly balance-sheets, unless, of course, these assets are still held by the B.I.S. under the name of the German Reichsbank.

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FUTURE OF THE B.I.S.

Misconceptions which need never have existed concerning the Government, the Bank for International Settlements and the Czech gold transaction have now been painfully and lengthily cleared away. The episode is an object lesson in how such matters should not be managed. In Parliament the statements of fact which ended the debate would, if made at its commencement, have avoided much confusion of thought and undignified altercation. As for the Bank itself, its original handling of the "Czech" application appears to have shown signal disregard of the importance of the principles involved. Although it is clear that neither the Treasury nor the Bank of England could have done other than it did, it is difficult to avoid the impression that the British representatives on the Bank for International Settlements have been at fault. The possibility that such a situation might arise must have been evident to them from the moment of the German occupation of Prague. Yet the transfer of the Czech assets held by the B.I.S. took place without them registering any protest or promoting any discussion of an issue of obvious importance for the B.I.S. in its capacity as a periodic round-table conference of international bankers.

It may be that the political circumstances of to-day and the Bank's own constitution would have rendered such a protest ineffective, but that fact does not make it any the less regrettable that the opportunity was not taken of publicly airing the principles involved. International opinion would certainly have been more favourably impressed than by a procedure which seemed to imply complaisance. In such circumstances, discussion of the Bank's future is of little more than academic interest. As an institution of practical importance its impotence has been heavily underlined by the Czech gold episode. On the other hand, to declare its total abolition would be to take unnecessarily drastic action against an institution which can still perform certain useful functions.

Obviously, the Bank will more and more tend to become a bankers' cultural and statistical centre. No formal measure will be needed to effect this transformation, which circumstances have been accelerating for some considerable time. The task of rehabilitating the Bank for International Settlements is bound up with the task of restoring political sanity and confidence to the world. The only way in which the Bank can be made to function healthily once again is to provide a reasonable degree of assurance that there shall be no more such events as the annexation of Czechoslovakia. To alter the constitution of the Bank so that it would not be legally required to transfer the assets of conquered clients would be to act on the assumption that the new British foreign policy is to be entirely ineffective. It would be better, for the time being, to be resigned to the prospect of the Bank losing its clients, in the hope that sooner or later conditions will become more propitious for an experiment in international central banking.

COULD B.I.S. HAVE STOPPED CZECH GOLD TRANSFER?

POINTS THAT SHOULD HAVE BEEN CONSIDERED: FULL STATEMENT DESIRABLE

From A CORRESPONDENT

Clarification of the circumstances which between £5,000,000 and £6,000,000 of Czech gold was recently transferred by the Bank of England to the Reichsbank has by no means cleared up the responsibility for the transaction. The responsibility has merely been shifted from one quarter to another.

It has now been made clear that the gold, held by the Bank for International Settlements on account of the National Bank of Czecho-Slovakia from some date prior to the annexation of Czecho-Slovakia by Germany, was deposited with the Bank of England merely as B.I.S. gold, without official indication of its identity.

INSTRUCTIONS TO BANK

On the instructions of the Czech Bank given after the occupation, and obviously at the instance of the German authorities, the B.I.S. in its turn instructed the Bank of England to hand over the gold to Germany. If, as there are grounds for assuming, the Bank of England's compliance followed automatically, the action of the B.I.S. itself must be brought into question.

Articles on the functions and powers of the B.I.S., published in THE FINANCIAL TIMES on 24th and 27th February this year, made it clear that the Bank holds gold for Central Banks in its own vaults but under its ear-mark in various financial centres. Questions raised by the Czech transfer do not concern the rules for the Bank's conduct as discussed in the articles, but the views of the Board on the administration of the rules and their adaptation to individual circumstances. Did the circumstances require that the B.I.S. should refuse to meet the Czech Bank's demand for its London gold to be transferred; and if so, what legal power had the B.I.S. to demur or to postpone compliance?

OFFICIAL VIEW

The only official statement we have on these questions is that made by Dr. Beyen, the B.I.S. President, at the end of last month. Dr. Beyen pointed out that in carrying out instructions given to it, the Bank had only to consider whether the transfer order was regularly executed.

It has been hinted that the instruction was not, in effect, in order, since it was not signed by the officials usually subscribing on behalf of the Czech institution, but by Germans who had supplanted them. There is no need to take that suggestion as anything more than a forensic point. On the evidence of Dr. Beyen's statement it is fairer to assume that the signatures on the demand left no doubt as to its authenticity.

The circumstances were certainly such as to put the B.I.S. "on inquiry," but under Swiss law and under ordinary banking practice, compliance with the demand was perfectly in order, particularly as the German annexation of Czecho-Slovakia has been recognised in Switzerland.

Other grounds existed, however, on which the B.I.S. might well have instituted international inquiries of some kind before transferring the gold. Since the Czecho-Slovakian State had ceased to exist as such, it might have been questioned whether the National Bank had not ceased to have any standing as a Central Bank. The recent change in the scope of the Czech institution should have raised even more important questions.

Since 15th March the former National Bank of Czecho-Slovakia has become the Bank of Bohemia and Moravia, and its returns have not included assets and liabilities relating to the new Slovak State. Presumably, therefore, the gold of the former bank belonged partly to Slovakia, and the B.I.S. has laid itself open to criticism in dealing with a jointly-owned asset on the instructions of only one of the owners.

FOREIGN REACTIONS

Points of this kind may possibly have been cleared up to the satisfaction of the B.I.S. directors or officials before the Czech instructions were ever translated into an order on the Bank of England to transfer the gold. But until some official statement on the subject is forthcoming there must be room for suspicion that such questions were either overlooked or ignored.

In any event, the reactions to the gold transfer in foreign centres as well as in this country show plainly enough that if the B.I.S. has satisfied itself, it has by no means satisfied opinion in Europe. Application of its powers to this individual case have obviously been at variance with the ideas of many of the countries participating in its formation.

The very considerable representation of "axis" and allied countries on the directorate of the B.I.S. may possibly have influenced its policy.

As shown in an article in THE FINANCIAL TIMES on 1st June, the disposition of votes carried by various countries, based on figures at 31st March, was as follows:—

INSTITUTIONS	No. of votes
Bank of England	19,772
National Bank of Belgium	19,772
Bank of France	19,772
Bank of Italy	19,772
Reichsbank	23,772
Industrial Bank of Japan	19,770
First National Bank of New York	19,770
Netherlands Bank	4,000
Swiss National Bank	4,000
Swedish National Bank	4,000
Bank of Danzig	4,000
Bank of Finland	4,000
Bank of Greece	4,000
Bulgarian National Bank	4,000
Danish National Bank	4,000
National Bank of Rumania	4,000
Bank of Poland	4,000
National Bank of Hungary	4,000
Czecho-Slovakia National Bank	4,000
Bank of Norway	4,000
National Bank of Yugo-Slavia	4,000
Bank of Latvia	500
Bank of Lithuania	500
Bank of Albania	500
Bank of Estonia	100

Allowing for recent territorial changes and new allegiances, the "axis" Powers and those likely to be sympathetic to them commanded 83,814 votes out of a total of 200,000.

POLITICAL CHANGES

That proportion is far from giving any control over the bank's operations, but if, as may be assumed, the "axis" votes were energetically used they might easily influence the policy of the B.I.S. to a disquieting extent.

As a result of political developments in Europe during the past decade the B.I.S. has thus fallen into a position in which it may cease to fulfil its purpose of assisting the co-operation of Central Banks, and may, on the contrary, be used as an instrument for carrying out the financial operations incidental to the acquisition of new territories by aggressor countries.

That position has not been reached in a moment. It has certainly been patent during the past 12 months. The right quarters to have realised and dealt with the tendency for the nations commanding the heaviest voting power to fall into two opposing camps were the representatives of the democratic countries on the Board.

There can be no doubt that a trend of this kind would have been observed long ago, and its implications sensed, in an industrial company or a commercial bank.

MISSED OPPORTUNITY

It may be admitted that any re-vesting of voting power in the case of the B.I.S. would present enormous difficulties.

Some alteration of the Bank's statutes to provide against any undesirable political influence, although perhaps less difficult, might still be by no means an easy matter in view of the decidedly mixed composition of the Bank.

But if recent trends had been correctly observed steps might at least have been taken to devise in advance a code for dealing with situations such as that created by the absorption of Czecho-Slovakia by Germany. If such a code had been in existence it may be doubted whether the London gold transfer would ever have taken place.

The opportunity having been missed and the transfer made, the position certainly calls for two measures by the Bank for International Settlements.

The first is the preparation and publication of a detailed account of the transaction, and an explanation of the part taken in it by the Bank. Secondly, the Bank should make known the line of policy it would propose to adopt if by any chance similar circumstances were to arise again.

Publication of statements on these lines might sustain the waning confidence in the B.I.S. Failure to issue them would undoubtedly strengthen the demand for the winding up of the Bank, or the withdrawal of the

CJ

PLAIN

LONDON

Dated June 24, 1939

Rec'd 5:35 p.m.

Secretary of State,
Washington.

896, June 24, 8 p.m.

STRICTLY CONFIDENTIAL FOR IMMEDIATE DELIVERY
TO THE SECRETARY OF THE TREASURY FROM BUTTERWORTH.

Your 474, June 23, 11 a.m. The following is the story of the Czech gold affair according to my information and estimate.

The Germans marched into Prague on March 15. On March 16 Simon announced in the House of Commons that no request had up to that time been made for a transfer of any gold reserves held in London by the Czech National Bank and that the British Government had requested the Bank of England not to make any exceptional transfer of gold or balances without previous reference to the British Government (my 346).

This request was generalized to all financial institutions and applied to balances, securities, and gold held on behalf of any institution, firm or resident institution, firm or resident in Czechoslovakia in

a

-2- #896, June 24, 8 p.m., from London

a communication dated March 17 which the British Treasury requested the Bank of England to circulate. (This and other pertinent documents including Simon's letters to Norman may be found in either my written report No. 2387 of April 3, or telegram No. 377 of March 21, noon).

By March 27 legislation had been passed by both houses of Parliament legalizing this impounding of Czech assets, these assets still remain so impounded, the only withdrawals permitted being by Czech refugees and some payments in satisfaction of pre-March 15 contracts. The amount now subject to this act totals about pounds 16,000,000 of which pounds 14,250,000 are regarded by the British Treasury as firm assets (my 712).

On May 18 a German delegation made up of Muller, Von Susskind, and Ritter arrived in London for exploratory conversations with the British Treasury. According to the British Treasury (my 712) the German representatives were informed that if the matter could not be handled through negotiations the British Government proposed to pass legislation during this session of Parliament to take over the impounded Czech assets and to use them to liquidate British claims. My own impression was and is that the British Treasury would be

most

-3- #896, June 24, 8 p.m., from London

most reluctant to take such action since Great Britain has enormous foreign assets and is aware of the danger of the precedent that would thus be created. After a day or two the German delegation returned to Berlin to consult their government, and the British Government has just received a note from the German Embassy stating that the German Government was prepared to negotiate in this matter although it did not recognize the legality of the British action in impounding these assets and it did not regard all the British demands as just. The British Treasury is now awaiting a Cabinet decision as to when or whether it will proceed to enter into such negotiations. This is the straightforward part of this affair. The other part is curiously complicated. Such facts as have now become public reached the light of day because of two separate stories which happened to appear in the DAILY TELEGRAPH and the FINANCIAL NEWS on the same day, May 19. THE DAILY TELEGRAPH published an erroneous story to the effect that Herr Wohlthat, head of the Commercial Department of the German Foreign Office, had been in London since May 12 negotiating with the British Treasury which had "agreed to release pounds 5,000,000 of Czechoslovak assets in this country to the Bank of International Settlements to be earmarked for the use of the Reichsbank".

THE

-4- #896, June 24, 8 p.m., from London

THE FINANCIAL NEWS story was to the effect that the German authorities had obtained control of part of the Czech gold held in London that this sum of pounds 6,000,000 represented the amount held in London in the name of the Bank for International Settlements and that it was found that the B.I.S. gold could not be brought within the scope of the act passed to block Czech assets in London. Lloyd George read the DAILY TELEGRAPH story on his way to the House of Commons to participate in a foreign affairs debate and he used it in the debate. Since the debate was about foreign policy there were no Treasury officials in the House of Commons to advise the Prime Minister. A telephone call was made to Waley who had read the DAILY TELEGRAPH story but had not seen the FINANCIAL NEWS, and he denied the assertions in the DAILY TELEGRAPH STORY. In his speech the Prime Minister used this information in such a way that it was subject to the interpretation of being a denial of both stories. He said "The Right Honorable Gentleman (Lloyd George) found another subject for gloom in a story in the press that a German representative was in this country engaged upon a sinister mission in consequence of which the British Treasury was to release sterling 5,000,000 of Czechoslovak assets to the Bank for International

-5- #896, June 24, 8 p.m., from London

national Settlements for the benefit of the Reichsbank. I am glad to be able to cheer up the Right Honorable Gentleman on that particular point, because the whole story is a mare's nest. (Laughter) Herr Wohlthat, the gentleman named, is not in London at all as it happens, and anyhow the Treasury has not agreed to release any Czechoslovak assets to the Bank for International Settlements or to anyone else. The only releases that have been made have been releases of small amounts to refugees from Czechoslovakia apart from some releases of small amounts to pay trade debts due under contracts made before March, 1939". Since the FINANCIAL NEWS story was basically true the Prime Minister's phrase " a mare's nest" has haunted both him and the British Treasury ever since. The German authorities did obtain possession of pounds 6,000,000 of gold which was held in London in the name of the Bank for International Settlements and are alleged to have obtained several millions of other assets which the Czechoslovak National Bank had on deposit in the B.I.S. which the latter held in Switzerland or elsewhere. Shortly after the Germans entered Prague they had the Czech National Bank officials sign the necessary papers requesting the B.I.S. to transfer assets held on behalf of the Czechoslovak National Bank. My information

is

-6- #896, June 24, 8 p.m., from London

is that they did not request the transfer of all the assets at one time. When the first request was received at Basel, Oubion, the French Manager of the B.I.S. wished to delay honoring it. Beyen, the President, supported by the German manager, was favored honoring it. Oubion is said to have communicated with Fournier, who may or may not have talked on the telephone with Montague Norman. At any rate although Fournier later protested against the release at the meeting of the directors at the end of March, he seems to have been unwilling to take individual action. He did communicate the facts to the French Government which in turn approached the British Government for the first time on March 24. Subsequently the French Embassy made several representations both to the British Treasury and to the Foreign Office in an attempt to persuade the British Government to take action. The British Government refused to move. There is considerable confusion as to the exact date on which Beyen authorized the first release of the Czechoslovak National Bank assets to the German authorities. From the British one gets the impression that the release occurred almost simultaneously with the first French representations; from the French one gets the impression that there was still time if quick action had been taken. But even the French admit that by about that date a quarter of the assets

-7- #896, June 24, 8 p.m., from London

assets were released. As Bonnet indicated in his statement of June 21st before the French Foreign Affairs Committee, the transfer of the assets was made by Beyen himself. When the directors of the B.I.S. met at the end of March the overwhelming majority of the assets had been released. Fournier at that meeting protested vigorously against the action taken but his protests were evaluated as being designed to avoid criticism at home. It is often hard and usually unfair to attribute motives on insufficient facts, but in appraising Beyen's action in releasing the gold, with or without the informal concurrence of some of the directors, it must be said that he had Austria and other precedents and the central banker-customer tradition favoring such a procedure. It also has to be said that he had already accepted an important position in London which he will take up at the end of the year with Lever Brothers and Unilever Ltd., and that this concern has large German interests. The British Government claims that on the same day that the French first made representations, namely March 24, but earlier on that day, it received information from "a continental source" about the Czechoslovak National Bank assets held with the B.I.S. It is possible that the British Treasury knew before this, if
Fournier

-8- #896, June 24, 8 p.m., from London

Fournier had communicated with Norman, for it is unlikely that Norman would not have passed on this information to the Treasury. On the other hand, when I asked the British Treasury on the afternoon of March 21 about the report which had reached Washington that when the Germans arrived in Prague they had found that "the cupboard was bare", Waley said that he could not believe that was true and while I was there he telephoned Cobbold of the Bank of England, who stated that as far as the Bank of England knew most of the gold of the Czechoslovak National Bank was in Prague when the Germans occupied the city (my 382). It is an accepted fact here that the British Government could not have prevented the removal of any assets held in the Bank of England in the name of the B.I.S. without contravening the provisions of the Hague Protocol of 1930 and the Brussels Protocol of 1936. It is by no means an accepted fact that the British Government could not have taken steps through the Bank of England to attempt through court action to delay or prevent some if not all of the (*) released to the German authorities. In this connection the antecedents of this affair are pertinent. As reported in my 374 of March 20, 6 p.m., the British Treasury decided to

-9- #896, June 24, 8 p.m., from London

to impound the Czech assets in London because it "did not propose to repeat its experiences over Austria, namely, to turn over all assets in effect to the German authorities and then have to make a play, without this trump card, for the settlement of obligations to British nationals." It so happened that these obligations to British nationals included unfulfilled British Government orders to Czech munition firms for guns, gun-steel, and armor-plate. On these in accordance with standard European munitions practice, one third of the purchase price had been paid on the signing of the contracts. Hence the British Treasury had immediate practical problems which required energetic action and it was motivated by these considerations and not by ideological and political concepts in the impounding of the Czech assets in the United Kingdom. However, this step was taken at the same time that the British Ambassador was recalled from Berlin and the Prime Minister made the speech referred to in my 359 of March 18, 1 p.m., and such was and is the rising tide of British public opinion that it interpreted the Treasury move as "retaliation against German aggression" as a means of effecting "not-a-penny-for-Hitler". When it became clear that this in fact was not the impelling motive for the impounding of the

Czech

-10- #896, June 24, 8 p.m., from London

Czech assets, political controversy arose in acute form. The opposition in the House of Commons saw "appeasement" raising its head; the Chancellor of the Exchequer denied that he favored Germany obtaining possession of these funds. For further information on this aspect of the affair please see my written report No. 2776 of June 1st. However, in his explanations in the House of Commons Simon went so far in emphasizing both the non-political international character of the Bank for International Settlements and the private character of the Bank of England in order to explain why Norman was under no obligation to inform him of B.I.S. affairs or to take his instructions on such matters, that he provided an opportunity for further controversy. A section of the House of Commons is urging that the B.I.S. statutes either be amended or the British representation withdrawn; and an even larger section of the House of Commons has become interested in the question of how close is the contact maintained between the Bank of England and the British Treasury. My own opinion is that the contact is very close and that both the Treasury and the Bank of England merely emphasize the private character of the Bank of England when it is convenient and the governmental character of the Bank of England when that is convenient.

-11- #896, June 24, 8 p.m., from London.

venient. HOWEVER, public statements have been made in the course of this controversy which have given impetus to the movements for a more exact definition of the relationship and for nationalization of the Bank of England. Furthermore, Bonnet's public statement of June 21st has laid the Prime Minister and the Chancellor of the Exchequer open to a charge of misrepresentation. For instance, the LABOR DAILY HERALD of June 22 in an editorial entitled "A Mare's Nest" raised "the question of the Minister's good faith" and states that "this is not the first time that Mr. Chamberlain has misled the Commons." For England in the year 1939 that is strong political language. Although the B.I.S. assets of the Czechoslovak National Bank have long since passed into German possession the significant controversy which it caused in this country is still alive. This is the story as I get it and see it. I have tried to cover the developments as they occurred and for convenient reference for further details my telegraphic and written reports are listed below.

WRITTEN REPORTS Nos. 2299, March 20; 2387 of April 3, 2731 of May 23, 2742 of May 25, 2776 of June 1, 2811 of June 6,

TELEGRAPHIC

-12- #896, June 24, 8 p.m., from London

TELEGRAPHIC REPORTS Nos. 336 March 15, 7 p.m.;
 346, March 16, 7 p.m.; 374, March 20, 6 p.m.; 377,
 March 21, noon; 382, March 21, 7 p.m.; paragraph num-
 bered 2 of 694, May 16, 9 p.m.; 712, May 19, 5 p.m.;
 724, May 22, 6 p.m.; 729, May 23, 6 p.m.; 749, May 26,
 6 p.m.; 779, June 5, 6 p.m.; 828, June 14, 7 p.m.

KENNEDY

NPL

(*) Apparent omission

RECEIVED

MAY 28 1964

THE ARMY DEPARTMENT
 OFFICE OF THE SECRETARY
 THE ARMY DEPARTMENT

THIS IS A CORRECTED COPY OF MESSAGE RECEIVED ON SATURDAY.

CJ

PLAIN

LONDON

Dated June 24, 1939

Rec'd 4:06 p.m.

Secretary of State,
Washington.

896, June 24, 8 p.m.

Strictly confidential. For immediate delivery to the Secretary of the Treasury from Buxterworth.

Your 474 June 23 11 a.m. The following is the story of the Czech gold affair according to my information and estimate.(paragraph)

The Germans marched into Prague on March 15. On March 16 Simon announced in the House of Commons that no request had up to that time been made for a transfer of any gold reserves held in London by the Czech National Bank and that the British Government had requested the Bank of England not to make any exceptional transfer of gold or balances without previous reference to the British Government (my 346). This request was generalized to all financial institutions and applied to balances, securities and gold held on behalf of any institution, firm or resident in Czechoslovakia in a communication dated March 17 which the British Treasury requested the Bank of

-2- #896, June 24, 8 p.m., from London.

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By March 27 legislation had been passed by both Houses of Parliament legalizing this impounding of Czech assets, (these assets still remain so impounded,) the only withdrawals permitted being by Czech refugees and some payments in satisfaction of pre-March 15 contracts. The amount now subject to this act totals about 16 million pounds of which 14-1/4 million pounds are regarded by the British Treasury as firm assets (my 712) (paragraph).

On May 18 a German delegation made up of Muller, von Susskind and Ritter arrived in London for exploratory conversations with the British Treasury. According to the British Treasury (my 712) the German representatives were informed that if the matter could not be handled through negotiations the British Government proposed to pass legislation during this session of Parliament to take over the impounded Czech assets and to use them to liquidate British claims. My own impression was and is that the British Treasury would be most reluctant to take such action since Great Britain has enormous foreign assets and is aware of the danger of the precedent that would

-3- #896, June 24, 8 p.m., from London.

would thus be created. After a day or two the German delegation returned to Berlin to consult their Government, and the British Government has just received a note from the German Embassy stating that the German Government was prepared to negotiate in this matter although it did not recognize the legality of the British action in impounding these assets and it did not regard all the British demands as just. The British Treasury is now awaiting a Cabinet decision as to when or whether it will proceed to enter into such negotiations.. This is the straightforward part of this affair. The other part is curiously complicated. Such facts as have now become public reached the light of day because of two separate stories which happened to appear in the DAILY TELEGRAPH and the FINANCIAL NEWS on the same day, May 19. The DAILY TELEGRAPH published an erroneous story to the effect that Herr Wohlthat, head of the Commercial Department of the German Foreign Office, had been in London since May 12 negotiating with the British Treasury which had "agreed to release 5 million pounds of Czechoslovak assets in this country to the Bank of International Settlements to be earmarked for the use of the

Reichsbank

-4- #896, June 24, 6 p.m., from London.

Reichsbank." The FINANCIAL NEWS story was to the effect that the German authorities had obtained control of part of the Czech gold held in London that this sum of 6 million pounds represented the amount held in London in the name of the bank for International Settlements and that it was found that the B.I.S. gold could not be brought within the scope of the act passed to Block Czech assets in London. Lloyd George read in the DAILY TELEGRAPH story on his way to the House of Commons to participate in a foreign affairs' debate and he used it in the debate. Since the debate was about foreign policy there were no treasury officials in the House of Commons to advise the Prime Minister. A telephone call was made to Waley who had read the DAILY TELEGRAPH story but had not seen the FINANCIAL NEWS, and he denied the assertions in the DAILY TELEGRAPH story. In his speech the Prime Minister used this information in such a way that it was subject to the interpretation of being a denial of both stories. He said "The right honorable gentleman (Lloyd George) found another subject for gloom in a story in the press that a German representative was in this country engages upon a sinister mission in consequence of which the British Treasury was to release pounds 5,000,000 of Czechoslovak assets

-5- #896, June 24, 8 p.m., from London

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request

-6- #896, June 24, 8 p.m., from London

request the transfer of all the assets at one time. When the first request was received at Basle, Oubion, the French manager of the B.I.S. wished to delay honoring it. Beyen, the President, supported by the German manager, favored honoring it. Oubion is said to have communicated with Fournier, who may or may not have talked on the telephone with Montague Norman. At any rate although Fournier later protested against the release at the meeting of the directors at the end of March, he seems to have been unwilling to take individual action. He did communicate the facts to the French Government which in turn approached the British Government for the first time on March 24. Subsequently the French Embassy made several representations both to the British Treasury and to the Foreign Office in an attempt to persuade the British Government to take action. The British Government refused to move. There is considerable confusion as to the exact date on which BEYEN authorized the first release of the Czechoslovak National Bank assets to the German authorities. From the British one gets the impression that the release occurred almost simultaneously with the first French representations; from the French one gets the impression that there was still time if quick action had been taken. But even the French admit that by about that date a quarter of the assets were released.

-7- #896, June 24, 8 p.m., from London

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-8- #896, June 24, 8 p.m., from London.

have passed on this information to the Treasury. On the other hand, when I asked the British Treasury on the afternoon of March 21 about the report which had reached Washington that when the Germans arrived in Prague they had found that "the cupboard was bare", Waley said that he could not believe that was true and while I was there he telephoned to Cobbold of the Bank of England, who stated that as far as the Bank of England knew most of the gold of the Czechoslovak National Bank was in Prague when the Germans occupied the city (my 382). It is an accepted fact here that the British Government could not have prevented the removal of any assets held in the Bank of England in the name of the B.I.S. without contravening the provisions of the Hague Protocol of 1930 and the Brussels Protocol of 1936. It is by no means an accepted fact that the British Government could not have taken steps through the Bank of England to attempt through court action to delay or prevent some if not all of the releases to the German authorities. In this connection the antecedents of this affair are pertinent. As reported in my 374 of March 20, 6 p.m. the British Treasury decided to impound the Czech assets in London because it "did not propose to repeat its experiences over Austria, namely, to turn over all assets in effect to the German authorities and then have to make a play, without this

-9- #896, June 24, 8 p.m., from London

this trump card, for the settlement of obligations to British nationals." It so happened that these obligations to British nationals included unfulfilled British Government orders to Czech munition firms for guns, gun-steel and armor-plate. On these, in accordance with standard European munitions practice, one third of the purchase price had been paid on the signing of the contracts. Hence the British Treasury had immediate practical problems which required energetic action and it was motivated by these considerations and not by ideological and political concepts in the impounding of the Czech assets in the United Kingdom. However, this step was taken at the same time that the British Ambassador was recalled from Berlin and the Prime Minister made the speech referred to in my 359 of March 18, 1 p.m. and such was and is the rising tide of British public opinion that it interpreted the Treasury move as "retaliation against German aggression", as a means of effecting "not-a-penny-for-Hitler". When it became clear that this in fact was not the impelling motive for ^{impounding} the Czech assets, political controversy arose in acute form. The opposition in the House of Commons saw "appeasement" raising its head; the Chancellor of the Exchequer denied that he favored Germany obtaining possession of these funds. For further information on this aspect of the affair please see

my

-10- #896, June 24, 8 p.m., from London

my written report No. 2776 of June 1st. However in his explanations in the House of Commons Simon went so far in emphasizing both the non-political international character of the Bank for International Settlements and the private character of the Bank of England in order to explain why Norman was under no obligation to inform him of B.I.S. affairs or to take his instructions on such matter, that he provided an opportunity for further controversy. A section of the House of Commons is urging that the B. I. S. statutes either be amended or the British representation withdrawn; and an even larger section of the House of Commons has become interested in the question of how close is the contact maintained between the Bank of England and the British Treasury. My own opinion is that the contact is very close and that both the Treasury and the Bank of England merely emphasize the private character of the Bank of England when it is convenient and the governmental character of the Bank of England when that is convenient. However, public statements have been made in the course of this controversy which have given impetus to the movements for a more exact definition of the relationship and for nationalization of the Bank of England. Furthermore, Bonnet's public statement of June 21st has laid the Prime Minister and the Chancellor of the Exchequer open to a charge

of

-11- #896, June 24, 8 p.m., from London

of misrepresentation. For instance, the LABOR DAILY HERALD of June 22 in an editorial entitled "A Mare's Nest" raises "the question of the Minister's good faith" and states that "this is not the first time that Mr. Chamberlain has misled the Commons." For England in the year 1939 that is strong political language. So, although the B.I.S. assets of the Czechoslovak National Bank have long since passed into German possession the significant controversy which it caused in this country is still alive. This is the story as I get and see it. I have tried to cover the developments as they occurred and for convenient reference for further details my telegraphic and written reports are listed below. Written reports Nos. 2299 March 20; 2387 of April 3, 2731 of May 23, 2742 of May 25, 2776 of June 1, 2811 of June 6, and telegraphic reports Nos. 336, March 15, 7 p.m.; 346, March 16, 7 p.m.; 374, March 20, 6 p.m.; 377, March 21, noon; 382, March 21, 7 p.m.; paragraph numbered 2 of 694, May 16, 9 p.m.; 712, May 19, 5 p.m.; 724, May 22, 6 p.m.; 729, May 23, 6 p.m.; 749, May 26, 6 p.m.; 779, June 5, 6 p.m.; 828, June 14, 7 p.m.

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1939 JUN 24 11 30 AM
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OFFICE OF THE SECRETARY
U.S. DEPARTMENT OF STATE

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

Prepared by: H. C. Murphy
Assisted by: Wesley Lindow
and V. L. Eyre 48

DATE June 24, 1939

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Recent Financial Developments; Average of High-Grade Corporate Bond Yields Revised.

SUMMARY

- (1) The recent decline in the Government bond market cancelled a little less than one-fifth of the spring rise. The weakness was greatest, in terms of yield, in the medium maturities, which had exhibited the most strength during the preceding rise (Chart I).
- (2) Excess reserves have decreased by \$70 millions during the past month, due principally to a net withdrawal of private foreign balances from this country (Chart II). This decrease was probably not a significant factor in the decline of the Government bond market.
- (3) Weekly reporting member banks were buyers rather than sellers of Governments during the decline. The largest net acquisitions were those of notes by the New York City banks (Chart III).
- (4) The Treasury average of high-grade corporate bond yields has been revised, because of a lack of sensitivity in the old average due to bonds selling above their call prices. The revised index shows the corporate bond market considerably stronger during the spring than had been indicated by the unrevised index. Even on the revised basis, however, corporates lagged far behind Governments during the spring rise. High-grade corporates continued to advance during the recent decline in Governments, sharply reducing the differential between Treasury and corporate bond yields (Chart IV).

Secretary Morgenthau - 2

The Recession in the Government Bond Market

After reaching an all-time high on Monday, June 5, the Government bond market declined until Monday, June 19. The net decline was equal to a rise of .07 percent in the average yield of all long-term Treasury bonds.* On Tuesday, Wednesday, and Thursday the market rallied, the long-term yield average declining by .03 percent.

The decline between June 5 and June 19 cancelled, on the average, a little less than one-fifth of the rise in Treasury bonds which had taken place during the move from February 21 until June 5. Measured in terms of price, the decline was about equally great in the long and medium maturities. Measured in terms of yield, however, the weakness was greatest in the medium maturities. These maturities, it will be remembered, had been the strongest during the spring rise.

The position of the market on February 21, June 5, and June 19, respectively, is compared in Chart I. The yield changes between these dates for three representative bond issues -- the ones indicated separately in the chart on the red and green curves -- are shown in the following table:

Changes in the Yields of Three Selected Treasury Bonds
(One Short, One Medium, and One Long)
Between February 21 and June 5, and Between June 5 and June 19
(Percent)

	Yields as of			Net change		Percent of gain lost
	Feb. 21	June 5	June 19	Feb. 21 to June 5	June 5 to June 19	
2-3/4's 1945-47	1.52	1.07	1.13	- .45	+ .06	13%
2-3/4's 1951-54	2.30	1.85	1.94	- .45	+ .09	20
2-3/4's 1960-65	2.54	2.26	2.32	- .28	+ .06	21

* Adjusting for the change in the composition of the average on June 15.

Secretary Morgenthau - 3

Treasury notes were also soft during the two weeks ending on June 19. The declines on the old issues, however, averaged only .03 percent in terms of yield and cancelled only about 10 percent of the rise since February similarly expressed. The new $\frac{3}{4}$ of 1 percent notes were somewhat weaker than the old issues, their yield increasing by .05 percent from a level already out of line, on the basis of recent precedent, with the old issues of immediately preceding maturity. The weakness in the new notes is easily seen in Chart I, where this issue is the only note separately indicated on the green curve.

Excess Reserves

The excess reserves of all member banks, which had reached an all-time high on May 24, decreased by \$70 millions between that date and June 21. The excess reserves of New York City banks decreased by about \$120 millions during this period, those of banks outside of New York City increasing by about \$50 millions (Chart II). The decrease in excess reserves for all banks during this period was due entirely to an increase in required reserves, total member bank reserves remaining practically unchanged.

The effect of domestic factors during the period under review would have been such as to have caused a continued increase in excess reserves, so that the entire decrease which did actually occur is attributable to international factors, principally an increase in the deposits of foreign central banks at the Federal Reserve banks. This increase in foreign deposits is, in turn, attributable to a net withdrawal of private foreign funds from this country. The decrease in excess reserves was probably not a significant factor in the recent decline in the Government bond market.

Changes in Bank Holdings of United States Securities

The weakness in the Government bond market between June 5 and June 19 was not caused by bank liquidation. On the contrary, between May 31 and June 21, weekly reporting member banks in New York City increased their holdings of Government bonds and notes by \$95 millions, of which \$75 millions consisted of notes (Chart III). While the figures are not available for weekly reporting member banks in the other cities for the entire period, the changes between May 31 and June 14 were negligible.

Secretary Morgenthau - 4

The increase in the holdings of notes by New York City banks is a logical outcome of the June financing. When it was announced on June 1 that an issue of notes would be offered in exchange for the September notes, the market was taken by surprise, for a bond issue seemed to have been generally expected. Consequently, the June "rights" became relatively more attractive to the New York banks, and they tended to accumulate them on net balance.

New Average of High-Grade Corporate Bond Yields

The Treasury average of high-grade corporate bond yields was originally set up because Moody's Aaa average had lost a great deal of its sensitivity because so many of the bonds included in it were selling above their call prices. To guard against this, the Treasury average included only non-callable bonds and callable bonds with a coupon rate of not higher than 3-1/2 percent. Long-term interest rates have since decreased to such an extent, however, that all of the callable bonds included in the Treasury average are now selling above their call prices, and are consequently relatively insensitive to further decreases in interest rates. The same situation seems to prevail in nearly the same degree at the present time with respect to Moody's Aaa average, which has behaved very much like the Treasury average so far this year.

Unfortunately, it is impossible at the present time to obtain a broad list of corporate bonds from which a satisfactory average may be derived, since every "high-grade" callable bond actively traded on either the New York Stock Exchange or the Curb Exchange is now selling above its call price, and there are almost no long-term high-grade non-callable bonds, except rails.

The best solution of this problem seems to be to base our corporate bond average, for as long as may be necessary, upon a small list of bonds which are actually "free" to move, and so indicate changes in the underlying market.* The five bonds selected for this purpose are as follows:

* Ultimately, either the rate of interest will advance, so "freeing" the bonds now selling above their call price; or the bonds will be called and replaced by new bonds with lower coupon rates, which will sell below their call prices and so be free to reflect changes in interest rates. As soon as either of these things happens, the index can again be enlarged.

Secretary Mcrgenthau - 5

Issues Included in New Average of High-Grade
Corporate Bond Yields

		: Price :	Yield
		: June 21 :	June 21
Pennsylvania Railroad	4-1/2's 1960	120	3.19
Norfolk and Western Railway	4's 1996	122-5/8	3.15
New England Tel. and Tel.	4-1/2's 1961	128-1/2	2.58
Bell Telephone of Penna.	5's 1960	133-3/4	2.66
Standard Oil of New Jersey	2-3/4's 1953	106	<u>2.25</u>
Average yield			2.76

The first four of the issues included in the above table are not callable within the next twelve years.* The fifth (while now selling substantially above its call price of 103-1/2) has a coupon rate of only 2-3/4 percent. All of the bonds have a maturity of over twelve years. The rails are very high-grade. The two telephone company bonds are the only regularly traded long-term bonds (other than rails) not callable within the next twelve years, which we have been able to find on either the New York Stock Exchange or the Curb Exchange. The Standard Oil of New Jersey bond -- which we have included reluctantly because of its call feature -- is, of course, very high-grade, and is given considerable freedom of movement, despite the call feature, by its very low coupon rate.

On September 14, 1938, the average yield of the five bonds just discussed was the same as that of the old twenty-bond index. The relative movement of the two averages since that time is shown in Chart IV. It will be observed that, as measured by the new average, the corporate bond market has shown much greater strength during the spring than as measured by the old. Even as so measured, however, it has not been nearly as strong as the Government bond market, and the differential between Treasury and corporation bond yields on the

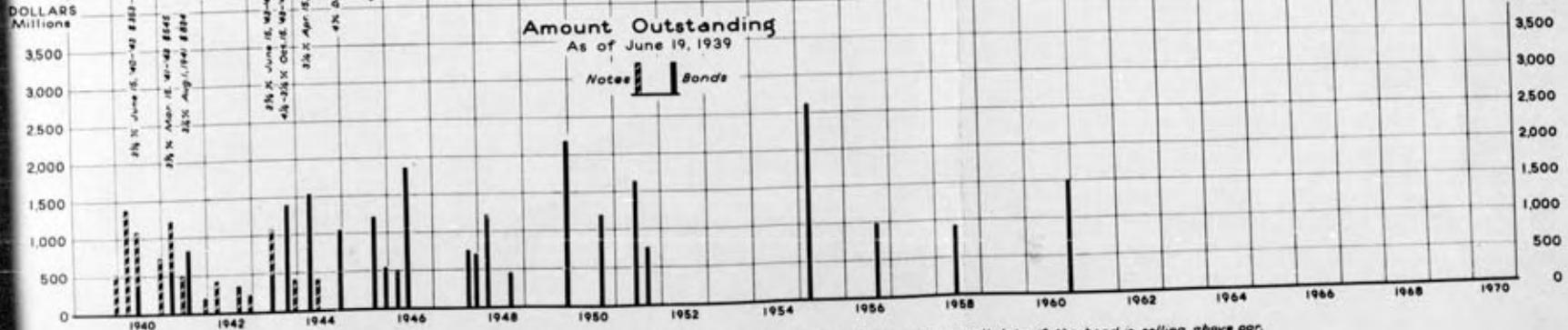
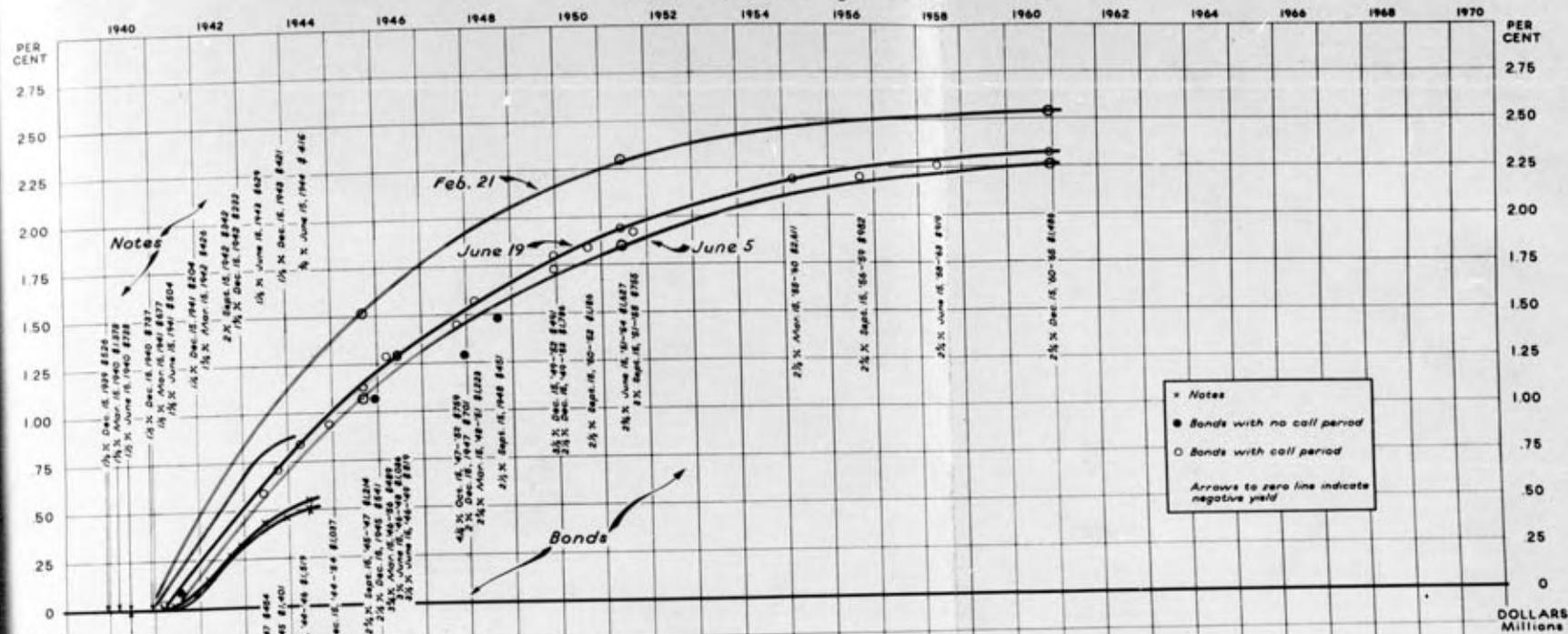
* The Pennsylvania and the Norfolk and Western bonds are non-callable. The New England Telephone's are first callable at par in 1958 and the Bell Telephone of Pennsylvania's in 1957, and their yields are computed to these dates.

Secretary Morgenthau - 6

new basis rose from 0.46 percent on February 21 to 0.73 percent on June 7. The corporate market, as measured by the new index, has continued to advance during the recent recession of the Government market, so that the differential between the corporate and long-term Treasury averages has fallen back to 0.60 percent as of June 21.

Attachments.

YIELDS OF TREASURY BONDS AND NOTES Based on Closing Prices



Note: For callable bonds, yields are computed to, and issues plotted as of, the earliest call date if the bond is selling above par, and as of the final maturity date if the bond is selling below par. The smooth curves are fitted by eye. Dollar amounts shown in descriptions of issues are in millions. Issues for which an exchange offer has been made and has expired are excluded.

Chart II

EXCESS RESERVES OF MEMBER BANKS

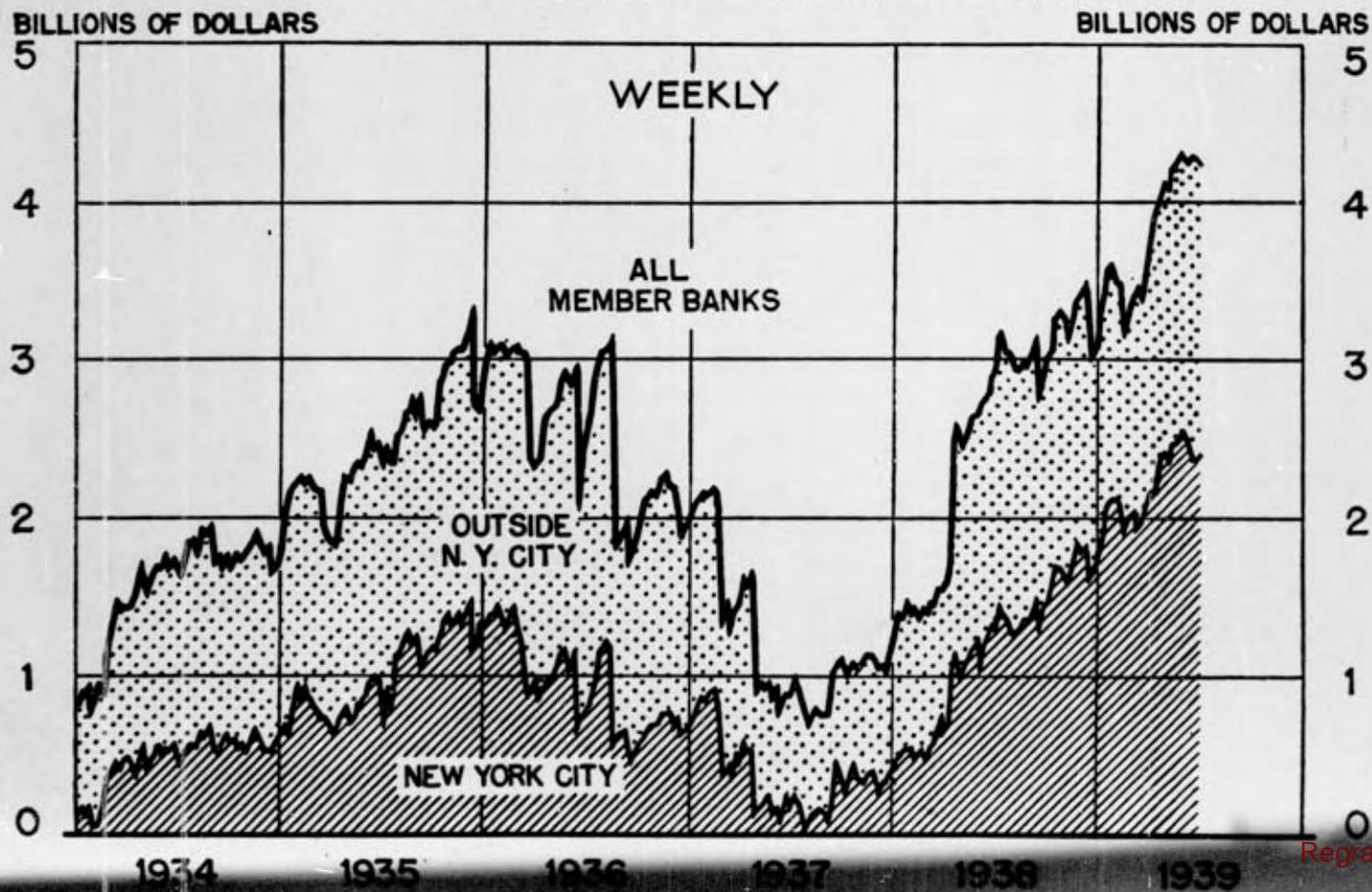
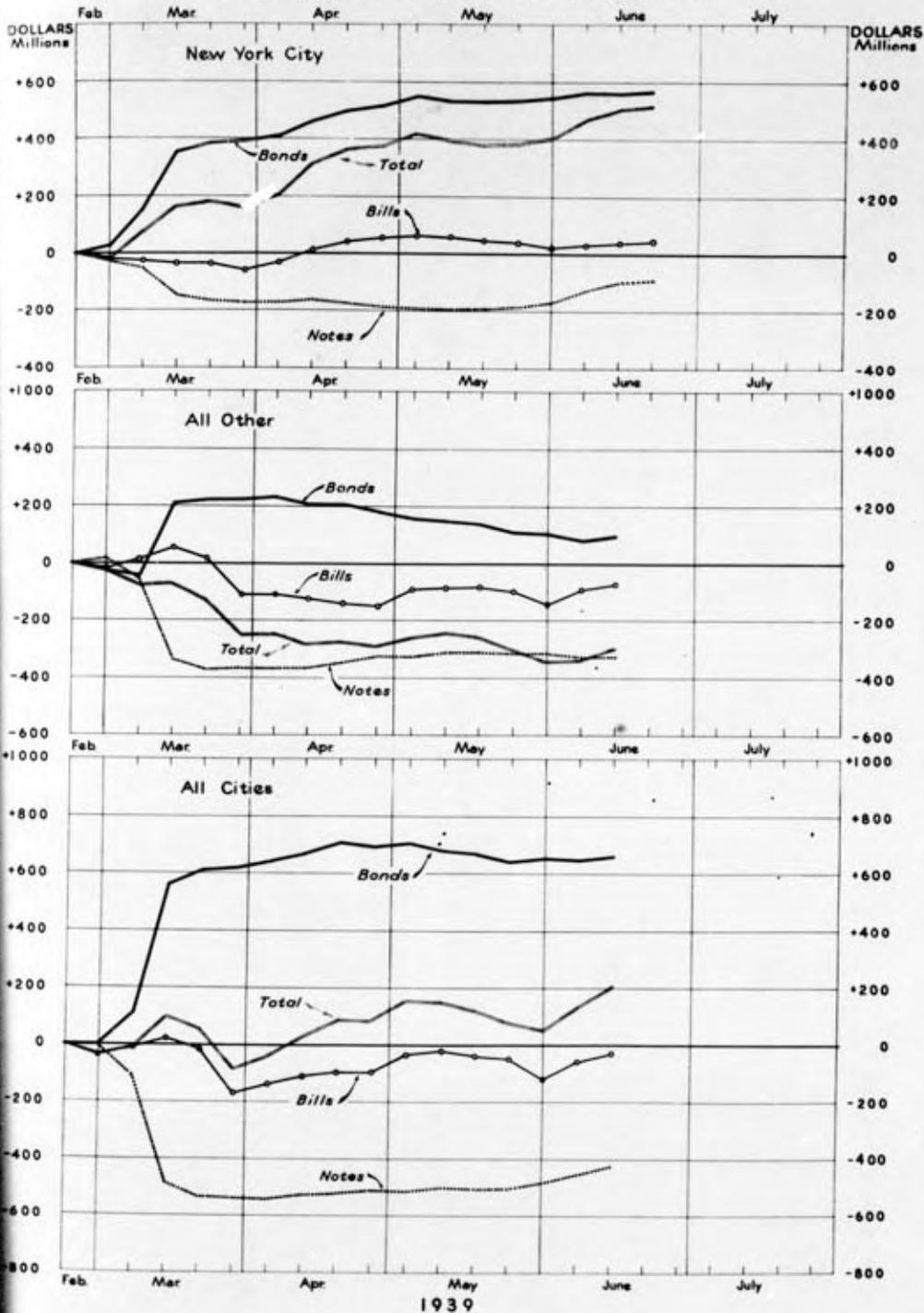


Chart III

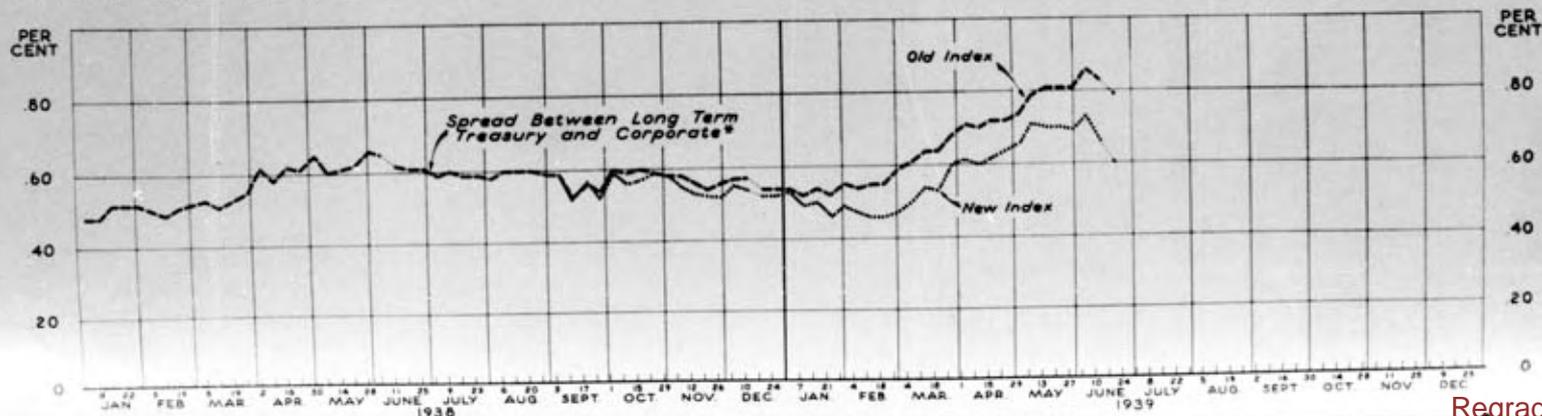
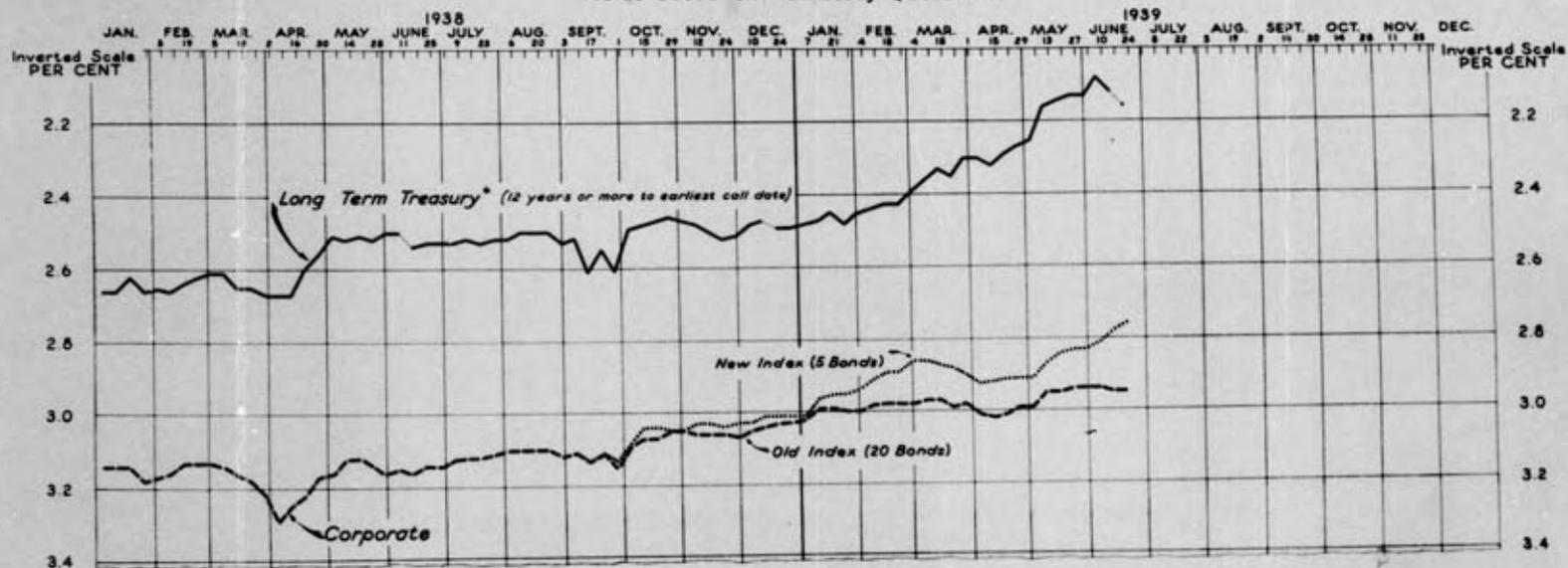
U.S. GOVERNMENT SECURITY HOLDINGS
WEEKLY REPORTING MEMBER BANKS

Cumulative Net Change From Feb. 21, 1939



COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY
AND AVERAGE OF HIGH GRADE CORPORATE BONDS

Yields Based on Wednesday Quotations



* Break in line indicates change in composition of Long Term Treasury portfolio.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE June 26, 1939

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending June 24, 1939.

Summary

(1) The contra-seasonal rise in business activity continues under way despite growing political tension abroad, with further substantial increases reported in the adjusted indexes of steel and automobile production. Were it not for the foreign situation, business activity now would doubtless be at a substantially higher level. The approach of the Fourth of July holiday is likely to bring a decline in steel operating schedules and perhaps some slackening in other industries during the current week.

(2) Continued weakness in sensitive commodity prices seems to foreshadow further unsettling developments abroad, since the domestic picture remains favorable for rising prices. The uncertainty over what may happen in Europe and the Far East over the next few months remains the major handicap to a rapid business recovery.

(3) A sharp downturn in seasonally-adjusted residential awards occurred during the first half of June, first foreshadowed by a decline in FHA selected mortgages in April. Mortgage data for May and early June, however, indicate that residential awards during July and August are not likely to decline further.

- - - - -

The current business trend

Business activity, as measured by the New York Times index, continued to gain during the week ended June 17. (See Chart 1) The adjusted index for that week rose to 90.6 from 89.8 the previous week. Of the two leading industries (shown on the chart) steel activity has contributed most to the business upturn, cotton mill activity remaining relatively steady. For the week ending June 24, further improvement is shown in the indexes of steel production and automobile production, the only components so far available.

Secretary Morgenthau - 2

During the July 4 holiday week now approaching, a substantial temporary drop is likely to be recorded in the adjusted business index, owing to the holiday falling on Tuesday, since many workers in both factories and offices will be given a holiday on Monday as well.

The Federal Reserve Board, in publishing its preliminary index figure of 92 for May, reports that a considerable increase in industrial production occurred during the first three weeks of June. Private estimates of the probable FRB figure for June range between 95 and 98.

The possibility of another severe crisis abroad during the next few months, with possible accompanying weakness in security prices, continues to act as a major restraint on active business recovery. To the extent that war fears have already held business back, however, the shock of serious new developments would be reduced. With the present basic strength in the domestic business situation, such developments would not be likely to prevent a further business rise during the second half of the year, though the rate of rise might be more gradual.

The steel situation

The rate of operations in the steel industry rose 1.9 points last week to 55.0 per cent of capacity, almost reaching the spring peak established in April. The independent companies continue to show much higher activity than U. S. Steel, their average rate for the week ended June 19 rising 1/2 point to 61 per cent of capacity, while the U. S. Steel rate dropped 1 1/2 points further to 44 1/2 per cent.

A decline in steel operating schedules seems in prospect for the current week, owing partly to the approach of the Fourth of July holiday. The Youngstown district is scheduled to reduce its operating rate 6 points this week, which is regarded as temporary. In the Buffalo area the rate was reduced 4 1/2 points at the middle of last week.

New orders reported by the U. S. Steel Corporation last week increased slightly to 46 per cent of capacity, versus 44 per cent the previous week. The orders are closely in line with the Corporation's 44 1/2 per cent operating rate. In view of its relatively low level of orders and low operating rate, it appears that this steel company, specializing in heavy steel products, may have been more conservative than the independent companies about accepting recent automobile steel orders at "profitless prices".

Secretary Morgenthau - 3

Automobile output last week rose further to 81,070 units, from 78,305 units the previous week. The trend will probably be downward from now until late July or early August, when production of 1940 models will get under way. The end of this week saw four companies finished with 1939 model runs, and by the middle of July all of the General Motors and Chrysler plants are expected to be finished.

Price trend lower

A continued weakening tendency in sensitive commodity prices (See Chart 2) appears rather ominous as possibly foreshadowing further disturbing developments in the foreign situation, particularly since rising prices would normally be indicated by the strengthening domestic outlook and improving business activity in England and certain other foreign countries. The end of the week, however, saw at least a temporary price upturn. Security prices in London and Paris during the past week have turned somewhat weaker than in New York.

Prices of industrial materials, which are most closely related to basic business conditions, continue to be well maintained. (See Chart 3) Prices of farm products, on the other hand, have continued the decline which began at the end of March. During the week ended June 17 the BLS price index of farm products reached the lowest point in the past five years.

Despite the lower price trend, cash farm income in May, including Government payments, was 6.5 per cent larger than in April. The total of \$589 millions was 6.3 per cent above the comparable figure for May last year. Total cash farm income during the first five months of this year exceeded that of the previous year by \$47 millions, which accounts at least in part for the favorable showing of rural retail sales in recent months.

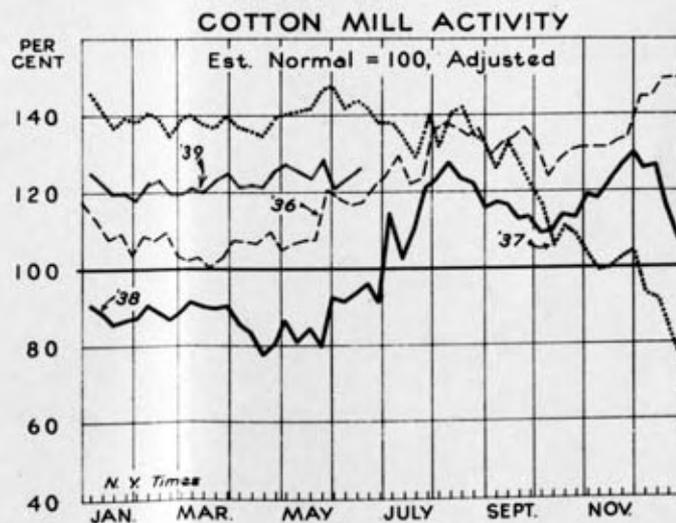
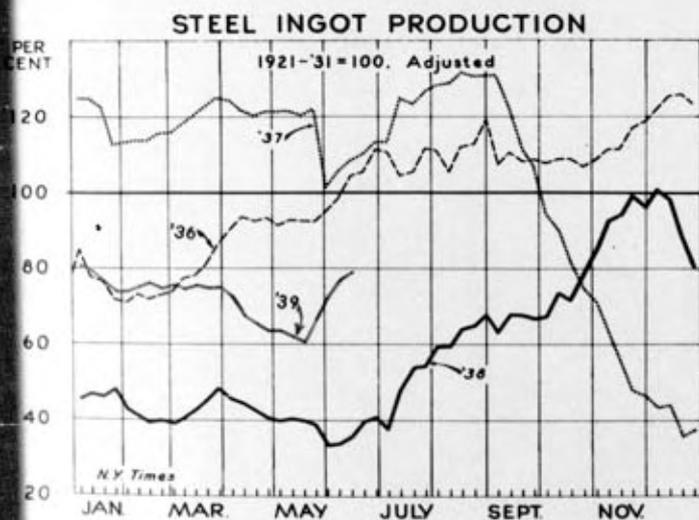
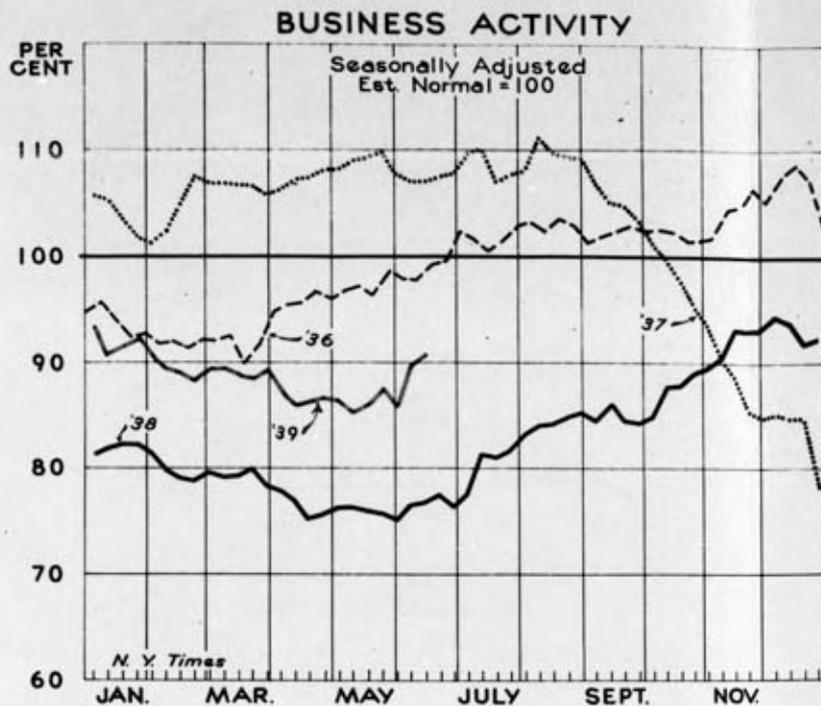
Residential awards lower

The F. W. Dodge residential contract awards for the first half of June dropped sharply from the corresponding May figures, indicating a total for the entire month at this rate of \$97,400,000. This would compare with a May total of \$133,818,000. Seasonally adjusted figures are shown in Chart 4.

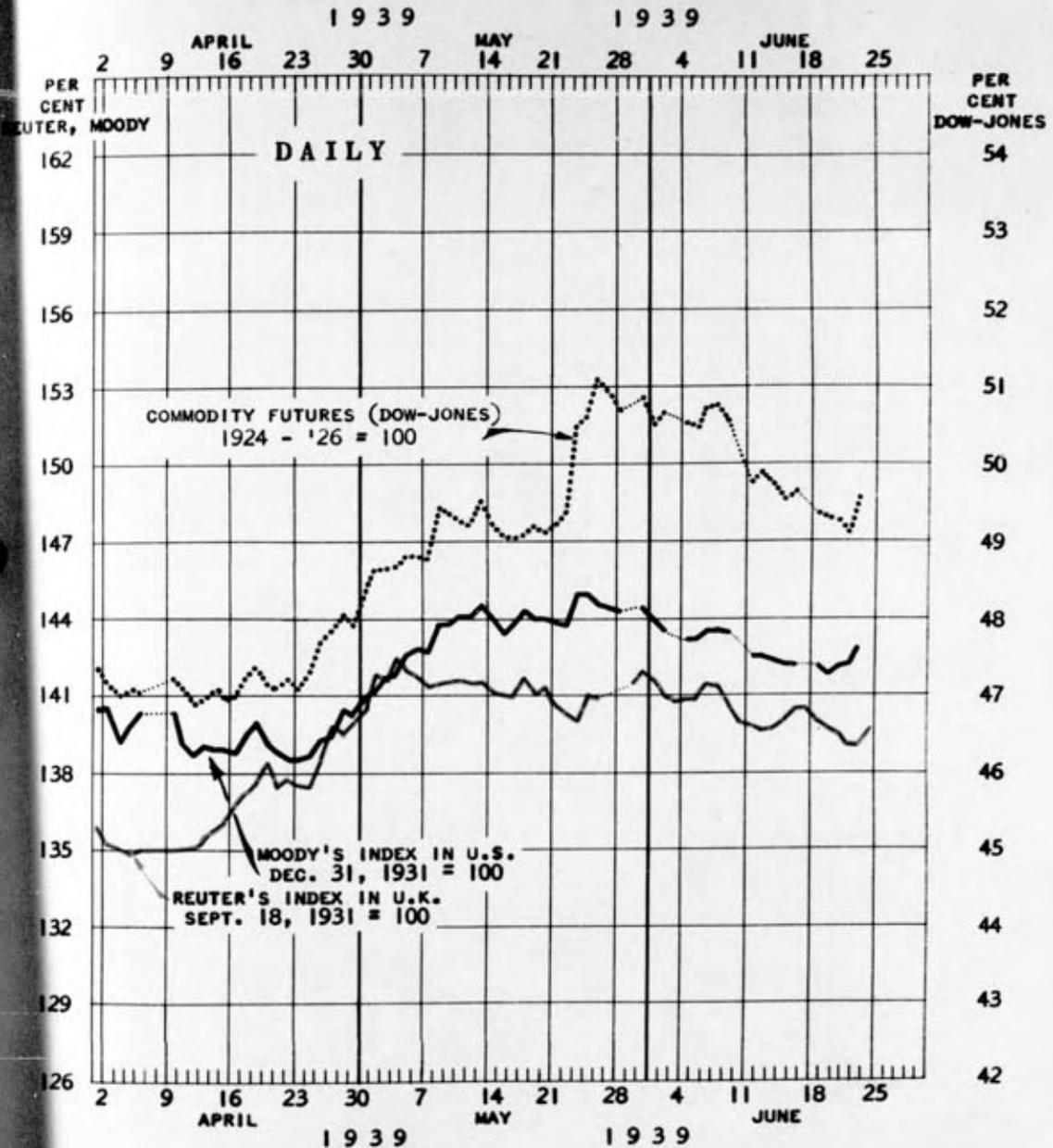
Secretary Morgenthau - 4

A decline in residential awards in June had been foreshadowed by a downturn in April in the volume of FHA mortgages selected for appraisal. These mortgage data have considerable forecasting value in indicating the trend of residential awards, showing a lag of approximately two months, after seasonal adjustment.

A study we have made of the trend of FHA selected mortgages during May and the first part of June does not indicate a further decline in residential contract awards, but suggests that they are likely to level out during July and August at approximately the June rate.

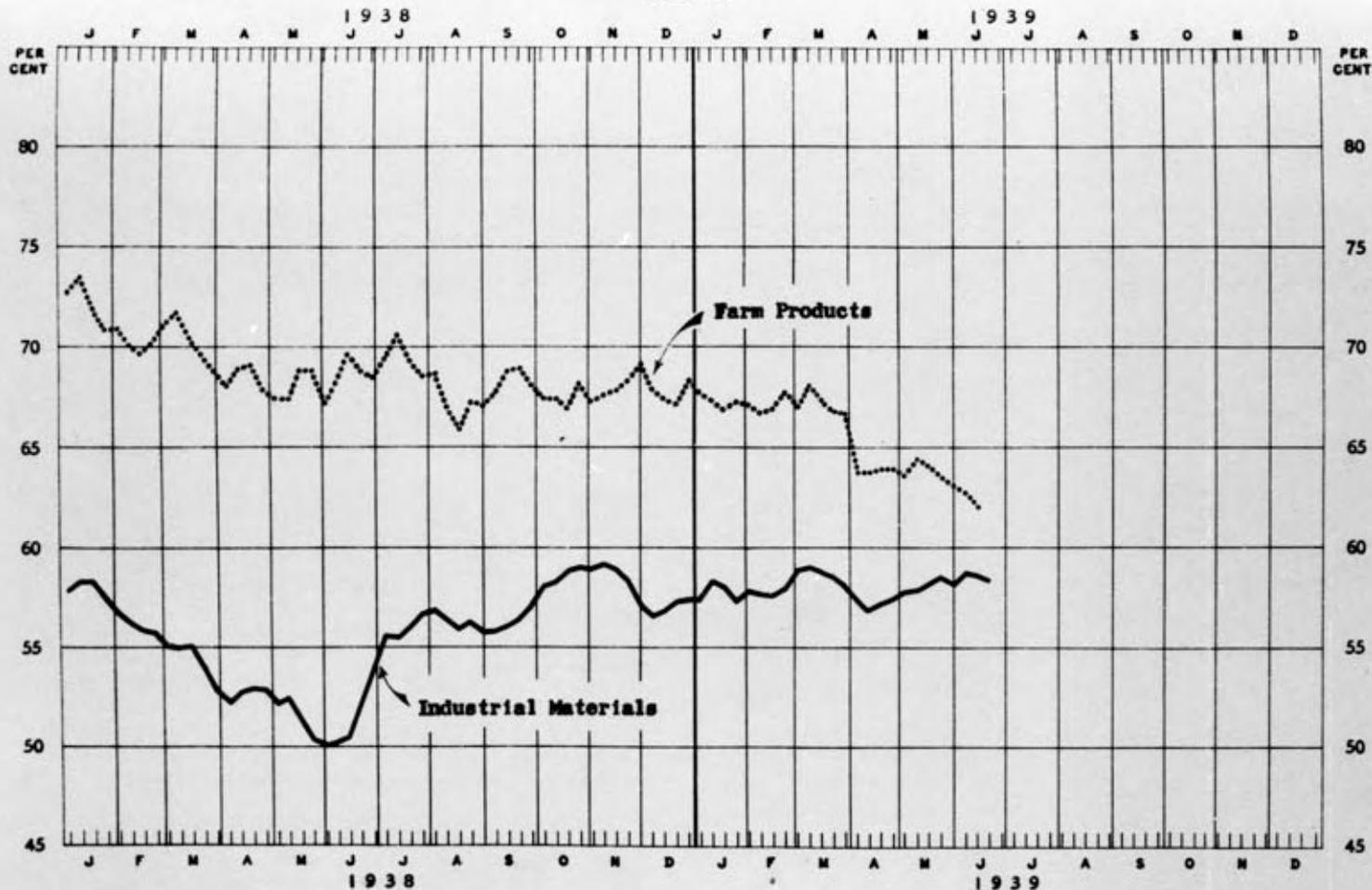


COMMODITY PRICE INDEXES IN U.S. AND U.K.



PRICES OF INDUSTRIAL MATERIALS AND FARM PRODUCTS

1926 = 100



SOURCE: BUREAU OF LABOR STATISTICS

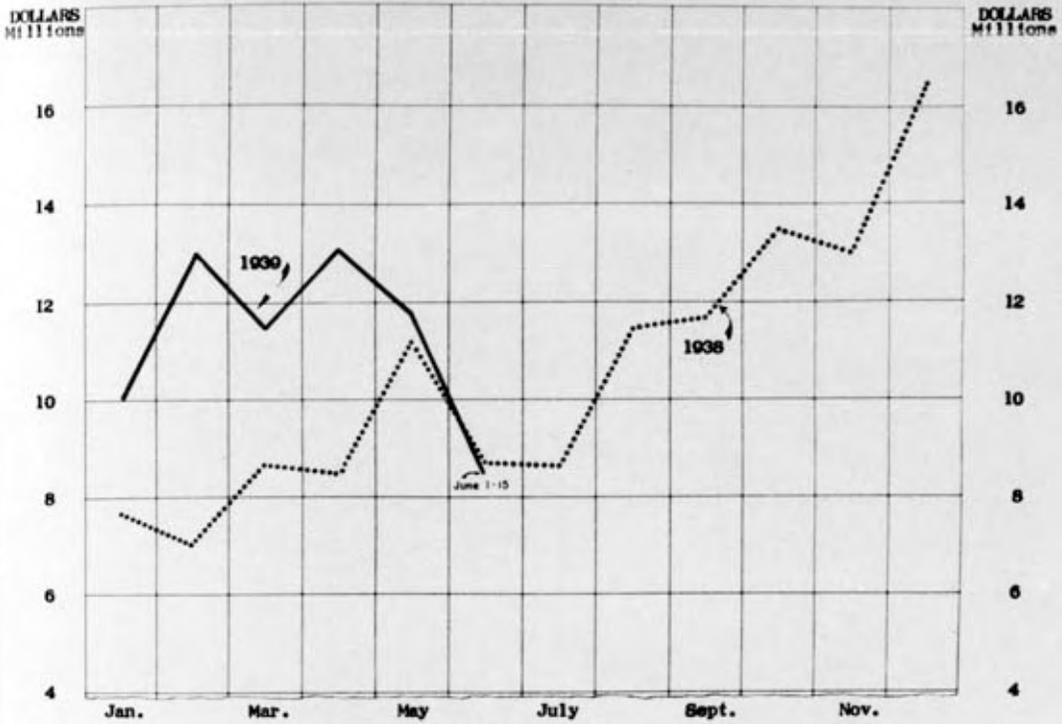
Office of the Secretary of the Treasury
Division of Research and Statistics

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Chart 3
CONFIDENTIAL

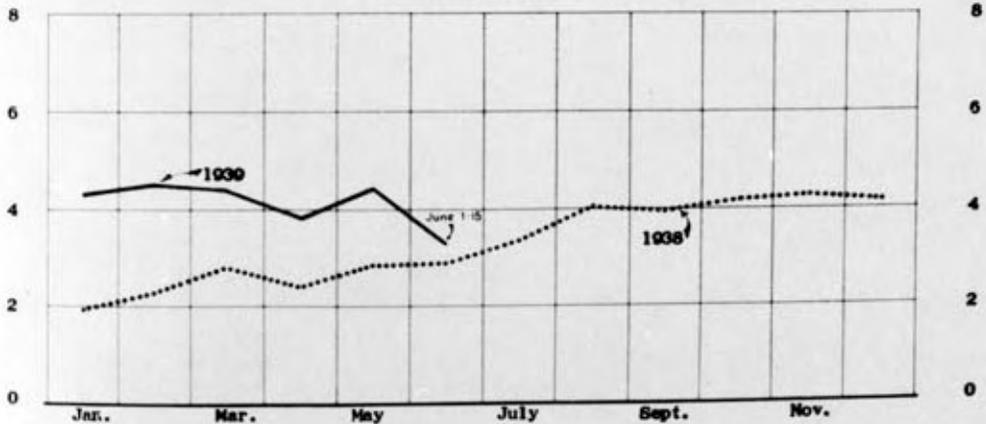
CONSTRUCTION*

Daily Average, Seasonally Adjusted

Total



Residential



* CONTRACTS AWARDED-F.W. DODGE CORP.

June 26, 1939

I spoke to Hull on the telephone from the farm about the loan to Finland and he said, "Some of the big powers might object". I told him that unless he was entirely happy about it that I did not want to do it; that I had no interest in it. Then he said you know how we all feel about Finland and would I have a further talk with him when I came back.

June 26, 1939.

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THE SENATE SILVER BLOC, ENGAGED IN A FILIBUSTER THAT WAS
ENDANGERED THE ADMINISTRATION'S "MUST" LEGISLATIVE PROGRAM,
WAS DEFEATED IN AN ATTEMPT TO FIX THE DOMESTIC SILVER PRICE BY LAW
AT \$1.16 AN OUNCE.

THE VOTE WAS 26 TO 52

6/26--RS1243P

ADD MONETARY BILL, SENATE

THE PROPOSAL WAS OFFERED BY SENATOR PITTMAN AS AN AMENDMENT TO
THE PENDING MONETARY BILL EXTENDING FOR TWO YEARS THE STABILIZATION
FUND AND PRESIDENT ROOSEVELT'S POWER TO DEVALUE THE DOLLAR. IT
REPRESENTED A MODIFICATION OF PITTMAN'S ORIGINAL AMENDMENT FIXING
THE PRICE AT \$1.27 AN OUNCE.

ALTHOUGH THE SILVERITES STOPPED TALKING LONG ENOUGH TO PERMIT
THE VOTE ON THE PITTMAN PLAN, THEY REITERATED THAT THE MONEY BILL
WOULD BE "DISCUSSED THOROUGHLY" BEFORE THEY WOULD PERMIT ITS
PASSAGE. THE BILL MUST BE SIGNED BY THE PRESIDENT BY MIDNIGHT JUNE
30 TO PREVENT EXPIRATION OF THE ADMINISTRATION'S MONETARY PROGRAM.

ADMINISTRATION LEADERS SAID THAT IF THE SILVERITES CONTINUED TO
PROLONG DEBATE, THE SENATE WOULD BE HELD IN SESSION TONIGHT--THE
FIRST NIGHT SESSION OF THE YEAR.

6/26--RS1246P

ADD MONETARY BILL, SENATE

AFTER THE DEFEAT, PITTMAN OFFERED ANOTHER AMENDMENT TO PEG THE PRICE AT 77.57 CENTS. THAT WAS THE PRICE FIXED IN 1934 WHEN THE SILVER PURCHASE PROGRAM WAS INITIATED. THE PRICE WAS CHANGED AT THE END OF 1937 TO 64.64 CENTS.

6/26--RS106P

ADD MONETARY BILL, SENATE

THE SECOND PITTMAN AMENDMENT WAS WRITTEN INTO A PROPOSAL BY SENATOR ADAMS TO KILL THE DEVALUATION AUTHORITY. THE SILVERITES HOPED TO PUT THE AMENDMENT OVER THROUGH THE COMBINATION WITH SENATORS OPPOSED TO DEVALUATION.

6/26--RS110P

ADD MONETARY BILL, SENATE

THE EFFORT TO COUPLE ELIMINATION OF THE EXECUTIVE MONETARY CONTROL AND THE FIXING OF THE DOMESTIC SILVER PRICE AT 77.57 IN A TEST VOTE WAS HALTED BY A PARLIAMENTARY MOVE.

SENATOR BANKHEAD, PRESIDING, UPHELD MAJORITY LEADER BARKLEY'S CONTENTION THAT TWO SEPARATE QUESTIONS WERE INVOLVED IN THE ADAMS AMENDMENT AND ORDERED A VOTE ON EACH.

ADAMS IMMEDIATELY APPEALED TO THE SENATE TO UPSET THE RULING.

6/26--R131P

ADD MONETARY BILL, SENATE

BANKHEAD'S RULING WAS UPHELD, 39 TO 35, AND THE AMENDMENT WAS SPLIT INTO TWO SECTIONS.

6/26--R136P

THE SENATE VOTED TODAY TO REPEAL PRESIDENT ROOSEVELT'S POWER TO DEVALUE THE DOLLAR.

THE VOTE WAS ON AN AMENDMENT BY SENATOR ADAMS TO THE PENDING MONETARY BILL.

THE VOTE TO WIPE OUT THE POWER WAS 47 TO 31.

6/26--R207P

ADD MONETARY BILL, SENATE (TINED 207P)

ADOPTION OF THE AMENDMENT WAS MADE POSSIBLE WHEN MEMBERS OF THE SILVER BLOC, ANGERED BY REFUSAL OF THE ADMINISTRATION TO BOOST THE PRICE THE TREASURY PAYS FOR DOMESTICALLY MINED SILVER, VOTED ALMOST SOLIDLY FOR IT.

6/26--R216P

ADD MONETARY BILL, SENATE

A FEW MINUTES LATER, THE SENATE VOTED TO REQUIRE THE TREASURY TO PAY 77-1/2 CENTS AN OUNCE FOR DOMESTICALLY MINED SILVER. THE EXISTING PRICE IS 64.64 CENTS.

6/26--R217P

ADD MONETARY BILL, SENATE
THE SILVER VOTE WAS 48 TO 30.

6/26--R217P

ADD MONETARY BILL, SENATE
THE ROLL CALL ON STRIPPING THE PRESIDENT OF HIS DEVALUATION
AUTHORITY FOLLOWS:

AGAINST DEVALUATION (47)

DEMOCRATS (29)--ADAMS, ANDRESS, ASHURST, BAILEY, BONE, BROWN,
BULOW, BURKE, BYRD, CLARK OF IDAHO, CLARK OF MISSOURI, DOWNEY,
GERRY, GLASS, HAYDEN, KERRING, HOLT, MCCARRAN, MURRAY, O'MAHONEY,
PITTMAN, RADCLIFFE, SCHWELLENBACH, TYDINGS, VAN NUYS, WALSH, WHEELER,
JOHNSON OF COLORADO AND KING.

REPUBLICANS (17) AUSTIN, BARBOUR, BRIDGES, CAPPER, DANAKER, DAVIS,
FRAZIER, GURNEY, HALE, HOLMAN, JOHNSON OF CALIFORNIA, REED, TOBY,
TOWNSEND, VANDENBERG, WHITE AND WILEY.

FARMER LABORITE (1) SHIPSTEAD.

FOR DEVALUATION (31)

DEMOCRATS (28) BANKHEAD, BARKLEY, BILBO, BYRNES, ELLENDER, GEORGE,
GREEN, GUFFEY, HATCH, HILL, HUGHES, LEE, LOGAN, LUCAS, MALONEY,
MCKELLAR, MILLER, NINTON, NEELY, OVERTON, REYNOLDS, RUSSELL,
SLATTERY, SMATHERS, STEWART, THOMAS OF OKLAHOMA, TRUMAN, AND WAGNER.

REPUBLICANS (1) BORAH.

PROGRESSIVES (1) LA FOLLETTE.

INDEPENDENT (1) MORRIS.

6/26--R232P

ADD MONETARY BILL, HOUSE

DEMOCRATIC LEADERS SAID LATER THAT WHEN THE BILL IS SENT TO CONFERENCE WITH THE HOUSE--PROBABLY LATE TODAY--THEY WOULD MAKE AN ATTEMPT TO HAVE THE CONFEREES RESTORE THE DEVALUATION PROVISION.

6/26--R250P

ADD MONETARY BILL, SENATE

THE ROLL CALL VOTE ON THE SILVER AMENDMENT:

FOR THE AMENDMENT (48)

DEMOCRATS (30)--ADAMS, ANDREWS, ASHURST, BANKHEAD, BILBO, BOWE, BULOW, CLARK OF IDAHO, CLARK OF MISSOURI, DOWNEY, ELLENDER, HATCH, HAYDEN, HERRING, JOHNSON OF COLORADO, KING, LEE, LOGAN MCCARRAN, MILLER MURRAY, NEELY, O'NAHONEY, OVERTON, PITTMAN, SCHWELLENBACH, STEWART, THOMAS OF OKLAHOMA, VAN NUYS, AND WHEELER.

REPUBLICANS (16) AUSTIN, BARBOUR, BORAH, BRIDGES, CAPPER, DANAHY, DAVIS, FRAZIER, GURNEY, HALE, HOLMAN, JOHNSON OF CALIFORNIA, REED, VANDENBERG, WHITE AND WILEY.

PROGRESSIVE (1) LAFOLLETTE.

FARMER LABOR (1) SHIPSTEAD.

AGAINST THE AMENDMENT (30)

DEMOCRATS (27) BAILEY, BARKLEY, BROWN, BURKE, BYRD, BYRNES, GEORGE, GERRY, GLASS, GREEN, GUFFEY, HILL, HOLT, HUGHES, LUCAS, MALONEY, MCKELLAR, MINTON, RADCLIFFE, REYNOLDS, RUSSELL, SLATTERY, SMATHERS, TRUMAN, TYDINGS, WALSH AND WAGNER.

REPUBLICANS (2) TOBEY, TOWNSEND.

INDEPENDENT (1) MORRIS.

6/26--R305P

ADD MONETARY BILL, SENATE

THE SENATE REJECTED, 28 TO 39, AN AMENDMENT BY THOMAS OF OKLAHOMA, TO REQUIRE THE GOVERNMENT'S FISCAL AUTHORITIES TO STABILIZE THE DOLLAR IN TERMS OF COMMODITY PRICES AT A LEVEL OF 100.

6/26--R332P

THE SENATE REPEALED BY A VOICE VOTE THE SILVER PURCHASE ACT

PROVIDING FOR THE ACQUISITION OF FOREIGN SILVER.

6/26--R4

ADD SILVER ACT, SENATE

THE SENATE ADOPTED AN AMENDMENT BY SENATOR JOHN G. TOWNSEND DESPITE THE PLEAS OF MAJORITY LEADER BARKLEY THAT THE REPEAL WOULD REFLECT IN OUR TRADE WITH FOREIGN COUNTRIES.

SENATOR ASHURST DENOUNCED THE SILVER PURCHASE ACT AS A FAILURE AND TOLD THE SENATE THAT "WE GET \$1 OF TRADE FOR EVERY \$9 INVESTED."

SENATOR BAILEY SAID THAT THE UNITED STATES SHOULDN'T PAY AN ARTIFICIALLY INCREASED PRICE TO FOREIGN GOVERNMENTS FOR SILVER, WHICH HAD ONLY THE VALUE OF A COMMODITY AND WHICH COULD NOT BE SOLD AT A PRICE ANY WHERE NEAR THE PURCHASE PRICE.

HE SAID THAT IF THE U.S. WISHED TO PROMOTE TRADE THAT IT WOULD BUY SOUTHERN COTTON SO THAT NEW ENGLAND SHOES MIGHT BE PURCHASED.

6/26--R433P

ADD SILVER ACT, SENATE

"MEXICO RESPONDS TO OUR OVERTURNES BY REPEATED SEIZURES OF AMERICAN PROPERTY," ASHURST REMINDED THE SENATE WHEN BARKLEY ASSERTED THAT THE FOREIGN NATIONS WERE GIVEN PURCHASING POWER BY THE SILVER ACQUISITION.

6/26--R4J4P

ADD SILVER ACT, SENATE

THE TOWNSEND AMENDMENT REPEALED ONLY THE SECTIONS OF THE SILVER PURCHASE ACT PROVIDING FOR FOREIGN ACQUISITIONS. THE BILL, WHICH ALSO PROVIDES FOR DOMESTIC PURCHASES, REQUIRES THAT THE AMOUNT OF SILVER IN THE U. S. TREASURY BE ONE-FOURTH OF THE TOTAL CURRENCY.

6/26--BG5P

THE SENATE TONIGHT PASSED BY VOICE VOTE AND SENT TO CONFERENCE WITH THE HOUSE THE ADMINISTRATION'S "MUST" MONETARY BILL AFTER STRIPPING PRESIDENT ROOSEVELT OF HIS DOLLAR DEVALUATION POWER, RAISING THE GOVERNMENT PRICE ON DOMESTIC SILVER AND BANNING FUTURE FEDERAL PURCHASES OF FOREIGN SILVER.

6/26 ON625P

ADD MONEY BILL, SENATE

THE \$2,000,000,000 STABILIZATION FUND WAS EXTENDED FOR TWO YEARS WITHOUT CHANGE. A LAST MINUTE ATTEMPT BY SENATOR ELMER THOMAS TO REDUCE THE FUND TO \$500,000,000 AND TRANSFER THE REMAINING \$1,500,000,000 TO THE GENERAL FUND OF THE TREASURY, WAS DEFEATED.

6/26 ON626P

ADD MONETARY BILL, SENATE

DEBATE ON THOMAS' AMENDMENT TO REDUCE THE STABILIZATION FUND WAS DIRECTED TOWARD ITS INFLATIONARY POSSIBILITIES. SENATOR BAILY, OF NORTH CAROLINA, SAID THAT THE \$1,500,000,000 CONSTITUTED MERELY "THE NOSE UNDER THE TENT."

"YOU WOULD DESTROY THE FOUNDATION OF AMERICAN STABILITY," HE SAID. THE ACTION OF THE SENATE TODAY DOES NOT DISTURB THE THOMAS AMENDMENT TO THE AAA UNDER WHICH THE PRESIDENT HAS THE POWER TO ISSUE \$3,000,000,000 IN "GREEN-BACKS." THE SAME AMENDMENT GAVE

THE PRESIDENT POWER TO REDUCE THE GOLD CONTENT OF THE DOLLAR BY A MAXIMUM OF 50 PER CENT. THIS LATER WAS RESTRICTED TO BETWEEN 50 AND 60 PER CENT BY THE GOLD RESERVE ACT.

6/26--RB641P

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE June 26, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

Review of the Government Market

Week ending June 24, 1939

During the week the government market reversed the downward trend of the previous two weeks. Although not very active, long Treasury bonds moved up as much as 1/2 point on limited buying. This reversal of trend was mainly attributable to the announcement that \$100 million Federal Farm Mortgage bonds due in September would be paid off in cash. Other forces adding to this firmer tendency appeared to be that profit-selling by banks for June 30 statement purposes was apparently completed and dealers' portfolios were considerably reduced. Treasury notes showed gains of 1 to 5/32nds while guaranteed issues were up 1 to 8/32nds.

Today, Monday, Treasury bonds lost about 1/4 point in sympathy with a 2-point drop in the stock market as a result of uncertainties in the Far Eastern situation.

Dealers' Portfolios

Dealers' holdings showed a reduction of about \$24 million. The principal individual changes included a reduction of \$29 million in Treasury bond holdings and an increase of about \$11 million in 1 to 5 year Treasury notes.

Dealers' Portfolios

(in millions)

	<u>Week ended</u> <u>June 17</u>	<u>Week ended</u> <u>June 24</u>	<u>Net Change</u>
Treasury bonds	49.5	20.3	- 29.2
Treasury notes (1 year)	25.8	23.0	- 2.8
Treasury notes (1-5 yrs.)	22.6	33.8	+ 11.2
Treasury bills	-	-	-
H.O.L.C. bonds	22.8	23.3	+ 0.5
F.F.M.C. bonds	<u>8.9</u>	<u>5.6</u>	<u>- 3.3</u>
	129.6	106.0	- 23.6

Dealers' volume continued light. Daily average was about \$110 million, \$60 million of which was in Treasury bonds.

New Security Issues

New corporate security market was quite active. A total of \$83 million bonds were offered, of which about \$78 million was for refunding. Two high grade issues, including \$50 million 25-year bonds of Socony Vacuum, were well received and sold out quickly at a premium above the offering price. A utility issue of about \$18 million, with a second grade rating, by Illinois Central Light and Power moved rather slowly at about the offering price. About \$75 million in new bonds are expected to be offered during the week now current, including \$25 million 20-year bonds by Bethlehem Steel Corporation.

Corporate Bond Market

The corporate bond market showed renewed strength during the week. High grade issues continued at recently established record high levels while second grade issues showed gains ranging to about 1/2 point on average. Activity in this market, however, was rather light.

Treasury Investment Accounts

Principal operations in the Treasury investment accounts were sales

in the market totaling \$3,915,000 of various direct and guaranteed issues for account of Home Loan Banks of Portland and Cincinnati. These sales were to give the banks funds needed in paying off \$41 million debentures coming due July 1. In addition, a purchase of \$350,000 long term bonds for account of U. S. Housing Authority was made.

HOLC Bonds

A total of \$5,500,000 1-1/2% HOLC bonds were sold in the market, bringing the total sold to \$45,900,000 and leaving a balance to sell of \$54,100,000 of the original \$100 million authorization.

Federal Reserve System Account

The only transactions by the Federal Reserve included replacement of \$35,543,000 Treasury bills with new bills and a purchase of \$1,507,000 bills in anticipation of this week's maturity of \$44,885,000.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

79

DATE June 26, 1939

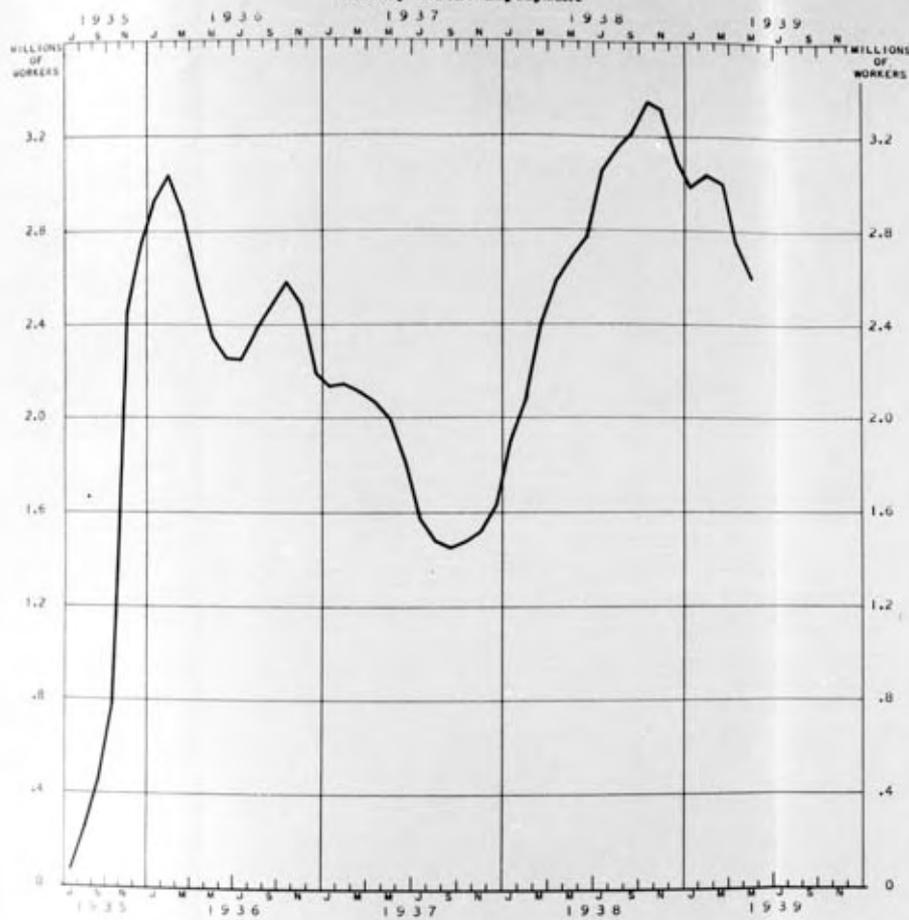
TO The Secretary
FROM Miss Lonigan, L.

The total number of WPA workers on June 14, 1939
is 2,589,760.

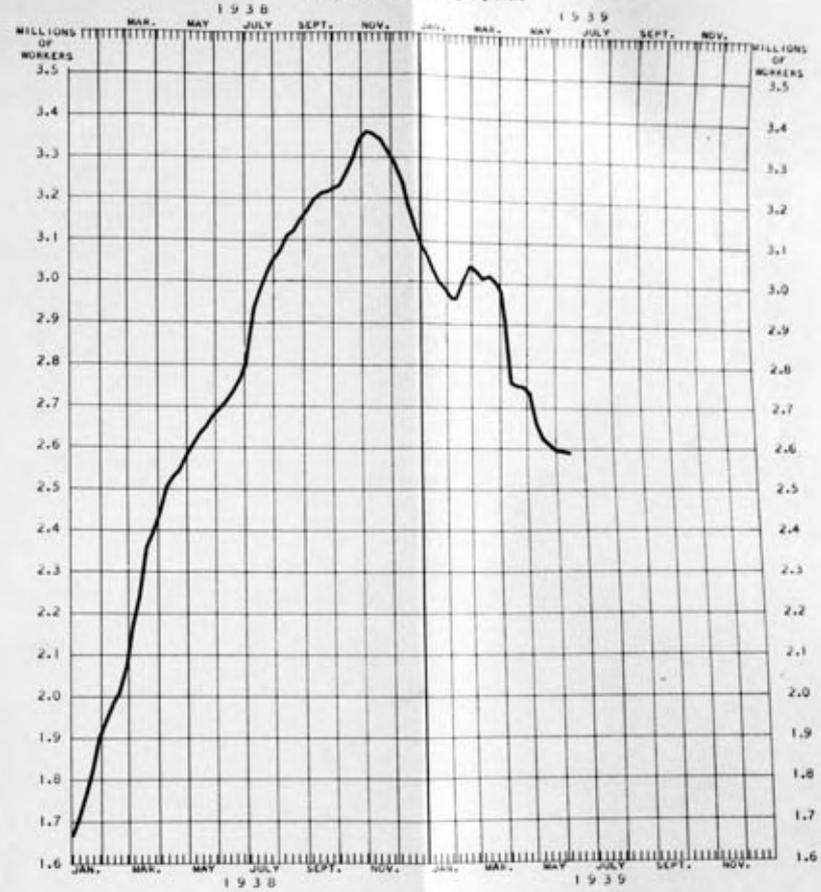
The decrease from the week ending June 7 to the
week ending June 14 was 3,782 workers.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

WORKS PROGRESS ADMINISTRATION
 Number of Workers Employed - Weekly
 United States

81

Week ending 1938	Number of Workers (In thousands)
October 1	3,228
October 8	3,224
October 15	3,266
October 22	3,300
October 29	3,346
November 5	3,364
November 12	3,359
November 19	3,345
November 26	3,319
December 3	3,287
December 10	3,241
December 17	3,186
December 24	3,124
December 31	3,094
1939	
January 7	3,070
January 14	3,030
January 21	3,001
January 28	2,986
February 4	2,966
February 11	2,966
February 18	3,011
February 25	3,043
March 4	3,032
March 11	3,009
March 18	3,015
March 25	3,009
April 1	2,980
April 5	2,906
April 12	2,761
April 19	2,752
April 26	2,751
May 3	2,734
May 10	2,660
May 17	2,622
May 24	2,609
May 31	2,598
June 7	2,594
June 14	2,590 ^{a/}

Source: Works Progress Administration.
a/ Confidential.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1936	
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	3,053
August	3,153
September	3,219
October	3,346
November	3,319
December	3,094
1939	
January	2,986
February	3,043
March	3,009
April	2,751
May	2,598 ^{a/}

Source: Works Progress Administration.

^{a/} Confidential.

Monthly figures are weekly figures for the latest week of the month.

They include certified and non-certified workers.

83

PHONE NUMBER:

District 3544

Mr. Sutherland or Miss Sampson

Wants an hour

12:30



AMERICAN LOCOMOTIVE COMPANY

OFFICE OF THE PRESIDENT
80 CHURCH STREET
NEW YORK

June 26th, 1939.

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.

My dear Mr. Secretary:-

At the suggestion of Secretary Hopkins, Charles J. Hardy, President of the American Car and Foundry Company, and the writer called upon the Secretary on Friday, the 23rd, in relation to proposed financing of purchases of Railroad equipment. At the conclusion of our interview Secretary Hopkins suggested that we seek an opportunity to explain to you our thoughts in connection with this financing.

May I say that we shall be very glad indeed to do so and shall welcome an appointment at your convenience. The exigencies of the situation are such that we hope an early appointment may be possible.

I am,

Very respectfully yours,

W. C. Dickerman

WCD BDD

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D.C.

EG

GRAY

London

dated June 26, 1939

Rec'd 1:28 p.m.

Secretary of State,
Washington.

901, June 26, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The British fund did practically no business in the spot dollar today; the rate was steady all day as was also the forward rate. The British fund gave about 53 of the £.10 bars of gold at the fixing. Five were married and as main buyer Samuel Montagu was prorated at 50% receiving 100 bars.

No silver was invoiced today and the spot price at fixing was 19 5/8 pence the forward 19 7/16 pence.

KENNEDY

RECEIVED

JUN 27 1939

FOR THE SECRETARY OF STATE
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.



DEPARTMENT OF STATE
WASHINGTON

reply refer to

June 26, 1939.

My dear Mr. Dietrich:

With further reference to my previous letters, I am enclosing copies of two additional despatches from the American Embassy in London relating to Czechoslovak assets in the United Kingdom. These are despatch no. 2299, dated March 20, 1939, and no. 2776, dated June 1.

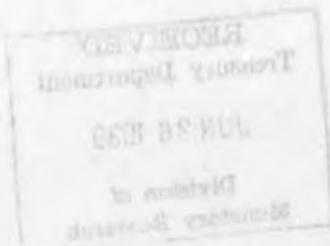
Sincerely yours,

Leroy D. Stinebower
Office of Adviser on International
Economic Affairs

Enclosures:

1. From London, no. 2299,
March 20, 1939.
2. From London, no. 2776,
June 1, 1939.

Mr. Frank Dietrich,
Care of Mr. Lochhead's Office,
Treasury Department.



EMBASSY OF THE
UNITED STATES OF AMERICA

LONDON, March 20, 1939.

No. 2299

SUBJECT: British Financial Assistance to the
Former Government of Czechoslovakia.The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to despatch No. 2163 of February 27, 1939, regarding the financial arrangements entered into between the British, French and Czechoslovakia representatives, and to transcribe below the pertinent portion of a statement made by the Secretary of State for Foreign Affairs in the House of Lords on March 15, 1939, Hansard Columns 216-217:

"As regards the financial assistance to the former Government of Czechoslovakia, which was authorized by the Act of Parliament passed last month, the position, so far as I have been able to ascertain, is as follows:- Section I of the Act provided that the Treasury should repay to the Bank of England the £10,000,000 which had been placed at the disposal of the National Bank of Czechoslovakia, and that has been done. The amount that has been withdrawn by Czechoslovakia since this advance was first made available - last October - is £3,250,000. The balance of £6,750,000 has not been drawn upon but remains with the Bank of England. The scheme as originally devised between ourselves, the French Government and the former Czechoslovak Government included the issue by the last-named Government of a loan on the London market by means of which the assistance given to that Government, so far as it took the form of loan, would be repaid. In the new circumstances, when it would appear that the Government of Czechoslovakia

Slovakia

-2-

Slovakia has ceased to exist and the territory for which that Government was formerly responsible has been divided, it would seem impossible that the scheme can be carried through, and steps have been taken to request the Bank of England to make no further payments out of the balance of the £10,000,000 until the situation has been cleared up and definite conclusions reached. I may say that I have no reason to suppose that the £3,250,000 already drawn has not been applied in accordance with the provisions which were set out in the recent White Paper, and a substantial portion of the sum has been directly devoted to the assistance of refugees."

As reported in paragraph one of the Embassy's telegram No. 336, March 15, 7 p.m., the Prime Minister made a similar statement in the House of Commons on the same day.

Respectfully yours,

For the Ambassador:

HERSCHEL V. JOHNSON
Counselor of Embassy

WWB/jc

LONDON, June 1, 1939.

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No. 2776

SUBJECT: Czechoslovak Assets in the United Kingdom.

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to report that the replies given by the Prime Minister and the Chancellor of the Exchequer to questions regarding the administration of the Czechoslovak (Restrictions on Banking Accounts, etc.) Act, 1939, which were set forth in despatches No. 2731 of May 23, and No. 2742 of May 25, 1939, evoked sufficient criticism to cause the issues to be raised on the adjournment of the House of Commons for the Whitsun recess. There is enclosed the Hansard text of the debate which took place

on

-2-

2/ on May 26, together with the summary of the debate that appeared in the Manchester Guardian of the following day which is not only a fair analysis of the course of the debate but accurately represents the reaction of the House of Commons.

The real significance of the debate lies not in the particular issues surrounding the ownership of the gold belonging to the Czech National Bank but held in London in the name of the Bank for International Settlements, but in the demonstration that the House of Commons gave on this occasion of its changed attitude to Germany. And at least in this matter the House of Commons truly reflected British public opinion which has hardened immeasurably since the Munich agreement. On the other hand, appeasement in one form or another or for one reason or another is still current in the thoughts of the British Cabinet but the rank and file supporters of the National Government in the House of Commons and the British public in general are less and less disposed to compromise by concession. And due to the extent of the inspired propaganda as to the rapidity of British rearmament the need for compromise concessions is no longer held necessary. Therefore, at some point this divergency of attitude between the head, the body and the tail may cause trouble.

In this general connection it is perhaps useful to review the antecedents of this Czech gold affair. As reported in No. 374 of March 20, 6 p.m. the British Treasury decided to impound the Czech assets in London because they "did not propose to repeat their experience over Austria, namely, to turn over all assets in effect to the German

authorities

Regraded Unclassified

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authorities and then have to make a play without these trump cards for the settlement of obligations to British nationals". It so happened that these obligations to British nationals included unfulfilled British Government orders to Czech munitions firms for guns, gun steel and armor plate. On these, in accordance with standard European munitions practice, one third of the purchase price had been paid on the signing of the contracts. Hence, the British Treasury had immediate practical problems which required energetic action and it was motivated by these considerations and not ideological or political concepts in impounding Czech assets in the United Kingdom.

Furthermore, as regards the gold of the Czechoslovak National Bank held in the Bank of England in the name of the Bank for International Settlements, aside from the legal position, which as pointed out in despatch No. 2731 of May 23, 1939, obviously gave the gold immunity from seizure, the British Government had no desire unnecessarily to irritate Germany by bringing pressure to bear on the Bank for International Settlements to require a decision from, say, the Swiss Courts or the International Court at The Hague before releasing the gold. The French Government apparently took a different view and I am reliably informed unsuccessfully urged the British Government to take such action. Thus, this further illustrates the fact that in impounding the assets in the United Kingdom held in the name of Czech banks, firms or individuals, the British Treasury was motivated by matter of fact considerations. But such is the rising tide of British public opinion that it interpreted the Treasury's move as retaliation against German aggression

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aggression, as a means of effecting "Not-a-Penny-for-Hitler". When the real motives of the Treasury began to be unconsciously revealed through the inept answers given in the House of Commons on May 22, 23 and 24 and reported in the despatches referred to above, then the political pot began to boil.

The Cabinet became concerned about the matter, particularly since the controversy descended upon them rather unexpectedly. Mr. R. A. Butler, the Parliamentary Under-Secretary for Foreign Affairs was even recalled from the League meeting at Geneva and had some difficulty in persuading Sir John Simon, who is sufficiently ambitious to wish to avoid unnecessary difficulties, that the controversy was overwhelmingly a Treasury matter. Sir John Simon made the defence for the Government, and a very humble and conciliatory one it was. After explaining at some length that neither he nor the Prime Minister had intended deliberately to mislead or deceive the House of Commons by their previous statements he emphasized the special and non-political character of the Bank for International Settlements at great length and postponed the embarrassing specific financial questions to a later date.

He also gave an assurance in the matter of de facto recognition of the annexation of Bohemia and Moravia, which, in view of our own interest in this matter, is quoted below:

"There is the question which is more of a Foreign Office question perhaps, than a Treasury question and has to do with the appointment of a consular representative in Prague. Prior to 15th March we had in Prague at our Legation our Minister as diplomatic representative. Since then the question has necessarily arisen how we are to arrange

matters

Regraded Unclassified

-5-

matters in view of the annexation of Czechoslovakia to the German Reich. The diplomatic representative could not continue, because the German Government had required that after 25th May diplomatic representatives in Prague should not enjoy extra territorial rights which they had previously been allowed to enjoy. As regards the Legation, we are withdrawing our Minister, and certain other Governments, notably the U.S.S.R. and the United States, have already withdrawn their Legations under similar notice and have left for the time being consular representatives to look after their interests. To leave our own diplomatic representative, that is the Minister, in Prague after he had ceased to have diplomatic status and privileges would be an absurdity. He would merely be a private person. The Legation was closed yesterday, and, as my right hon. Friend the Prime Minister informed the House on Wednesday, the British interests in Bohemia and Moravia are now in charge of the British Vice-Consul.

"Then comes the question about the presence in that area of the British Consul. The German Government, in their communication, said that Consular representatives in both provinces would cease to be recognized on and after 20th June unless, in the meantime, the Consul obtains the exequatur of authority. The House, no doubt, knows that that is the form of document which gives the consul his authority. It is under that that he is entitled to take under his wing British subjects that need protection or representations to be made. It also entitles him to send his official bag and to use a cipher and to send information to the Government. As has already been referred to, in a case like Prague a very important matter is that in connection with refugees. The question which has to be considered is, what our action should be in that situation. It would be no use leaving anybody in Prague unless he had consular authority. Where we do have consuls, they enjoy official recognition, and we want them to give all the services they can render to us and to British subjects or to refugees or whoever they may be. It is not a compliment to any Government that there is granted an exequatur. It is not necessary that this point should be decided instantly by the British Government, and I now state to this House that we shall not make that decision until the House resumes. It is not intended to make it during the recess.

It

"It will be appreciated that there are in fact considerable British interests that we have at least to bear in mind. I was not myself aware that the Prime Minister's words on Wednesday were to be understood as contemplating any de jure recognition at all. Certainly, as far as my information goes that is not what is in contemplation at all, but no doubt it is the fact that, if our Consul gets the exequatur which he must get by 20th June, it might be called a de facto recognition of German authority. That is exactly the problem, and I am merely stating it. I might remind the House that this difficulty has arisen before. For instance, in the case of Abyssinia. The British Consul there from the very early stages of the Italian invasion received the Italian exequatur long before there was any question of de jure recognition. The same thing, I am informed, was true of Austria. Therefore, as far as precedents go, I do not think it is very surprising that it has been found possible to secure the protection of British interests in these areas without making the de jure recognition of these new powers.

"Mr. Alexander: The de facto recognition of the Consul in Austria and Abyssinia followed as night follows day, as events proved, but in Manchukuo we have heard of no report of any serious damage to British interests, nor has the British Government up to the present given de facto recognition.

"Sir J. Simon: The actual question now is as to our consular representative at Prague. The question is under consideration, and we are in consultation with other Governments about it. I can give the House an assurance that no relevant action will be taken about the matter until the House resumes.

"The right hon. Member for Hillsborough (Mr. Alexander) has just referred to another matter, on which I have some responsibility. It is true that in that case the British Government and the then Foreign Secretary secured at the League of Nations the adoption of the principle that there should not be acknowledgment or recognition of a conquest or annexation which had taken place in breach of the Covenant or the Kellogg Pact. It was I as Foreign Secretary who proposed that at Geneva, it was I who got it carried by the League, and I received the thanks of the American Government for doing so. Therefore, I am perfectly familiar with the precedent. I am, however, bound to say that I do not think anybody would agree that the everlasting exclusion of British consular assistance in an area would be in the interests

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of British trade. I noticed the point of the right hon. Gentleman, which was that one must perhaps draw a distinction between some sudden, immature acknowledgment of a situation which takes a new shape, which may be an action which we repudiate and deplore and which becomes a portion of a more permanent structure. The case of Manchukuo is an instance, the only instance so far as I know, of almost a general decision not to recognise a changed Sovereignty which has been brought about by means contrary to the Covenant."

(Hansard, May 26, 1939, Cols. 2767-9)

Respectfully yours,

For the Ambassador:

Herschel V. Johnson
Counselor of Embassy

Enclosures:

1. Parliamentary Debates, Hansard of May 26, 1939, Columns 2713-2772, in quintuplicate.
2. Article from the Manchester Guardian of May 27, 1939, entitled "M.P.'s Criticise Transfer of Czech Gold to Germany", in quintuplicate.

WWB/JC



a view to supplying official information to supplement that already given in the National Service Handbook, and in the Press from time to time?

Mr. E. Brown: I have been asked to reply. The supply of information for persons who are anxious to participate in National Service but are uncertain in what capacity they can most usefully do so is a matter in the first instance for the National Service Committees established in each locality. In London, a Central Information and Recruiting Bureau has been in operation experimentally for the past five weeks; and National Service Committees have recently been invited to consider whether similar bureaux might usefully be opened in their respective localities.

LAND ARMY VOLUNTEERS.

Sir R. Glyn asked the Minister of Agriculture whether he can arrange for the names of those who entered their names in the National Register for service in the land army to be communicated to the appropriate authority in each county so that a scheme may be devised for such persons to have the opportunity to volunteer to obtain experience in assisting to carry this year's harvest under proper wage conditions laid down by the Wages Board?

Sir R. Dorman-Smith: If my hon. and gallant Friend will refer to the National Service Handbook, he will see that women were invited to enrol in the Women's Land Army to undertake farm work in the event of war. As stated in the reply which I am giving to-day to my hon. Friends the Members for Tamworth and Leizes respectively, arrangements are being made to provide training facilities for Land Army volunteers in time of peace. While the primary objective of such training is an addition to the agricultural labour supply available in time of war, there is no objection to any member of the Women's Land Army undertaking farm work in peace time

under the usual conditions applicable to agricultural employment.

AGRICULTURE.

DERELICT LAND CULTIVATION.

Mr. W. R. Duckworth asked the Minister of Agriculture whether he has any statistics showing the extent to which farmers without any subsidy are clearing semi-derelict acreage for the purpose of cultivation; and, if so, whether he can give any details?

Sir R. Dorman-Smith: I regret that the information is not available.

SHEEP, OATS AND BARLEY (STATISTICS).

Mr. Lambert asked the Minister of Agriculture what was the number of sheep and acreage of oats and barley in the United Kingdom for each of the last five years?

Sir R. Dorman-Smith: The following statement gives the number of sheep and the acreages of oats and barley in the United Kingdom as returned by the occupiers of agricultural holdings in June in each of the last five years.

Year.	Sheep.	Oats.	Barley.
	Number.	Acres.	Acres.
1934 ...	24,943,828	2,498,301	959,282
1935 ...	25,061,719	2,518,221	871,272
1936 ...	25,040,177	2,513,692	893,999
1937 ...	25,540,905	2,298,830	906,420
1938 ...	26,775,421	2,395,016	987,857

BRITISH ARMY (RECRUITS, VACCINATION).

Mr. Groves asked the Secretary of State for War whether the paragraphs of the Regulations for the Army Medical Service regarding the vaccination of recruits after reaching the depot will be altered to meet the case of conscripts, who cannot be compelled to be vaccinated?

Mr. Hore-Belisha: Any necessary alteration of regulations will be made.

B

ADJOURNMENT (WHITSUNTIDE).

Resolved,

"That this House, at its rising this day, do adjourn till Monday, 5th June; provided that if it is represented to Mr. Speaker by His Majesty's Government that the public interest requires that the House should meet at any earlier time during the Adjournment, and Mr. Speaker is satisfied that the public interest does so require, he may give notice that he is so satisfied, and thereupon the House shall meet at the time stated in such notice and the Government Business to be transacted on the day on which the House shall so meet shall, subject to the publication of notice thereof in the Order Paper to be circulated on the day on which the House shall so meet, be such as the Government may appoint, but subject as aforesaid the House shall transact its business as if it had been duly adjourned to the day on which it shall so meet, and any Government Orders of the Day and Government Notices of Motions that may stand on the Order Book for the 5th day of June or any subsequent day shall be appointed for the day on which the House shall so meet; provided also that in the event of Mr. Speaker being unable to act owing to illness or other cause, the Chairman of Ways and Means, in his capacity as Deputy-Speaker, be authorised to act in his stead for the purposes of this Resolution."—
[Sir J. Simon.]

CZECHO-SLOVAKIA.

Motion made, and Question proposed,
"That this House do now adjourn."—
[Captain Margesson.]

11.33 a.m.

Mr. A. V. Alexander: On Wednesday of this week my right hon. Friend the Leader of the Opposition gave notice that he would to-day raise the question of the possible consideration by His Majesty's Government of the recognition of the existing situation since the aggression of Germany in Czecho-Slovakia. I would remind the House that on Wednesday the Prime Minister was asked by the hon. Member for Norwood (Mr. Sandys) to give an assurance that no recognition would be given to the annexation of Czecho-Slovakia by Germany without this House being first consulted, and the Prime Minister replied that he could give no such assurance. Obviously, that answer caused very great concern to hon. Members on this side, and my right hon. Friend asked whether the Government were contemplating such action. The Prime Minister then replied, rather cryptically, that the matter was being considered. When he was further pressed, he said that the House would have its own way of expressing its approval, and

I hope that hon. Members, not merely on this side, but in all parts of the House, will feel that it would also have its own way of expressing its disapproval. It can do so either by formal vote, when there is an actual Resolution before the House, or by allowing its feelings to be expressed on such an occasion as this, when we raise the matter in questions to the Government. I hope that Members of the House, whatever their party may be, will give the Government to-day a clear indication of their view of this matter which is causing us so much anxiety. It is necessary before we go any further to remind ourselves of the views which were expressed by leading Members of His Majesty's Government as soon as the latest aggression in March against Czecho-Slovakia by Germany had taken place. I think I might quote first the statement made by the Secretary of State for Foreign Affairs. On 20th March he said:

"We have protested against the changes effected in Czecho-Slovakia by German military action and have said that in our view those changes are devoid of any basis of legality."

That was a very authoritative and clear statement by the Secretary of State for Foreign Affairs. In a subsequent passage in his statement on that day, he said:

"We are confronted with the arbitrary suppression of an independent sovereign State by force and by the violation of what I must regard as the elementary rules of international conduct."

That, again, was a most powerful statement of what I think was the proper view for His Majesty's Government to take of the situation. What concerns us now is something which was summed up in a short subsequent phrase in the same statement by the Secretary of State. I remember as I was listening to him at the time that he said:

"Every country which is Germany's neighbour is now uncertain of the morrow."

I submit that to-day, in view of the failure of the Prime Minister to satisfy the House on this point on Wednesday last, every one of those countries will be more uncertain of the morrow. To-day ought to be an occasion when we can get a statement—at least I hope we can—from the Government that no such action as some of us fear may take place will, in fact, be put into operation. I should like to support what I have quoted from the Secretary of State for Foreign Affairs by references to the statements of the Prime

Minister himself. We were all disappointed with the tenor of his statement in the House on 15th March while the actual operations were still proceeding in Czecho-Slovakia. It is partly his attitude that day which make us fear what his actions may be. I recall that he said:

"It is natural that I should bitterly regret what has now occurred, but do not let us on that account be deflected from our course."

What some of us fear is that, as has happened on many occasions in the conduct of foreign affairs since the Prime Minister took executive power in that department of the Government's activities in this House, he may again wobble from what is the proper course for this country to take. After great pressure from people of all parties in this country the Prime Minister two days later made a speech at Birmingham. Then he made one or two statements which, I think, will strongly reinforce our contention this morning that there should be no consideration even given to the question of the recognition of the state of affairs in Czecho-Slovakia. The Prime Minister made use of statements of this character at Birmingham on 17th March. He expressed indignation that hopes had been wantonly shattered. He said that Hitler had taken the law into his own hands. Surely that is not a basis for considering recognition now. Then he asked these questions which are extremely important:

"Is this the last attack upon a small State, or is it to be followed by others? Is this, in fact, a step in the direction of an attempt to dominate the world by force? These are grave and serious questions. I am not going to attempt to answer them to-night."

ROYAL ASSENT.

Message to attend the Lords Commissioners;

The House went; and, having returned;—

Mr. SPEAKER reported the Royal Assent to;—

Military Training Act, 1939.

CZECHO-SLOVAKIA.

Question again proposed, "That this House do now adjourn."

11.50 a.m.

Mr. Alexander: When the Debate was interrupted I had just been saying that

No. 111

the Prime Minister had made a statement at Birmingham which was of very great importance in its expression of view with regard to the action of Germany in suppressing Czecho-Slovakia, but that he had not answered the questions which he had put in that statement. Since that date the Prime Minister and his colleagues in the Cabinet, without giving a verbal answer to the questions, have undoubtedly by their arrangements with Poland, Greece, Rumania and Turkey, and their negotiations with the U.S.S.R., given what seems to be a practical answer to the problem of having reasonable safeguards for the future. Now after the statement of the Prime Minister on Wednesday we are once more disturbed lest those very actions which have been taken partially in answer to the questions which the Prime Minister postulated will, in fact, detract from those measures and lessen the degree of security that we all want to see.

Therefore, we submit to-day that not only should the Government not give actual recognition to the annexation of Czecho-Slovakia, but ought not even to consider it. It is not necessary for us to set out at length the tragic story of Czecho-Slovakia. The bare fact is that the German Government, having tricked the Czechs into surrendering one of the strongest strategic positions in Europe, subsequently without a shadow of right annexed the whole country and brought to an end, to quote the words of one of His Majesty's Ministers, "the existence of a sovereign State." This was done despite the agreement which had been come to between Herr Hitler and the Prime Minister himself at Munich. It was also done in defiance of the guarantees given by His Majesty's Government to the Czech Government, on the faith of which the Czech Government made their surrender in the interests of European peace. The British Government made, in fact, no effort to redeem its pledges with regard to those guarantees, and many people to-day regard the Government as being in the position of a defaulting guarantor.

Therefore, in my view it is unthinkable that they should now propose to recognise the action of Germany. I would go further and say that even from the point of view of his own self-respect I should have thought the Prime Minister would not even have considered it. But, after

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[Mr. Alexander.]
all, there is something at stake far more important even than the self-respect of the Prime Minister. Such recognition, if it were to be given, would be, in our view, entirely contrary to the principles of the League of Nations.

On sundry occasions in the past few years those principles have been abandoned by the Government, but we had begun to hope that they had really learned their lesson. We thought that the tragic dismemberment of Czecho-Slovakia and the ruthless acquisition of Albania by the other dictator had at last put a stop to a policy of so-called appeasement by complicity in illegality and violence, and that there was to be a return to the principles upon which alone can there be civilised intercourse between nations.

The formation of a peace front which we understand, or we hope we understand, is almost completed, surely implies a return to the conception of the rule of law instead of the reign of anarchy. No doubt hon. Members have noted the speech made by the Secretary of State for Foreign Affairs at the Council of the League of Nations at Geneva during the past few days. I take a few words from it:

"One principle is common to all these obligations that we have assumed, namely, resistance to the imposition of a solution by the method of force which, if continued, must result in reducing civilisation to anarchy and destruction. Everything that the Government have done is in strict conformity with the spirit of the League Covenant."

Can any of us really maintain that the recognition of Germany's annexation of Czecho-Slovakia is in accord with the spirit of the League?

The more one considers the actions of the Prime Minister in these matters, the more they give ground for the gravest suspicion. From time to time the right hon. Gentleman does not appear to be following wholeheartedly the new orientation, as it has been called, of foreign policy, which is a return as far as may be and as quickly as possible to the principle of collective security. From the manner in which the Prime Minister treats these matters I doubt very much whether he appreciates the importance of the rule of law. In fact, it has been suggested that in these international matters the Prime Minister has pronounced recidivist tendencies, because he is constantly seeking to return to the

company of the law-breakers in the hope that by his return he may appease them in their actions. It is curious that in all the discussions and statements about the U.S.S.R. the Prime Minister has, apparently, not been prepared to let a single friendly word pass his lips in relation to that country, but nevertheless he sends his Ambassador to the victory march of General Franco to watch the parade of Italian troops, who are still in Spain in violation of the pledges which were given to him directly by the Italian Government. The right hon. Gentleman now seems to hanker after recognition of the Czecho-Slovakian conquest. Is it not plain to Members of the House that such backslidings from the proposals to return to collective security must depress the friends of peace abroad? At best they are examples of the hawing and dithering which have in the opinion of a Member of the Government, characterised Government policy in another matter.

I ask the Chancellor of the Exchequer when he replies to this Debate to consider also the actual legal position. I have tried to put before the House what I feel is the right political position which we ought to adopt in this matter, but there is also the legal position. I cannot possibly pretend to be in any sense an authority upon legal matters in international affairs, but there are open to us authorities at which we can look from time to time for our personal views, and quote if necessary. It is plain from such evidence as is available to us that if *de facto* recognition takes place, the British courts thereafter will have to give recognition to the validity of the action of the German authorities in Czecho-Slovakia. For no other reason than that, this House ought immediately to persuade the Government to refuse to consider *de facto* recognition. The other point I would bring to the notice of the Prime Minister is that there has grown up in the last few years in international law a clear recognition of a principle to be observed in these matters, which is that in this so-called non-recognition, there must be a definite act taken by way of resolving not to recognise. This is of fundamental importance in the post-War legal position of international relationships. The statement which was made by Mr. Simpson over the invasion of Manchuria by Japan was one of the precedents which will, no

doubt, be followed by other nations in such questions where aggression has taken place.

The effect of the principle will be that nations who are signatories to the Covenant of the League, or signatories to the Pact of Paris with the principles there laid down, must refrain from giving *de facto* or *de jure* recognition. I shall be glad if the Chancellor of the Exchequer will be good enough to look it up, because I think he will find there is another precedent in this matter to be found in the Treaty which was concluded in 1933 by the Latin-American States and to which, by the way, both Italy and the United States of America adhered. The Treaty stated that the high contracting parties recognised no territorial arrangements that were not obtained through pacific means, nor the validity of any occupation or acquisition of territory brought about by armed force. The Government would be well advised to reconsider the position from that point of view, and to make it plain to the House of Commons that they will not consider *de facto* recognition. The Prime Minister might argue in defence of recognition that the Covenant of the League cannot be held to mean that no change in the existing status of the members of the League can ever be made and that on grounds of practical politics it might be necessary to recognise changes made by armed force. It may be admitted that in the course of time international law may have to develop a rule corresponding to prescription, in order to validate a position which may have been wrong at its inception, but which has been *de facto* accepted for a long time.

In that matter I have been looking up what authorities were available to me, and I find in national systems of law that periods of prescription are legal for from 10 to 30 years when there has been no effective dispute concerning rights of possession. In the case of Czecho-Slovakia, that tragic victim of the failure of democracies to honour their bond, left in uncertainty and finally dismembered by a dictator, in spite of the Prime Minister's pledges to guarantee its boundaries, it is only two months since the final set of brutal aggression was performed. I therefore submit that there is no conceivable case for recognition by

analogy from rules of national law concerning prescription. I could quote many other authorities, but I hope I have made a sufficiently good case to obtain independent and sympathetic support from all parties in the House in respect of the question which should be put to the Government in this matter.

In the course of my remarks I have referred to other matters which have been present in the minds of some hon. Members, particularly the procedure which has taken place with respect to the Bank for International Settlements. I hope later on in the Debate that my right hon. Friend the Member for East Edinburgh (Mr. Pethick-Lawrence) will say a word or two on this question. In conclusion, I would say that if the British Government were to grant recognition to Germany over the annexation of Czecho-Slovakia at this time, such an action would be inconsistent with the Covenant of the League just at the time when the speech of the Secretary of State at the League Council this week has given us hope that we were more inclined to a sane view in these matters. Secondly, it would be impossible for such an action to be reconciled with the previous decisions of the Council and of the Assembly. Thirdly, it is contrary to international law as accepted by the American States; and, fourthly, it is impossible to justify on grounds of prescription. Such action will strike a very heavy blow indeed at the hopes we have of beginning to rebuild a proper recognition of international law. It is not justified by the actions of the Government in the past. They still have not recognised Manchukuo; we still hope they will not recognise Albania as a conquest of Italy; and I beg this House to make it clear to the Government to-day that it is strongly of opinion, in all parts of this Assembly, that the Government ought not even to consider recognition of this brutal aggression at this stage.

12.6 p.m.

Sir Archibald Sinclair: There is no doubt that the right hon. Gentleman the Member for Hillsborough (Mr. A. V. Alexander) has constructed a massive case in opposition to the proposal for the recognition of the German annexation of Czecho-Slovakia. I do not intend to follow him into the main aspects of that case, though I was the first to raise

[Sir A. Sinclair.]

the question in my speech on Friday of last week. To-day I wish to confine myself in particular to the possibility of the appointment of a consul at Prague, with the inevitable result that we should have to apply for an exequatur from the German Government in Berlin. The other important aspect of the question is, of course, that of the Czech balances in London, with which, I understand, my right hon. Friend the Member for Carnarvon Boroughs (Mr. Lloyd George) is going to deal in his speech, as he was the first to raise that question.

It seems to me that to apply for this exequatur to the German Government in Berlin and thus to recognise *de facto* German rule in Czecho-Slovakia, would be absolutely inconsistent with the main principle of His Majesty's Government's foreign policy, or, at least, the principle which they profess to have made the main principle of their foreign policy, namely, that of collective resistance to aggression. We are engaged, it seems to me, on a very dangerous enterprise—a very necessary enterprise, but a very dangerous enterprise—when we set ourselves across the path of these two dictators in Germany and Italy, and when we give guarantees to countries in Eastern Europe like Poland, Rumania and Greece. It is a very dangerous enterprise, and one which we shall not be able to bring to success without a tremendous national effort here at home, and without securing the loyal and confident support of a very large number of friends abroad. Anything which sows distrust between us and our friends in Europe and in other continents of the world must inevitably diminish greatly the chances of our success in this enterprise. I venture to say that the attitude of the French Government to this proposal of the appointment of a consul in Prague must be clear from the answer which was given to the Question of the hon. Member for Norwood (Mr. Sandys) this morning. It was quite clear from that answer that the French Government have so far refrained from appointing a consul in Slovakia. Although they were approached by His Majesty's Government, and were informed by His Majesty's Government of what they intended to do, they have neither appointed a consul themselves nor expressed any approval of the action of His Majesty's

Government in appointing a British consul at Bratislava.

Personally, as I said last Friday, I dislike the idea of this appointment of a British consul at Bratislava, but I can understand that a case can be made out for the appointment of a consul there, because there you are recognising, not some foreign Government, but this new Slovak Government, which is an independent and indigenous Government. For my own part I regard it as a puppet Government in the hands of the Germans, but I realise that it is possible to take a different view. It is, however, quite impossible to take a different view of the appointment of a consul in Prague. In that case you have to apply for your exequatur to the Government in Berlin, and that would necessarily involve recognition of the German annexation. This would undoubtedly have a very serious affect on opinion in France, and I believe it would have a very serious effect on opinion in the United States of America. I hope we shall have, in answer to the speech of the right hon. Gentleman the Member for Hillsborough, a declaration from the Government that they approve of the Stimson doctrine of non-recognition of the fruits of forceful aggression. I wish we could have that declaration. Nothing could be more likely to strengthen the understanding between ourselves and the United States of America than the making of such a declaration by His Majesty's Government. Moreover, the Czech legionaries have a very strong influence on public opinion in the United States of America and in Russia, and this contemplated action in regard to recognition of the German annexation in Czecho-Slovakia would swing the whole of that influence of the Czech legionaries against us in the United States of America, in Russia, and, indeed, in all Slav countries.

Moreover, what would the Germans think of it? In the last 12 months I have had a great many interviews with Germans, from *Gauleiters* on the one hand to refugees on the other, and a great many people in between those classes—and apart from the extremes on either side—the *Gauleiters* and the refugees, who take, of course, the extreme view on either side—moderate people in Germany, living there now, many of them in important and responsible positions, have said to me, "We are doubtful whether you, the democracies, are standing for

any real principle in the world. We know what principles we stand for, although many of us are shocked at the infringement of those principles when Herr Hitler invaded and annexed Czecho-Slovakia, but until then we felt confident of the principles for which we stand. But are you really standing for any principle of resistance to aggression? "Many of these moderate men have pleaded with me to use such little influence as I possess to strengthen the Government against any condonation of this annexation, and to make it clear that we do stand on the principle, not of protecting British interests, the British Empire and British possessions, but of protecting the world, including the British Empire, from the threat of aggression.

I would like to ask the Chancellor of the Exchequer what interests in Slovakia, in the first place, we are protecting by the appointment of this consul at Bratislava, and what are the interests that we should be protecting by appointing a consul in Prague? No doubt we have a certain amount of trade still with those countries, and these consuls would perform a useful function; and there are, of course, the interests of the refugees to be considered. I can quite understand, and I am not denying for a moment, that there are such interests, some of which would be very important interests; but I would ask the Chancellor of the Exchequer, can they really be weighed in the balance against the suspicion and uncertainty that would be aroused in this country and throughout the world if His Majesty's Government were to take any action which involved recognition of the German annexation. The Government have long been considering this question. As long ago as last Friday the Under-Secretary of State told me clearly that an application to the German Government for an exequatur would amount to recognition. He said:

"No decision whatever has been taken to ask for an exequatur from the German Government which would, as the right hon. Gentleman reminded us, amount to the *de facto* recognition of Bohemia and Moravia."—[OFFICIAL REPORT, 19th May, 1939; col. 1889, Vol. 347.]

There can, therefore, be no dispute about that, and the House is entitled now to an assurance, not that no consul will be appointed—that is not what I am asking for—not that the present vice-consul may not be continued in his func-

tions without the necessity for applying for any exequatur, and therefore without the necessity for according any *de facto* recognition. I can quite understand that points of that kind may require more consideration. What I am pressing for is an answer to this point. Will the Chancellor assure us that the ultimate decision will be one which will in no case involve recognition of the German annexation of Czecho-Slovakia?

The the question of consultation with Parliament has been raised. I fully recognise that the constitutional position is that the Government have a perfect right to recognise the annexation of Czecho-Slovakia without consulting Parliament, and we should have no ground for complaint. But politically that is not true. Politically it would be an act of the highest and gravest significance if the Government did that. Politically the Government have no right to commit this country to condonation of a crime without consultation with the representatives of the people. The Prime Minister, for example, recognised the political aspect of a similar question when in the House of Commons in November last he referred to the terms of the guarantee of the frontiers of Czecho-Slovakia. He ended a passage of his speech by saying:

"Of course, before anything was settled the terms of such a guarantee and the names of those taking part in it would be brought before the House."—[OFFICIAL REPORT, 1st November, 1938; col. 79, Vol. 340.]

Obviously, because it was a matter of such very grave consequence. But so is this and, if it was right then to give that assurance to the House of Commons, it is right now to give us the assurance for which we ask, that no such departure in policy will be made without consulting the House. If we are going to carry to a successful conclusion this hazardous enterprise of collective resistance to aggression, we must be prepared to make some sacrifices of financial interest, of economic advantage and of commercial convenience to the main purpose of rallying the world forces of resistance to aggression. To recognise the annexation of Czecho-Slovakia would be to poison the relations between those who are engaged together on this great enterprise. I beg the Government to give us the assurance that whatever action they may take to protect our interests or to help the refugees—

[Sir A. Sinclair.]

I am not asking them to tell us exactly what that action may be—will not involve recognition of the German annexation of Czecho-Slovakia.

12.20 p.m.

Mr. Gurney Braithwaite: We have just listened to two right hon. Gentlemen and, according to all accounts, we are shortly to listen to three more. I hope the House will pardon an intervention from a back bench. I can assure them it will be of the brief character that we were told yesterday should characterise our proceedings. I have no knowledge of the diplomatic niceties of these matters such as is possessed by many right hon. Friends, but I want to put a layman's view of the present situation, which is that this country should withhold recognition, either *de facto* or *de jure*, for a lengthy period, as an indication of our indignation and abhorrence at this annexation of Czecho-Slovakia. From a logical standpoint however—although logic is not everything in these matters—it seems to me difficult to withhold indefinitely recognition in these circumstances unless one is prepared by force to restore the *status quo*. Those who take that view must be prepared in the event to go to that extreme. But I hope that in the present situation there will be no question, for at least a very considerable period, of any such recognition either *de facto* or *de jure*.

The right hon. Gentleman the Member for Hillsborough (Mr. Alexander) touched upon certain financial consequences arising from this matter, and it is upon this that I should like to say a word. It affects the situation which has arisen in connection with the Bank for International Settlements in connection with Czech deposits. I think we should do well to remember—what is often forgotten in these days when economic theorists flourish—that the primary function of the banker is to take care of his depositors' money and to produce it when required. Even if the bank manager knows that it is being withdrawn for mischievous or even immoral purposes it is still his duty to produce the cash as and when required. It is true of the Post Office Savings Bank, of joint stock Banks and even of the International Bank in its crudest form. [Interruption.] I was trying to give the actual situation, but I do not

think my hon. Friend will quarrel with that definition of the primary function of the banker which in these days is so often forgotten. In the particular case under review, we have the Bank for International Settlements established at Basle to perform certain functions, notably the handling of the very difficult technical problem of passing reparation payments across unstable and fluctuating exchanges. It is, in fact, an example of internationalism *de luxe*.

I should like to indicate some of the consequences which have resulted from this attempt to operate the international theory in this case. I think a parallel exists in the military situation. I remember very well immediately after the War coming home, very thankful to be alive, and being sternly rebuked for suggesting that a simple continuation of the war-time alliance was the best method of preserving peace on the Continent of Europe. I was told that that method was out of date and that all hopes were now centred in the new peace experiment, the League of Nations, and that if only the requisite number of genuflexions was made at the mention of the word "Geneva" and the formula "collective security" repeated with sufficient conviction, all would be well. I felt that that was an experiment which must be tried, and I think this country was right at the time, under the leadership of the right hon. Gentleman opposite, to enter the League of Nations and to make an attempt to operate it. But today the wheel has gone full circle, and this has a bearing on the financial situation. After denouncing alliances as being out of date, the Government are now being urged, impatiently and stridently, by hon. Members opposite to enter into military alliances with the least possible delay with various totalitarian and semi-totalitarian States in order to resist the challenge that is being made by other totalitarian States.

Sir A. Sinclair: Do you approve of it?

Mr. Braithwaite: Certainly, I support that policy. I am trying to say—if the right hon. Gentleman will be patient—that after the War I felt that the system of military alliances was one which might well have been continued, but I felt that the League of Nations system should be tried. The wheel has now gone full circle, and I feel that we should support the system of the balance of power in Europe.

Mr. Churchill: Would the hon. Member agree that the policy might be linked up with that of the League of Nations?

Mr. Braithwaite: If it is possible to have the best of both worlds, I have no objection. The right hon. Gentleman has great experience of League matters. I prefer to lean rather more heavily on the military side of the arrangement than on the Geneva atmosphere or technique, but he has more experience on the subject than I have. The international financial machinery has been set up, and there is some discontent and considerable discomfort because it is not functioning in accordance with the wishes of Britain and France. I do not think I am unfair in saying that, at least in this House, at the moment internationalism is being interpreted as the fulfilment of democratic aims. I welcome that new definition, but I doubt whether this facade can be prolonged logically or even fairly. In the financial, as well as the military sphere, we cannot be controlled at this period from either Basle or Geneva. I am one of those—and I hope the right hon. Gentleman the Member for Epping (Mr. Churchill) will at least allow me to say this—who hope that the League will be rebuilt, and rebuilt in our time, but I believe that that will have to be on the basis of economic co-operation, with many of the more sentimental clauses with which the League embarked on its career deleted.

I doubt very much whether the Bank for International Settlements has a useful function to perform to-day. I had the honour of being interrupted just now by my hon. Friend the Member for North Paddington (Mr. Bracken), who has had great experience in these matters, and who, through one of his organs, has been pressing this matter eloquently, and I think wisely, in the last few days. I agree with what he said about money being handed over under duress. That is the method employed in bank robberies, when insufficient staff is provided—a matter in connection with which I once presented a Private Member's Bill, which made no progress. But I want to make this final observation as the moral of this lamentable occurrence. I want to suggest quite seriously that the Bank for International Settlements has no longer a useful function to perform. It should be, I think, revived, if and when the League

is reconstructed, on the economic basis that I have endeavoured to indicate. At the moment it is a hotbed of intrigue. I believe that its winding-up would require a two-thirds majority of the Assembly—hon. Members will correct me if I am wrong. If that is not possible, there is another method of dealing with the matter. That is, to withdraw the British and French deposits from the Bank, which would have the *de facto*—if that is the correct term—effect of preventing a similar lamentable incident. I would humbly submit to the House that point of view, while apologising for standing between hon. Members and other Privy Councillors who want to speak.

12.31 p.m.

Mr. Pethick-Lawrence: The hon. Member for Holderness (Mr. G. Braithwaite) has opened up a very important question relating to the Bank for International Settlements. Therefore, perhaps it will be convenient to the House if I raise this matter on somewhat general lines, in order that the Debate may thereafter run both as regards the main issue of recognition by the Government and the subsidiary issue of what is to happen to the Czech currency. I should like to begin by a statement of what I believe to be the facts. If I state them incorrectly I hope the Chancellor will interrupt me. I understand the position to be that the Bank for International Settlements—commonly known as the B.I.S.—held certain assets for the Bank of Czecho-Slovakia, and deposited them in the form of gold with the Bank of England. A few days ago the authorities of the B.I.S. gave instructions to the Bank of England to hand those assets over to the German Reichsbank. This instruction either has been or is shortly to be obeyed.

The facts of this transfer were referred to on Friday last by the right hon. Gentleman the Member for Carnarvon Boroughs (Mr. Lloyd George), who, in his usual picturesque way, made certain comments upon it, and incidentally charged the Treasury with being a party to the agreement. The Prime Minister, speaking on that day, said that the whole story was a mare's nest, and added that the only releases that had been made were of relatively small sums to refugees in Czecho-Slovakia. Subsequently, in answer to questions, the Chancellor of the Exchequer and the Financial Secretary

[Mr. Boothby.] continuous contact between the Chancellor of the Exchequer and the Governor of the Bank of England. We imagine that the Governor sees the Chancellor of the Exchequer frequently and that they discuss all the aspects of financial policy. I once described the position of the Governor and the Chancellor of the Exchequer as corresponding to the position of the First Sea Lord and the First Lord of the Admiralty. The Governor tenders technical advice and the Chancellor of the Exchequer decides on policy, and between them they must make the thing work. It seems almost incredible that the Governor of the Bank of England, in close contact with the Chancellor of the Exchequer in so many ways, as the agent of the Treasury, did not mention this matter to the right hon. Gentleman about the transfer of some £5,000,000 or £6,000,000.

The position of the British directors on the Bank for International Settlements is a very invidious one if they are to proceed on their duties regardless of the Treasury. Such an invidious position leads one to think that we ought to examine the position of the Bank for International Settlements itself. I am by no means certain that this Bank has not long since ceased to fulfil a useful function or purpose. The main purpose for which the Bank was established, namely, to facilitate international transfers of funds can no longer be carried out in respect of many countries, and if it is to exist for the sole purpose of enabling transfers of funds to be made from the democratic States to the totalitarian States, which seems to be its main function at the moment, then the sooner it is wound up, the sooner our directors are withdrawn and our deposits withdrawn, the better for this country and for Europe. The Chancellor of the Exchequer would do well to consider the whole position of the Bank for International Settlements at the present time for, in the words of the hon. Member of Evesham (Mr. De la Bère), it is highly unsatisfactory.

We ought not to confuse the question of the recognition of the annexation of Czecho-Slovakia, either *de jure* or *de facto*, with any negotiations that may take place between the Treasury and the representatives of the Reichsbank with regard to the settlement of outstanding

claims on our side arising out of the blocked Czech assets in this country. It was made perfectly plain in the Debate on the Bill that British holders of balances in Prague in the form of cash or bonds and bona fide Czech residents in this country who have claims in respect to cash or bonds, ought to be compensated to the full out of the blocked assets that we hold in this country, before there is any question of transferring anything to the German authorities. Once those claims are compensated out of the assets that we now hold, thanks to the quick and resolute action of the Chancellor of the Exchequer, I should like the remainder of the assets to be put into a suspense fund and used for the benefit of refugees of one kind or another, and for the assistance of Czechs outside Czecho-Slovakia. In any case, I think the whole of this business might be facilitated and quickened by direct negotiations with the German Government, and in those negotiations we shall occupy a very strong position because we have in our hands very considerable sterling assets.

The only other point is that I believe the assets of the Czech banks which we hold in London should be treated as one unit with the Czech National Bank. Before the annexation these banks held their funds by permission of the Czech National Bank; they were included in the weekly statement of the Czech National Bank and could not be sold or transferred without permission of the Czech National Bank. I hope that in the negotiations with the German Government, which will take formal shape in the near future, we shall treat the assets of the Czech Bank held in London as one unit, and I hope that in his negotiations with the Germans the Chancellor of the Exchequer will not give away the advantage that we have got, but that he will drive a hard bargain for the benefit of British claimants against Czecho-Slovakia and for the benefit of Czech residents here who may have claims and who are desperately hard up at the present time.

12.49 p.m.

Mr. G. Strauss: I should like to follow the main line of argument which has been adopted and to ask the Government a few questions. The first question is in regard to the Prime Minister's statement last Friday, when he said that the statement

made by the right hon. Member for Carnarvon Boroughs (Mr. Lloyd George) was a mare's nest. I should like to draw the attention of the House to the fact that the Government spokesmen in trying subsequently to explain away that remarkable statement of the Prime Minister have been contradictory. I should, therefore, like them to try and explain away those contradictions. It will be remembered that in answer to a Supplementary Question which I put on the Tuesday asking why it was that the Prime Minister said that the story, which we now know to be substantially true, was a mare's nest, the Financial Secretary to the Treasury said:

"I should like to make it clear that my right hon. Friend (the Prime Minister) has no means of knowing whether the facts are, or are not, as stated by the hon. Member for North Lambeth (Mr. G. Strauss)."—[OFFICIAL REPORT, 22nd May, 1939; col. 1928, Vol. 347.]

My question was whether the Czech balance in the hands of the Bank for International Settlements deposited in London would be handed over. The Financial Secretary to the Treasury said that the Prime Minister had no means of knowing whether that had happened and that consequently he was justified in his ignorance of the matter. However, the next day the Chancellor of the Exchequer said:

"I should like to make it plain to the House that the Treasury did hear indirectly that it was believed that the German Reichsbank was trying to get from the Bank for International Settlements an amount of gold with which it had been entrusted by the Czech National Bank."

Sir J. Simon: Surely that is a different thing.

Mr. Strauss: I do not think so. First, the Financial Secretary says that the Government cannot know anything about it in the circumstances, and then the Chancellor of the Exchequer, the next day, says: "As a matter of fact we did hear about it, and not only did we hear about it but we made investigations. There is a very obvious contradiction in the statement of the Financial Secretary and that of the Chancellor of the Exchequer, and the House is entitled to a further explanation of the matter. We on this side of the House are particularly suspicious in regard to this matter, because we have been accustomed in the last year or two to answers from the Treasury Bench on

questions we have put, particularly in regard to Spain, where it was evident that the Government have been much more anxious to withhold information which was in their possession than to give it to the House of Commons.

Let me come to another point, which was dealt with by the hon. Member for East Aberdeen (Mr. Boothby) and my right hon. Friend the Member for East Edinburgh (Mr. Pethick-Lawrence) namely the position of Mr. Montagu Norman and Sir Otto Niemeyer on the Board of the Bank for International Settlements. The Chancellor of the Exchequer said:

"It is certainly not the fact that the Governor of the Bank of England reports to the British Government on a matter of this sort. It is a mistake to suppose that the Governor of the Bank of England serves on the Board of the Bank for International Settlements as a nominee of the British Government."—[OFFICIAL REPORT, 23rd May, 1939; cols. 2089-90, Vol. 347.]

Then whose interests does he represent on the Bank for International Settlements? Is it seriously suggested that he is merely the representative of the interests of the shareholders of the Bank of England? Nobody in this country and nobody in any other country would swallow that story. He is obviously there as the representative of the Government. Yet on a matter so directly and seriously affecting the national interests of this country and affecting possibly the lives of many people in this country—for this money which is going to Germany is used mainly for the purpose of building up their armaments—we are told that Mr. Montagu Norman does not even report on the matter to the British Government. If that be so, I suggest that it is an intolerable situation. If that is really true, and if the Governor of the Bank of England and Sir Otto Niemeyer sit on the Board of the Bank for International Settlements either in their personal capacity or as representing the shareholders of the Bank of England, then that is the strongest argument that has ever been put forward for the nationalisation of the Bank of England and for making the Governor of the Bank of England the servant of the British people. Indeed, we are always told by hon. Members opposite, when we argue that case, that in point of fact the Bank of England is in matters affecting the financial interests of this country the agent of the Government, but in a

[Mr. Strauss.] critical matter of this sort we find that the directors not only do not follow the instructions of the Government here but do not even bother to report back to the Government matters of immense national interest.

I want to put a further question about the actions of Mr. Montagu Norman and Sir Otto Niemeyer on the Board of the Bank for International Settlements. I want to ask whether they considered at any time the transfer of this Czech money from England to the United States of America? The United States did not sign the agreement which was signed by this country and, therefore the deposits of the Bank for International Settlements would not be immune from confiscation, or seizure or temporary restraint, in the United States. I should have thought that these directors on the Bank for International Settlements, if they thought there was a slightest danger of the money in London being taken by Germany, might have thought it desirable to transfer the money to the United States. If it is argued that the directors of the Bank of England acting on the Bank for International Settlements are in a minority position and that the Bank for International Settlements is under the influence, as has been alleged, at the moment of the Fascist countries, that again is an unanswerable argument for the abolition altogether of the Bank for International Settlements.

The next point I want to put is, could the British Government, taking into account the Protocol and British law, and knowing the facts, have stopped the transfer of this money to Germany? I suggest there are two grounds on which they could have done so if they wanted. In the first place, it is clear that the Bank for International Settlements was put under duress by the German Government. There was, in fact, considerable opposition to this move. I understand that influential Czech circles pressed that the transfer should not take place, but the demand was made, and acting under duress the Bank for International Settlements felt that they had to give way. I am not a lawyer, but I understand from some of my legal friends that the law of Switzerland, as well as of this country, is that when a customer of a bank demands to take away a deposit which he

has placed with the bank and the bank knows that the customer does not want to do so, but is being forced to do so by a third party, the bank in those circumstances is entitled to keep the deposit and prevent it being taken away by the depositor and handed over to a third party.

I also understand, again from some of my legal friends, that if I have a deposit at a bank and the bank knows that the money I hold there is being kept for some other purpose, is in trust for some other party, and I give an order to the bank to deliver the money, which the bank knows I am holding in trust for some other purpose, to a third party, perhaps to pay to my bookmaker, if I have one, in those circumstances the bank is entitled not to part with that money when it knows that the deposit is held in trust. If customer A has a deposit at a bank and asks for the money to be given to Y, the bank, according to British law, can say "The money is held in trust for X, and therefore, we cannot allow it to be paid out to Y." I submit that the facts in this case fall into such circumstances. The Bank for International Settlements held this money in London in point of fact in trust for the Czech people. The Bank of England knew that; and the Bank for International Settlements then asked the Bank of England that the money should be handed over to a third party.

In these circumstances I think the Bank of England is running the danger of committing, if it has not actually committed, a breach of trust, and I am informed by my legal friend that the matter is open to considerable doubt, and that if he were advising the Bank of England he would certainly tell them not to part with the money. In view of the doubt which exists in this matter, I submit that the Government should have held the money back, pending action in the courts of law, or should have come to Parliament and asked for the direction of Parliament. If the Government had really been anxious to prevent this Czech money being handed over to Germany they had quite a good legal case for holding up the transfer until the legal aspect had been settled or until legislation had been passed by Parliament. But neither the Bank of England nor the Treasury seemed at all anxious to prevent this transfer of money; their chief concern seems to have been to

prevent the matter being made public to Parliament or the country.

What is the position now in regard to this money? I understand that the gold is still in the Bank of England, that it has not been taken away. If the Government really want to act in this matter in the direction in which I am perfectly certain the House wants it to act, it could still prevent that gold reaching the vaults of the Reichsbank by giving certain guarantees to the Bank of England and then putting through the necessary legislation. If the Government are anxious to prevent this money going to Germany, why do they not act? There is further a serious danger for the Chancellor of the Exchequer. One of these days it may be that an independent Czecho-Slovakia will arise and say to the Bank of England and to the British Treasury, "You held £6,000,000 of our money, but you handed it over to a third party without our permission. We want that money back." In those circumstances I am told that the National Bank of Czecho-Slovakia would have a very good case for demanding that the money should be refunded to the Bank of Czecho-Slovakia, and the British taxpayer would have to find the £6,000,000 in order to hand over to the bank of an independent Czecho-Slovakia. I hope that matter has not escaped the attention of the Chancellor of the Exchequer.

There is another very extremely important point. I want to ask the Chancellor of the Exchequer whether he will elucidate far more clearly than he has up to the moment what is the position of Czech balances which are being held here, quite apart from the issue of the Bank for International Settlements. What is the policy which the Government are pursuing in this matter? As far as I can see, they can pursue one of two policies. They can say that they are holding the money here in order that British nationals or institutions who have claims against Czecho-Slovakia shall be satisfied and that when those claims have all been fully satisfied, the balance will be sent back to the Czech National Bank, which in fact means to the German Government. That is one attitude that can be taken. The Government can look upon the deposit which they are keeping here under restraint as a negotiating instrument to satisfy British claims. On the other hand, they can look upon the money as being

held in trust for the Czecho-Slovak people and say that after the claims have been properly and fully settled, what balance there may be—and there may be a considerable one—will be kept here in trust for the Czecho-Slovak people and will in no circumstances be handed back to Germany where, as we know, it would be used for purposes quite contrary to the interests of the Czecho-Slovak people and those of world peace.

I hope the right hon. Gentleman the Chancellor of the Exchequer will make himself quite clear on the matter. From the statement that he made, it would appear that the Government contemplate making a general release to Germany of what balance there may be. On Tuesday, the Chancellor said that there will be no general release of the assets unless and until a satisfactory arrangement has been made in regard to the financial obligations of Czecho-Slovakia to British holders, from which one gathers, by inference, that when such an arrangement has been made there will be a release of the assets to the Czech National Bank and to Germany. I submit that this matter is of considerable importance not only to the people of this country, but to the people of the world. The people of the world are watching anxiously to see what is the foreign policy of the Government at the present time. If it appears that, in spite of all the pacts that have been entered into and the guarantees that have been made by the Government during recent months, they are continuing a policy of appeasing and satisfying the dictators by making sacrifices to those dictators at the expense of small nations, then I think the world will have little faith in any change of policy by the Government and will be convinced that the Government are continuing their old policy of appeasement.

Therefore, I think it is desirable, first from the point of view of the Bank of England, that the position in this respect should be clear. It may well be that the Bank of England, after what has happened, may no longer be looked upon as the safest place in the world and that the phrase "as safe as the Bank of England" may no longer apply. The Czech people and other peoples may look upon the Bank of England as being very unsafe, and the phrase may become "as unsafe as the Bank of England." The deposits of small countries may go to

[Mr. Strauss.] other countries, and not to the Bank of England, unless the Chancellor, even now, says that he will take what action he can to prevent money belonging to the Czecho-Slovak people and still in the vaults of the Bank of England, from going into the hands of a third party.

Secondly, this matter is very important from the point of view of the safety of this country. It would be a very serious thing if £6,000,000 of free money were handed over to Germany for the purchase of raw materials for armaments which might be used in some great war in which England and Germany were opponents, and which might result in the destruction of millions of lives in this country. Thirdly, from the international point of view and from the point of view of the confidence of countries such as the United States of America, Russia and the smaller countries in Europe, whose confidence we must have if we are to have any real peace pact against aggression, it is essential that we should make it abundantly clear that we are no longer pursuing the policy of appeasement and giving in to the demands of the dictators when they make them, not as a sacrifice from this country, but as a sacrifice from small countries which are unable to resist those demands. If we hand over to Germany any part of the Czech money that is held in this country, we shall be shaming ourselves, and such reputation as we may have gained during the last few months of standing up against aggression, will instantly disappear.

1.10 p.m.

Mr. Bracken: I agree with a good many of the remarks made by the hon. Member for North Lambeth (Mr. G. Strauss), but I think he rather exaggerated the dangerous position of this House in relation to the deposits of Czech money in the Bank for International Settlements. I think it is very unlikely that we should ever be asked to provide £6,000,000 to satisfy damages against the Bank of England as a result of a law case that was won by a Czech national. I believe that once there was an experience of that kind in connection with a debt of £3,000,000 of the Bank of England, and that experience proved conclusive from our point of view. I agree with what was said by the hon. Member about the "sealed lips" policy of the two directors of the

Bank for International Settlements who represent the Bank of England.

I am certain that my right hon. Friend the Chancellor of the Exchequer will give us an admirable legalistic defence of the British Government's arrangement with regard to the Bank for International Settlements' deposit. The Chancellor would be right in maintaining that the British Government have no power whatever over the deposits of the Bank for International Settlements, whether held in London or elsewhere. The Bank for International Settlements is what persons call a peculiar. It is a bank that was put outside the scope of the laws of the many countries which were its founders, so that the Government can make out a very good case for possessing no power over its deposits.

It is most distressing to learn that the British directors on the Board of the Bank for International Settlements did not think fit to inform the Treasury of the arrangement to transfer Czech gold to the Nazi gangsters who have bludgeoned and robbed Czecho-Slovakia. The Chancellor told us that he heard of it from an unofficial Continental source. I think my right hon. Friend has been very badly treated by the two directors of the Bank of England who sit on the Board of the Bank for International Settlements. I entirely agree with my hon. Friend the Member for East Aberdeen (Mr. Boothby) who described so well the relationships that exist between the Bank of England and the Chancellor of the Exchequer. My hon. Friend described the position as being that of the First Lord and the First Sea Lord. I have often wondered who was First Lord and who First Sea Lord—not, of course, in connection with the present Chancellor of the Exchequer, because now the Treasury have a much greater control over the goings on in the Threadneedle Street department of national financial affairs. But it is very hard indeed on the Chancellor that he should have to depend on an unofficial Continental source for information of such vital importance.

One of the directors of the Bank of England on the Board of the Bank for International Settlements, Sir Otto Niemeyer, is a former Controller of Finance at the Treasury. I presume that he has access to the Chancellor of the Exchequer, and would regard it as

his duty to consult with the Chancellor of the Exchequer—I should be very much obliged if my hon. Friend the Member for Southend-on-Sea (Mr. Channon) would not hold a discussion with his lord and master the Under Secretary for Foreign Affairs; I have no doubt he has important information to impart to him, but I suggest that he should do it outside the House. I am sure that the Chancellor will agree that Sir Otto Niemeyer and the other director read the Czecho-Slovakia (Restrictions on Banking Accounts, etc.) Act that was passed by the House. They would do so in their capacity as directors of the Bank of England. Surely, having read that Act, it must have occurred to them that they should mention to the Chancellor of the Exchequer that they, as directors of the Bank of International Settlements, knew that £6,000,000 of gold belonging to the Czechs was deposited in London, and also that the Germans were pressing for a return of that money.

They could have said: "We realise that the Chancellor has no legal power to tell us what to do, but in view of the fact that we did foster this Act, we should like to know the opinion of the Government on what our duty should be." I say that they should have gone further. I say that the two directors should not only have notified the Chancellor but should have gone to Basle and made the strongest possible protest. If their colleagues had attempted, in disregard of their views, to hand over this money to the Germans, they should have resigned from the Board and withdrawn the British deposits from the Bank. I say that these two British directors of the Bank for International Settlements are trustees for the unfortunate Czecho-Slovakians. They had a duty to those for whom they were trustees, those who had been bludgeoned by the Germans, to retain that money until they got a decision from the courts in Switzerland.

I do not agree with the hon. Member for North Lambeth that it is possible for the Bank of England to be sued in regard to this matter. I do not believe that it will be necessary for us to pass an Indemnity Bill to protect the Bank of England, but if I were a Czecho-Slovak who nourished the hope that the state of Czecho-Slovakia would one day be revived I should take some trouble under

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Swiss law to find out what my trustees did when the Germans attempted to get hold of this money. It might have been possible, through diplomatic negotiations, to have prevented the transfer of the gold until the Swiss courts had ruled on the legality of the German occupation. I think that is a sound point. It is also clear that the British directors of the Bank for International Settlements made no effort to protect those people, who had put their trust in them. Let us recognise that fact.

Mr. Boothby: Does my hon. Friend suggest that Mr. Norman and Sir Otto Niemeyer might in certain circumstances be held personally liable for this debt, under Swiss law?

Mr. Bracken: I am not a lawyer. [HON. MEMBERS: "Hear, hear."] The Chief Whip who is behind Mr. Speaker's chair says "hear, hear," which I suggest is out of order, but even gorgeously arrayed as he is to-day, I would say this to him. We all know that directors of any institution, whether in Switzerland or in England, who definitely break a trust with their depositors or shareholders, may be shot at in the courts. I do not believe it is possible that the Governor of the Bank of England or Sir Otto Niemeyer will be called upon to pay this £6,000,000. But I think they might be subjected to a good deal of what is known as legal mangling in the courts in Switzerland and I, personally, would like to see some mangling. It seems to me that they adopted the attitude, "The Nazis have got control of Czech bank balances by violence and we have to hand over the money to the gangsters who have broken into Czecho-Slovakia and seized the title deeds of the property of the Czechs." The directors of the Bank for International Settlements simply said, in effect, to the gangsters, "We realise that you are right." I think of these directors, it must be said that they came, they saw and they capitulated.

I ask the hon. Member for Holderness (Mr. G. Braithwaite) what would be the attitude of a British banker if a gangster came into his bank and attempted to cash a cheque signed by one of his customers, when he knew that that customer was under duress? It is perfectly clear that the banker would not cash the cheque, but would send it back

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[Mr. Bracken.]
for further and better particulars, and communicate with the police. He would go in for all sorts of delaying processes in the hope that the man who was held under duress might escape. That is the sound line to take in such a case. The Bank for International Settlements could, by engaging a lawyer to communicate with the Reichsbank, have started a correspondence which would have lasted two or three years. They would have been perfectly within their legal rights in starting inquiries into the real ownership of these assets. Nobody knows better than the Chancellor of the Exchequer how this can be done, provided you have the right kind of lawyer. Consider the irony of the position. The Bank for International Settlements, which was set up to facilitate international banking transfers and to promote good will in international relationships, is the bank which sanctions the most notorious outrage of this generation, the rape of Czecho-Slovakia.

I do not want to be very controversial. What I have said so far will lead no one to believe, I am sure, that I have been in any way over censorious of the Government. But now I propose to say a word or two about what the Prime Minister calls the "informal negotiations" which are going on between the Nazi German representatives of the Reichsbank in London and our Treasury officials. My hon. Friend the Member for East Aberdeen to my great surprise, blessed those negotiations. The Prime Minister is not so sure about them. He calls them "informal." What are the Government negotiating about? The assets and savings of the Czecho-Slovak people, lodged in London. With whom are they negotiating? One would imagine that it would be with the Czechs, but not at all. They are negotiating with the Nazis who garrotted Czecho-Slovakia and robbed her of her possessions. Those are the people with whom we are negotiating. Not one Czech is present at these negotiations. They created these assets, they own this property but they are not represented. The gangsters who came in and captured their country are those with whom the Government are negotiating. I am staggered by this idea of informal negotiations between our Treasury officials, whose austere head sits in this House and the representatives of such men. I

remember reading in the works of Dean Swift a criticism of the Irish bishops in the eighteenth century. Swift said it was very true that the bishops who were appointed to Ireland by a Government in England and, when they had been consecrated in London, left this city with the highest reputation for morality, scholarship and discretion. But, he added, it was evident that when they were crossing Hounslow Heath they were seized upon by highway robbers who stole their robes and went to Ireland in their place, and greatly discredited religion in that country. Somebody is trying to steal the clothes of the Chancellor of the Exchequer and of our Treasury officials in this Czech affair.

I have not attempted to make any calculation of what shall be left by way of surplus, but there should be a fairly substantial surplus when the rights of British claimants have been met, and I entirely agree with my hon. Friend the Member for East Aberdeen about the destination of that surplus. The object of these informal negotiations is clear. The Nazi bosses of Czecho-Slovakia are trying to get as much Czecho-Slovak money or assets as they can for transference to the Reichsbank in Berlin. What are they doing here otherwise? Does anybody think that they are sitting round a table here talking amiably with Treasury officials about the weather and the price of fowls? No, they are trying to get as much of these assets as possible to take back to Germany in order to buy various metals of war which will be required on the day when Messrs. Hitler and Company really believe that the major smash-and-grab raid is ripe for delivery. So that we at the present time, in London, are actively helping the German rearmament programme, and our Treasury officials are sitting round a table talking to people about stolen goods or about how much of those stolen goods should be given back to Germany in order to facilitate her rearmament programme.

Really, this is the most squalid form of appeasement. Political appeasement at the present time is, of course, out of the question. The by-elections and the various political developments in the last few months show that that policy at any rate is dead and damned, but some form of appeasement is still, apparently, dear to the heart of the Government, so they

go in for financial appeasement. But it is a very squalid form of financial appeasement, because they are appeasing the Germans with the money of the unfortunate Czechs. I think it would be a better form of financial appeasement to give them some of our own money—not, of course, that I am recommending any such action. I say that these informal negotiations, which may shortly become formal, are highly dangerous, and no one in this House approves them. I agree with the hon. Member for East Aberdeen when he says that if the public find out that not only are the Government now willing to recognise the German conquest of Czecho-Slovakia, but are also going to take the savings of the Czecho-Slovakian people and transfer them to Germany in order to facilitate her rearmament, there will indeed be as mighty an uproar as there was over the Hoare-Laval proposals.

1.28 p.m.

Sir John Wardlaw-Milne: It is one of the great advantages of the House of Commons that in a Debate of this kind we are able to hear both sides of a question. Therefore, my hon. Friend the Member for North Paddington (Mr. Bracken) will understand when I say at once that I think I disagree with at least three-quarters of what he has just said. Of course, I do not disagree with every word, and I appreciate, as, I am sure, did the whole House, the very breezy way in which he put his argument forward, but when he was dealing with the position of the British directors of the Bank for International Settlements, I am bound to say that I found it impossible to follow him. As I understand his argument, it is that two directors, being a small proportion of the total Board of the Bank for International Settlements, should have objected to that bank giving an order to the Bank of England to dispose of assets which did not belong to the latter, but to the Bank for International Settlements, and that, if they had found that the rest of their colleagues did not agree with them they should have made a public protest and resigned from the Board.

Mr. Bracken: I must say again that the point at issue is this, that the two British directors on the Bank for International Settlements were perfectly aware that the British Government had passed an Act, called the Czecho-Slovakia (Restrictions on Banking Accounts, etc.) Act,

and that the British Government would not recognise the Government of Czecho-Slovakia. They are two of the most influential directors of the bank and are regarded as its co-founders, and it was their duty to go to Basle and protest against this surrender of Czech assets and, if their colleagues would not take notice of them, they should have resigned.

Sir J. Wardlaw-Milne: It would be of great advantage if we did not mix up two things. I am dealing only with the position of these directors in connection with the demand on the Bank of England for the transfer of money which belonged to the Bank for International Settlements. I am not at the moment concerned with the issue as to whether they felt it their personal duty to make a public protest and resign—that is a matter entirely for themselves—but I am concerned with the position of the Bank of England, which had money deposited with it by another bank. As I see it, the Bank of England had no other course but to follow the instructions which they received from the people who owned the money. The money was the property, not of the Bank of England, but of the Bank for International Settlements, who were perfectly entitled to say to the Bank of England, "Transfer this money to America, to Japan, or to Germany," or to anywhere they choose.

The proposition which has been put forward several times in this Debate, that a banker in the position of the Bank of England, holding funds belonging to some other party, should be able to dispose of those funds in a way contrary to the wishes of the owner, merely because they think that the owner has no right to the funds or is giving improper instructions, is, to me, one of the most extraordinary statements that I have ever heard. I completely fail to understand that attitude, but I want to say that that does not necessarily mean that I disagree with anything that has been said this morning regarding the desirability or otherwise of continuing the Bank for International Settlements. I am not at all sure that I do not agree that the time has come when the Bank for International Settlements might well disappear. I think it has perhaps served its period of usefulness, but that is quite a different problem from the problem, which has been so often stated this morning in one form or

[Sir J. Wardlaw-Milne.] another, that for some reason, namely, because we have sympathy—and I have as much sympathy as has any other hon. Member—with the position of Czecho-Slovakia, the Bank of England, under the instructions of the Government of this country, should have taken an action which no man could possibly take without being in the position of not fulfilling his trust. The hon. Member for North Lambeth (Mr. G. Strauss), I noticed with interest, said that the phrase "Safe as the Bank of England" would soon disappear if the policy that he advocated was not followed, but surely it would more quickly disappear if we had the position in which a banker was entitled to deal with money entrusted to him in a way contrary to the instructions of the people who owned the money.

Mr. G. Strauss: Will the hon. Gentleman answer my question? If a depositor has a trust fund with a banker and sends instructions to the banker which he knows are in violation of the trust, surely the hon. Member will agree that the banker under those circumstances is acting correctly to disobey those instructions, subject to confirmation, inquiry, and so on?

Sir J. Wardlaw-Milne: That is a very hypothetical case, but as I see it a banker is entitled to disobey his instructions only if he has reason to believe that they are given illegally, and if in this case it could be proved that the Bank for International Settlements did not give the instructions or had not the right to give the instructions, that would be quite a different position. But here is a case in which the Bank of England could not go farther back than the people who deposited the money with them. They could not go behind them and say, "Where did you get the money? Did you get it correctly?" This is a position in which definite instructions were given by the owners of the property to those who had it in trust, and clearly the Bank of England had no other course than to carry out their instructions.

Mr. Bracken: Let me give my hon. Friend a specific case. After Austria was attacked by the Germans, the Reichsbank in Berlin wrote to certain London banks and asked them to deliver moneys held on Austrian account to various branches of the Reichsbank, and these London banks refused to deliver that money.

Sir J. Wardlaw-Milne: I cannot, of course, say anything about a case of which I know nothing, but from my knowledge of anything that the German authorities may have done, it does not give me much confidence that we should follow such a course. To me it is quite clear that our actions must be in accordance with the procedure which any private banker would adopt. The hon. Member for North Paddington referred to the dangers of negotiations between the Government and the German authorities, and made the statement, which I have no doubt is correct, to the effect that no Czechs were represented in those negotiations. So far as he is anxious to avoid any transfer of money to Germany he can be assured that the whole House is with him, but the point which he suggests is, as I understand it, that there is little likelihood of any money being transferred to Germany at all because the bulk of these negotiations are in connection with claims on behalf of British subjects, and it may very well be that it is much to the interests of British subjects that these negotiations should go on. I should strongly object if the negotiations meant the transfer of a great deal of money to Germany, but if these negotiations mean the settlement of a large number of claims in favour of British subjects I do not think we should take up the attitude that we are not prepared to negotiate. My main object in rising was to emphasise the point that the attitude of the Bank of England was the only possible attitude that could have been taken up in the circumstances.

1.37 p.m.

Mr. Lloyd George: I really ought to apologise for taking part in the discussion at all, because it is the general desire of the House that it should be conducted mainly by private Members, and I can well sympathise with that, having been a Private Member longer than anyone in the House. As, however, this incident has developed as the result of my intervention in the debate last Friday, I feel bound to say a few words in regard to it. I came here last Friday to initiate a discussion on behalf of my hon. Friends below the Gangway on foreign affairs. On my way I read the newspapers and there found a statement in several newspapers—

Sir J. Simon: It was the "Daily Telegraph."

Mr. Lloyd George: That is the one I happened to read—it is a highly reputable Conservative newspaper. I thought that what I read was so startling that when I was speaking I diverted from the topic which I was developing and I summarised the statement from memory. I said to the right hon. Gentleman "I think we ought to have some explanation of this." I was perfectly well within the rights of a Member of Parliament to ask that from a Minister. I drew some conclusions as to what the effect would be if the facts were such as they were represented to be by this important newspaper. The statement which appeared in the newspaper said that the Treasury had agreed to this transaction. I naturally asked the Treasury what the explanation was. Nobody now will say that the explanation was fair or straightforward. In fact, it was very disingenuous. The Prime Minister stated that he repeated in the House what he had been told by the Treasury. Obviously, therefore, it was the Treasury who were responsible. Let us see what the Prime Minister said in reference to this. He said that I took a very gloomy view of this transaction—

Sir J. Simon: Perhaps the right hon. Gentleman will be willing to read the sentence.

Mr. Lloyd George: He said:

"The right hon. Gentleman found another subject for gloom in a story in the press that a German representative was in this country engaged upon a sinister mission in consequence of which the British Treasury was to release £5,000,000 of Czecho-Slovakian assets to the Bank for International Settlements for the benefit of the Reichsbank."

It is the statement in the "Daily Telegraph" which I have summarised.

"I am glad to be able to cheer up the right hon. Gentleman on that particular point, because the whole story is a mare's nest. Herr Wohltat—the name of the gentleman—is not in London at all, as it happens, and anyhow the Treasury has not agreed to release any Czecho-Slovakian assets to the Bank of International Settlements or to anyone else. The only releases that have been made have been releases of small amounts to refugees from Czecho-Slovakia, apart from some releases of small amounts to pay trade debts due under contracts made before March, 1939. That is a small matter.—[OFFICIAL REPORT; 19th May, 1939; Cols. 1841-2, Vol. 347.]

Would anyone have believed from that what the transaction really was? Let us take it as it is generally admitted now by everybody in the House. An amount

of £5,000,000—and I think nearer £6,000,000—of Czecho-Slovakian assets which were deposited in the Bank of England have been handed over to the Reichsbank. Would anyone have believed from the Prime Minister's statement that that transaction had occurred? It occurred with the consent of two of our representatives on the International Bank. The Chancellor of the Exchequer knew about it. He has said so. If he denies it I can quote what he said about it.

Sir J. Simon: It came indirectly to us.

Mr. Lloyd George: He knew about it; that is what I am saying.

Sir J. Simon: I am not making any quarrel about it, but I will explain how far I had any intimation.

Mr. Lloyd George: Here were two representatives of the British Government on the Bank for International Settlements. I am amazed at the way in which the position of the Bank of England has been misrepresented. It is treated as if it were purely an ordinary bank with no responsibilities to the Government, no responsibilities to Parliament, except the responsibilities that we all have as citizens of this realm, and no responsibilities to the Treasury. That was never the attitude adopted by the Bank of England or the Treasury in the days when my right hon. Friend the Member for Epping (Mr. Churchill) or I and others were at the Treasury, or even the Prime Minister. They were always consulting us. If there were anything that involved a great principle or a matter of policy, and certainly if there were anything which involved foreign affairs, they were constantly in touch with us. They would not have dreamt in the old days of entering into a transaction of this kind without seeing the Chancellor of the Exchequer. This is a slackness, a looseness of treatment, which must have been introduced within the last year or two, because that is not the view which any other Chancellor of the Exchequer or any other Governor of the Bank of England would have taken as to the relations between the Bank and the Government.

When the Bank of England takes a certain line which impinges upon foreign policy there is nobody, either in this country or any other country, who does not

[Mr. Lloyd George.] believe that it is the policy of the Government. Chancellors of the Exchequer have very often held different views from those held by the Governor of the Bank of England on questions affecting foreign countries. I did not take the same view as the Governor of the Bank of England with regard to Reparations, for instance, but he never on his own authority as Governor of the Bank of England not merely declared that policy but acted upon it—even if he would have had the power to do so. He had a perfect right to put his views before the Government of the day, but he knew perfectly well that he could not act upon a matter which affected a great many other nations as well as our own without first obtaining the sanction of the Government of the day; and it is a most extraordinary doctrine that these two gentlemen who are representatives, not of the Bank of England, but representatives of the Government, who are appointed by the Government—[*Interruption.*] At any rate, they were directors of the Bank of England, one of them being the Governor and the other a very important director, and they could not have absolved themselves from the responsibility which they had under those circumstances as directors of the Bank of England.

Sir J. Wardlaw-Milne: Are they appointed by the Government?

Mr. Lloyd George: The Chancellor of the Exchequer tells me they were not appointed by the Government.

Sir J. Simon: I have already said they were not.

Mr. Lloyd George: I do not want to make any point of that, but they were directors of the Bank of England which, for all practical purposes, as far as policy is concerned, is a national bank, a national institution. It is not in the same position as the Midland or the Westminster Bank, and all the arguments which have been used upon that assumption are thoroughly false, are thoroughly misleading, and I shall be very much surprised if the Chancellor of the Exchequer will support any contention of that character. The facts are that £5,000,000 or £6,000,000 of gold has been transferred to the Reichsbank. That gold belongs to the people of Czecho-Slovakia. The Reichsbank have no more

right to it than a burglar who has captured bearer bonds would have a right to take them to a bank and ask for the cash. If it were known that it was the burglar who was asking for the cash, would any bank manager give him the money? Of course not. Legally when they are presented the bank has no right to enter into an argument and ask, "Where did you get them? Have you got them honestly or otherwise?"—that is the whole point of bearer bonds. If you knew that they had been burgled, if you knew the date, if you knew how he had broken into the bank, knew the weapons used, knew how he burst the safe and took them out, what sort of a fool or knave would the manager be who cashed those bonds?

It is nonsense to treat this question with these miserable legal quibbles. First of all, you know they are stolen goods, you know that they are going to be used to your detriment, you know that the whole transaction will be reopened again when the legal claimant may have a chance of putting his case in a higher court. But all these facts were left out of the explanation of the Prime Minister. It was all "a mare's nest." The nest had been captured by the brigands, but the mare was in our stable, and from all I can understand it is still there. I have other questions to put to the Chancellor of the Exchequer, because I do not want to keep this argument merely on the level of a dispute between the Prime Minister and myself on a matter of explanation. But there it is. After what he said there is no one here who believed that £6,000,000 of Czecho-Slovakian gold had been transferred to the Reichsbank. No one would have believed that we had parted with any money—except to refugees and in payment of some small, trivial bills. That was the impression conveyed.

I agree with my hon. Friend behind me that there has been far too much of this. We had the same thing in the debate on Friday. I put a question as to whether the Government had secured the advice of the General Staff before they committed us to that extraordinary pledge to guarantee Poland and Rumania without any assurance of support from Russia. I asked a second time. No answer. I asked it of the War Minister, my right hon. Friend the Member for

Epping, pressed it, and at last we were told that the House could rest assured that the Government are always in contact with and consulting the General Staff. I do not blame him. He was giving something which had been put into his hands. It was not true. To say that, generally, they are in contact with the General Staff is one way out; but everybody was under the impression that the General Staff had been consulted before that guarantee. It was intended to convey that impression. That impression would be a false one.

And here is another one, here is a statement which would convey the impression that there was nothing whatever in the story about the £5,000,000 or £6,000,000, and that £5,000,000 or £6,000,000 had not been passed to the Germans. The question whether the Treasury merely acquiesced or gave its consent is, I agree, an important point. They decided not to act, which means that they acquiesced. The "Daily Telegraph" statement was that they had agreed. Well, in the circumstances, there is not all that difference between the two. At any rate, there were the main facts of the story, that millions of stolen money had been taken away for ever, passed on to the robbers, and it had been done with the consent of Sir Otto Niemeyer, who, I believe, is president of the Bank. At any rate he and Mr. Norman are both directors of the Bank of England—

Mr. Ellis Smith: The friends of the German Government.

Mr. Lloyd George: I will say something about that directly. Not only that, but the Treasury, knowing it, took no action, and in so far as their conduct was concerned the transaction had gone through without any interference. It is amazing that these people should have gone there, holding their position in a great national bank—in the great national bank, the official bank of this country—and never given a single intimation to the Government of what was going on. Did the Chancellor of the Exchequer complain of it when he heard of it—when he was informed, when some gossip came along and said something about it? Did he hear nothing from the representatives of the Czecho-Slovakian Government in this country? Not a word? That is rather extraordinary. Where did it come from? We are entitled to know. Why should

that fact be concealed from the House of Commons? Why are we to be the only people who are not to know what is going on, when we are representing 47,000,000 people in this country? I think we ought to know.

I am going to ask the Chancellor of the Exchequer this: The cash is here now, so I hear. I noticed that he did not contradict it when the statement was made by an hon. Member behind me, and I asked a couple of hours ago about it. I told him that I had just heard that it was still here. Is that so? The right hon. Gentleman cannot contradict it?

Sir J. Simon: I cannot contradict it because I do not know, but if the right hon. Gentleman will be good enough—

Mr. Lloyd George: This is very important. I asked about this matter more than two hours ago and I said I was going to ask the right hon. Gentleman a question. I gave notice to the right hon. Gentleman that I would ask the question, and I hope that he will have an opportunity of ascertaining whether the £6,000,000 is in the Bank of England or whether it is now in the possession of Herr Hitler for the purchase of armaments and of material for making war. If he finds out that it is here I am asking him now whether the Government will reconsider their attitude. Let him put this point to them, because I think it has not been put: I am very hopeful that war will be avoided and I am more hopeful since the Government have decided to bring Russia in. I cannot conceive of men of the extraordinary position, shrewdness and perspicacity of Herr Hitler and the Italian Duce engaging in a war in which their chances have been so conspicuously diminished by the introduction of the greatest military power in the world—although it has been said that there is a certain madness in men, making them fling themselves into impossible enterprises. That is the incalculable thing in human nature upon which you cannot depend.

I personally am sanguine that war will be averted the moment that that agreement is signed, and if it is entered into to the extent of agreement between the general staffs and obvious preparations on the part of the three Powers to co-operate. But that is not peace. It must be followed

[Mr. Lloyd George.] by settlement, and the settlement will be a very long business. It was a long business when you had men on the same side discussing the thing in Paris. It took months. If you had had men with different interests who made mutual concessions, it would have taken well over a year. What will be the position then with regard to Czecho-Slovakia? If the Government are taking steps one by one to build up recognition of the German conquest, leaving nothing but the coping-stone to be put on, you will not get peace in the world on that basis; but that is what they are doing. All this talk about appointing consuls, this transference of £6,000,000 of the assets of Czecho-Slovakia to Germany—what is that but recognition? It is very substantial recognition. True, it is only recognition by Mr. Montagu Norman at the present moment, but the Treasury have practically acquiesced, and acquiescence is only a cowardly method of agreeing.

Those are all questions which ought to be settled as part of the general settlement. What are you going to do with Sudetan Germany, with Bohemia, with Czecho-Slovakia? You cannot give beforehand everything they want and then call them to a conference. They will say: "You have already recognised our conquest of Czecho-Slovakia. It belongs to us now. Here it is; you have appointed officials there, you have treated us as the *de facto* governors, rulers and possessors of that country". Would it not be better that, in the interest of any conference which they may have to summon or to attend, as they must if you are to have real peace in the world after these gentlemen realise that their career of aggression is to come to an end—and until you do that it is impossible to deal with them—that the Government should take steps now and say: "We cannot allow this cash to go until we have a legal decision upon it."

Whether the decision is by our courts or not, the action would have to be brought by Germany. Germany would be in the box. They would say to her, "Where did you get it; whom did you take it from; what right have you to it? You burgled the safe; is that your case? Is your claim the burglar's jemmy?" They would have to go into the box and make their claim. It is no use treating

this as if it were an ordinary banking transaction. It is the result of a raid, a blunt piece of banditry perpetrated by aggressors who have already stolen one country after another. You cannot treat that as if it were an ordinary banking transaction. Bankers do not deal on those principles with men of that description. But when you meet these countries, as I hope you will, when it is quite clear to the aggressors that they cannot go any further, and they themselves begin to be anxious for a conference, let it be a conference with the knowledge that the power is behind us, and keep this cash of these poor Czecho-Slovakian peasants and protect it for the honour of England.

2.8 p.m.

Sir J. Simon: The hour is not perhaps a very convenient one for detaining hon. Members in large numbers in the House, but I think it is right that I should explain as simply as I can the very important matters which have been raised in the discussion to-day. I am not in the least disposed to regard them as unimportant, or as matters to be put on one side, and I wish the House to believe me when I say that I do not approach them in what is conveniently called some pettifogging legalistic spirit. I do not think that that is at all a fair criticism. The first thing I must deal with, and I wish to deal with it very plainly and at once, is the suggestion that the Prime Minister, on the ground of the answer which he gave to the right hon. Gentleman on Friday last, could really come under any reproach. Whoever may be blamed—

Mr. Lloyd George: He said it rested really with you.

Sir J. Simon: The Debate on that day, since it was a Friday, started early as it did to-day, and I rather think the right hon. Gentleman started it. Neither my right hon. Friend nor anyone else, as far as I know, had the least idea that this particular point, which the right hon. Gentlemen mentioned having perhaps seen it in a newspaper as he was coming down to the House, would be raised. It related to the Czecho-Slovakia (Restriction of Banking Accounts, etc.) Act which I carried through the House and which has been the subject of close attention on my part, and I was perfectly well informed as to what was happening in connection with that Act. When the right

hon. Gentleman made his observation, I feel sure he thought, and undoubtedly the article to which he referred implied, that what had been done had been done by the Treasury under that Act by way of release. Unquestionably that was the effect of the article, and it was plainly implied in what the right hon. Gentleman said. When he came to this, his power of drama came out, and it is the fact that, having plainly suggested that something had been done by the Treasury under the Act which it should not have done, and that this was simply a concession due to the Treasury giving its consent which the Act requires—

Mr. Lloyd George: I never mentioned the Act.

Sir J. Simon: He pointed to me and said:

"They are not merely robbers, for we are now going to see that they are the receivers of stolen goods with the sanction of the British Chancellor of the Exchequer, and I hope that before this Debate is over we shall have some explanation of that."—[OFFICIAL REPORT: 19th May, 1939; col. 1823; vol. 347.]

I daresay hon. Members who were in the House observed that, that not knowing what the right hon. Gentleman had been referring to, I consulted the officials under the Gallery, and there was no one there who had come prepared with this; but a note came hastily down stating in very plain terms that it was not the case that any release had been given. The Prime Minister said it was not true that the German representative named was in this country engaged on this matter, but that the gentleman in question was not in London at all, and anyhow the Treasury had not agreed to release any Czecho-Slovakian assets to the Bank for International Settlements or to anyone else. All that was perfectly true, and, if I had known at the time that some parallel reference was involved, I certainly should have informed the Prime Minister. At any rate, the Prime Minister had no knowledge of it, and I want to make that entirely clear. I am quite prepared to take any blame, but my right hon. Friend is completely without blame. He simply repeated at very short notice the note that had been given to him while the right hon. Gentleman was speaking. It did not in fact deal with this other matter at all, and apart from the use of the expression "mare's

nest," he gave to the House the full information that he had. There was a feeling that the expression "mare's nest" was too strong a term. At the time I did not think so, for it was quite plain to me, and I think to most Members of the House, that what was being suggested was that, in connection with the authority which I have over the blocked Czecho-Slovakian assets, I had just released a great block of them. I had done nothing of the kind.

Equine metaphors were rather numerous in that Debate as the the right hon. Gentleman had been talking about looking a powerful gift horse in the mouth. Perhaps he would prefer me to say that I think the suggestion made was an attempt to put a particularly large cuckoo's egg into my nest, and, as I had nothing to do with it, I naturally refused it. That, I hope, will show to everyone in this House and outside that there is no sort of reproach on the Prime Minister at all. I do not think it has been appreciated by the House that this other matter to which our attention is being directed is not one that has just happened. It happened months ago. It did not happen at the moment when the newspaper article in question appeared, or at the time when we were then discussing it. It was certainly two months ago, I am informed, that this other question was first raised—[*Interruption*]. It was in March, and not in May.

Mr. Lloyd George: When the Bank decided on the transference to Germany?

Sir J. Simon: It was towards the end of March—I cannot give the exact date—that information, coming indirectly, reached the Treasury that the Bank for International Settlements was taking steps to transfer this gold. At the end of March a rumour of this had reached the Department. I cannot state from what source it came. What is important to appreciate is that we were not so informed by the Bank of England nor by the Czecho-Slovakian Legation. It is one of those pieces of information which do not come in such a form that I can state the source. That was the extent of our knowledge. I considered that it would be right to take the opportunity of making a statement which would show what the facts were as far as we knew them. It was not the fact in the least in the world

[Sir J. Simon.] that I had given any authority for anything at all. I had not been asked to. If I had considered that it would be within my power to refuse I would have refused. It was readily assumed that it was I who was responsible for this, and it was not so at all. Towards the end of March the Treasury heard indirectly that the Bank for International Settlements either had given, or was giving, instructions for the transfer of this gold and I thought, that being the case, that I ought to take the opportunity—and I did—of making what was really a quite full statement on the subject.

Sir A. Sinclair: When was that?

Sir J. Simon: On 23rd May.

Sir A. Sinclair: Is it not very extraordinary that if the Treasury heard of this transaction at the end of March, at a time when legislation was being proposed to stop the transfer of similar balances lying in London, the right hon. Gentleman's own officials did not disclose it to him?

Sir J. Simon: I think the right hon. Gentleman will see how that works out. I perfectly understand the concern of the House, and I ask to be allowed to state as clearly as I can my knowledge of the matter. I was going to observe on the question of the hon. Gentleman opposite whether the answer given by the Financial Secretary corresponded to what I stated the next day. That is so. The question asked was whether any transfer in respect of this deposit had recently taken place. It was in connection with that that the Financial Secretary made it clear that I had no means of knowing whether the facts were or were not as stated by the hon. Member for North Lambeth (Mr. G. Strauss). That is perfectly accurate. As, however, the Treasury had received this hint, I made the statement on 23rd May.

We must pay some attention to what is the nature of the Bank for International Settlements. It is a bank with very exceptional immunities. I have refreshed my memory as to its statutes and the Treaties signed by a number of countries, which have given it an immunity which is altogether exceptional. It is an entirely non-governmental institution. Its directors consist of the Governors of Central

Banks, and representatives of industry, etc. They are not appointed by the British Government at all and they are not answerable to the British Government in any sense. Disputes about the interpretation of the Statutes of the Bank have to be referred to the International Court at the Hague and, for the rest, in order to make it quite clear that the Bank should be free from any governmental intervention or interference, the Governments concerned with this agreement, including His Majesty's Government, the French and all the other Governments, gave it by Treaty and Protocol complete immunity from all forms of restriction and interference, and it is expressly stipulated that this complete immunity applies both to the property and assets of the Bank itself and property and assets which the Bank holds for the account of others.

I think it is a little rash to assume that, having entered into treaties with the other countries of Europe that shall be the nature of this Bank, and completely relieving it from any possibility of an embargo or restraint being put on its assets or any assets for the account of others, that the Treasury here is to blame. The right hon. Gentleman entirely omitted all reference to this. It is very easy to dismiss these things as miserable legal quibbles but the fact is that the Bank has been created in that form. I must say I regard it as not without importance that we should respect its constitution. It was the very fact that this is the nature of the protection enjoyed by the Bank for International Settlements by international treaty which would have prevented us from effective interference.

Mr. Pethick-Lawrence: The right hon. Gentleman is really getting away from the point. The main point is not whether when the Bank for International Settlements made a decision we could resist it. The question is what part our representatives took in coming to that decision?

Sir J. Simon: I do not think I am departing from the point. It is a matter which has been very carefully canvassed in the House and it has a very direct bearing on the matter the right hon. Gentleman now mentions. I must make this point good before I go further. It was clearly out of the question for His Majesty's Government to interfere with the transfer of assets by the Bank for

International Settlements. That is the very thing which by treaty, in common with all the other States, we must not do. I might point out that it was for that reason, among others, that when we drew up our legislation we did not include this. We could not include it unless we were prepared to break the treaty obligations that we had. That was why, when the right hon. Gentleman quite plainly implied that something was happening to which I had given my consent, the answer was given, perhaps a little hotly, but at any rate quite truthfully, that that was not the case.

We have heard from my right hon. Friend who has just spoken that the British members—not the Government members, but the British members of the Bank ought, in his view, to be in close communication with the British Government. I can only say that they most certainly are not in communication with the British Government on the affairs of this bank in Switzerland. It might be suggested, perhaps, that the present incumbent of my post is responsible for that, and that no doubt there were better arrangements made before. I have inquired into this at the Treasury, and I am told that the position has always been as it is now. I agree that this is a very special kind of bank. It was established in 1930 as a result of the activities of Lord Snowden at the Hague, under first of all, a series of articles of association, buttressed up by these protocols.

Mr. Lambert: Was it established by the Labour Government of that day?

Sir J. Simon: I do not think that that is a fair point.

Mr. Wedgwood Benn: It is not a point at all.

Sir J. Simon: We cannot in this matter claim to blow hot and cold. The object of setting up the Bank for International Settlements was to have a great central institution, which would be not in the least concerned with the politics of Europe. I have no doubt that that is one of the reasons why the directors of the Bank—certainly the British directors—have consistently taken the view that the business of the Bank is not a matter that they could discuss with the British Government, and I am assured that that has always been the position. You may

say, if you like, that you do not approve of that arrangement. You may say, as the right hon. Gentleman opposite said, that you would like to see the Bank of England nationalised, but in this connection the Bank for International Settlements is not an institution in the affairs of which the British Government have a right to interfere. It was set up in such a way that it should not be affected by international politics; and its decisions are not decisions in which the British Government can interfere. That is undoubtedly the position, and if anybody thinks it should be altered they are going much further than this issue.

Mr. Gallacher: You are evading the issue. Politics are introduced when the money is taken to Germany.

Sir J. Simon: I am merely trying to make the position clear. The Bank for International Settlements is, by that very constitution, not concerned with political issues. It carries out instructions received in accordance with what it conceives to be its legal obligations, and the Bank of England, in this matter, is not speaking for the British Government. Although it is the Government's banker, it is not a Government bank. There are all sorts of things that the Bank of England do which are not matters for the Government at all. It has been asked where these assets are now held; as I said, I really have no information on that. But, be that as it may, I will certainly have it considered immediately, with the information that I can get, whether in this matter we have gone wrong. But if, as I believe, these protocols involve an absolute assurance to the Bank for International Settlements that their orders shall be obeyed I do not see how we can fail to obey them except by breaking our treaty obligations.

Mr. Lloyd George: I hope that when the Chancellor is seeking an opinion he will not put the question in that form—“Was I wrong?” I think that is very important. Will he ask whether it is within the power of the Treasury to raise the issue in any court, in order to obtain a legal opinion as to his right to suspend payment until the question of ownership is finally settled?

Sir J. Simon: I think that is quite a reasonable suggestion, and I am grateful to the old solicitor. I do not want to

[Sir J. Simon.]
mislead anybody or get away cheaply, but my own view, and the view of my advisers, is that as long as these protocols exist, which bind us not to put any embargo on the claims of the Bank for International Settlements, we cannot get over that.

Mr. Lloyd George: Access to the courts.

Mr. Benn: Will the Chancellor tell us, before we rise at 4 o'clock, whether the gold is in the Bank of England? The Bank of England is only a mile and a half away. If he will not tell us, can we send the sergeant to inquire?

Mr. Boothby: Is the present Czech National Bank the same bank which originally held the deposits? I believe it is quite a different bank.

Sir J. Simon: There are quite a number of points which arise, and on a proper occasion I could deal with them. But I think the House will agree that we have to respect these protocols. At present, I do not appreciate how we could take the action suggested in view of that fact; but by all means let us have any further advice about it that we can get.

Mr. G. Strauss: While making his inquiries, will the right hon. Gentleman see that the gold does not suddenly depart by aeroplane or any other method?

Sir J. Simon: I obviously cannot undertake anything of the kind. We have not got the gold in the Treasury. Hon. Members, while keen on the hunt, should be prepared to recognise the manifest limitations under which the Government act. The Government have no more authority than anybody else in this House. We all want to do what is, in the circumstances, the proper and just thing.

Mr. Bracken: I am sorry to interrupt my right hon. Friend, but I think this is important. When he is consulting with his lawyers, will he ask whether it will make any difference that the protocols which Germany and this country signed have been torn up by the Germans, and that the Germans have actually got physical possession of the Austrian shares in the Bank and also of the Czecho-Slovak shares?

Sir J. Simon: I shall be very glad to consider that and any other suggestion that any hon. Member is good enough to make, and I am obliged to my hon. Friend.

Mr. Stokes: Cannot we have, before the House rises this afternoon, an answer to the question of whether the Bank of England could be asked whether it has got the gold or not?

Sir Stanley Reed: On a point of Order. May we not be allowed to hear this important statement from the Chancellor of the Exchequer without these continual interruptions?

Sir J. Simon: I am not aware to what extent it is really legitimate for the Government to address the Bank of England and inquire whether they have or have not gold in their cellars. [Interruption.] I wonder whether the right hon. Gentleman will allow me to proceed.

Mr. Benn: I am not interrupting.

Sir J. Simon: I was saying that I am not aware to what extent the Treasury have the right to press the Bank of England to say whether they have got in their cellars gold marked so-and-so. I agree that the Bank of England in some respects, is in a different position from ordinary banks.

Mr. Lloyd George: It is a great international question.

Sir J. Simon: I have done my best to make a statement about this matter for the information of the House, and I have told the facts as far as I know them.

Sir A. Sinclair: The right hon. Gentleman has probably forgotten that he promised in the earlier part of his speech to explain to the House why it was that this information, which reached the Treasury officials two months ago, some time in March, was not handed on to him, so that he could have commenced the negotiations which he has promised the House this afternoon.

Sir J. Simon: The information did reach me. What I said was that on being examined it became quite clear that, in view of the Protocol, it was not possible to take the steps now suggested. If, however, it is thought, in spite of my statement, it is possible, I will do my best to get the best advice it is possible to obtain.

There are two other points that were mentioned, and although I am occupying more of the time of the House than perhaps I ought, I would really like to make a short statement upon them. First of all, there is the question which is more of a Foreign Office question perhaps, than a Treasury question and has to do with the appointment of a consular representative in Prague. Prior to 15th March we had in Prague at our Legation our Minister as diplomatic representative. Since then the question has necessarily arisen how we are to arrange matters in view of the annexation of Czecho-Slovakia to the German Reich. The diplomatic representative could not continue, because the German Government had required that after 25th May diplomatic representatives in Prague should not enjoy extra territorial rights which they had previously been allowed to enjoy. As regards the Legation, we are withdrawing our Minister, and certain other Governments, notably the U.S.S.R. and the United States, have already withdrawn their Legations under similar notice and have left for the time being consular representatives to look after their interests. To leave our own diplomatic representative, that is the Minister, in Prague after he had ceased to have diplomatic status and privileges would be an absurdity. He would merely be a private person. The Legation was closed yesterday, and, as my right hon. Friend the Prime Minister informed the House on Wednesday, the British interests in Bohemia and Moravia are now in charge of the British Vice-Consul.

Then comes the question about the presence in that area of the British Consul. The German Government, in their communication, said that Consular representatives in both provinces would cease to be recognised on and after 20th June unless, in the meantime, the Consul obtains the *exequatur* of authority. The House, no doubt, knows that that is the form of document which gives the consul his authority. It is under that that he is entitled to take under his wing British subjects that need protection or representations to be made. It also entitles him to send his official bag and to use a cipher and to send information to the Government. As has already been referred to, in a case like Prague a very important matter is that in connection with refugees. The question which has to be considered

is, what our action should be in that situation. It would be no use leaving anybody in Prague unless he had consular authority. Where we do have consuls, they enjoy official recognition, and we want them to give all the services they can render to us and to British subjects or to refugees or whoever they may be. It is not a compliment to any Government that there is granted an *exequatur*. It is not necessary that this point should be decided instantly by the British Government, and I now state to this House that we shall not make that decision until the House resumes. It is not intended to make it during the recess.

It will be appreciated that there are in fact considerable British interests that we have at least to bear in mind. I was not myself aware that the Prime Minister's words on Wednesday were to be understood as contemplating any *de jure* recognition at all. Certainly, as far as my information goes that is not what is in contemplation at all, but no doubt it is the fact that, if our Consul gets the *exequatur* which he must get by 20th June, it might be called a *de facto* recognition of German authority. That is exactly the problem, and I am merely stating it. I might remind the House that this difficulty has arisen before. For instance, in the case of Abyssinia. The British Consul there from the very early stages of the Italian invasion received the Italian *exequatur* long before there was any question of *de jure* recognition. The same thing, I am informed, was true of Austria. Therefore, as far as precedents go, I do not think it is very surprising that it has been found possible to secure the protection of British interests in these areas without making the *de jure* recognition of these new powers.

Mr. Alexander: The *de facto* recognition of the Consul in Austria and Abyssinia followed as night follows day, as events proved, but in Manchukuo we have heard of no report of any serious damage to British interests, nor has the British Government up to the present given *de facto* recognition.

Sir J. Simon: The actual question now is as to our consular representative at Prague. The question is under consideration, and we are in consultation with other Governments about it. I can give

[Sir J. Simon.]
the House an assurance that no relevant action will be taken about the matter until the House resumes.

The right hon. Member for Hillsborough (Mr. Alexander) has just referred to another matter, on which I have some responsibility. It is true that in that case the British Government and the then Foreign Secretary secured at the League of Nations the adoption of the principle that there should not be acknowledgment or recognition of a conquest or annexation which had taken place in breach of the Covenant or the Kellogg Pact. It was I as Foreign Secretary who proposed that at Geneva, it was I who got it carried by the League, and I received the thanks of the American Government for doing so. Therefore, I am perfectly familiar with the precedent. I am, however, bound to say that I do not think anybody would agree that the everlasting exclusion of British consular assistance in an area would be in the interests of British trade. I noticed the point of the right hon. Gentleman, which was that one must perhaps draw a distinction between some sudden, immature acknowledgment of a situation which takes a new shape, which may be an action which we repudiate and deplore and which becomes a portion of a more permanent structure. The case of Manchukuo is an instance, the only instance so far as I know, of almost a general decision not to recognise a changed Sovereignty which has been brought about by means contrary to the Covenant.

There remains one further matter about which we might dispute for a long time, and that is the administration of the Czech balances which are blocked by the recent act. That is a very complicated matter. No doubt it is conceivable that we might have to deal with them entirely by unilateral action. That course has some inconveniences. One inconvenience, for example, is that while you want these assets to be available for British citizens who have claims against Czecho-Slovakia, are you to take everybody's word that they have a good claim? Are you simply going to allow anybody to register by saying: "I have such and such an amount owing to me from a Bank in Czecho-Slovakia." That may be an honest statement, or there may be an overdraft, or it may be that the account

is overdrawn or that it has been withdrawn. It is extremely difficult to imagine that unilateral administration is the best. If, without prejudicing the interests of those concerned, you could get a detailed schedule of the claims, arrived at by agreement, as a result of the examination of accounts on both sides, I do not think anyone would say that that is not preferable.

I think that the popular impression that we have a very large amount blocked here, will be found to be exaggerated. In the article which the right hon. Gentleman quoted a figure was given which is a much larger figure than we calculate upon. On the other hand, the claims against that figure are genuine and substantial. There is the debt which must be repaid to us, because we lent money to the old Czecho-Slovak State, and we must get it back. Then there is a considerable sum required for the refugee account. Unquestionably, we must take those amounts out. Then there are claims for British holders. Most of them may be current claims, but there may be capital claims of a different sort. It is all extremely complicated. I understand that what has been done by the Treasury, apart from examining books, is purely preliminary to seeing whether it is possible to draw up such a scheme. Whether there will be any balance at all seems to be more than doubtful from the figures that I have seen, but I must not exclude the possibility.

The question will then be, if there is a balance, whether we are entitled in the circumstances to say that we will not allow that balance to go to various institutions or persons in Czecho-Slovakia, because we have strong reasons for fearing that if it reaches them it may be taken from them. I am as fully alive to that possibility as anybody, but if some private trader in Bohemia happens to have an account here and his account is not needed for settling our undoubted claims, I find it difficult to understand, on what principle we are to say that he must go without it. I have asked the Treasury to give me a report—I have not seen it yet—and I am going to consider it, and I hope to give an account to the House of how the matter stands when we reassemble.

These are the three subjects dealt with and although I have no doubt that I have failed to answer every question, I

have done my best. I hope the House feels that in this matter the Treasury has acted in a straightforward way. I have no more desire to see our institution so operated as to give assistance to the aggressor—which possibility the right hon. Gentleman so roundly denounced—than any man in this country. This is a very complex question, in regard to which it is necessary to keep one's head, and I hope that what I have said has shown that there was a good and sufficient explanation for the matters which have been so naturally raised to-day.

2.52 p.m.

Mr. Tinker: I want to turn away from these international questions, because on the Motion for the Adjournment there are other matters to discuss. Certainly, the House of Commons ought to realise that there are other things to deal with. I recognise that this is a grave problem that we have been discussing, but it is not a domestic problem although it may be disappointing for the right hon. Member for Epping (Mr. Churchill) that I have been called instead of him, I want him to realise that there are other questions—

Mr. Churchill: I should have stood for only two or three minutes between the right hon. Gentleman and the subject which the hon. Member for Leigh (Mr. Tinker) wishes to raise. There were, however, two points arising from the statement of the Chancellor of the Exchequer to which I wished to refer.

Mr. Tinker: I am prepared to give way to the right hon. Gentleman to allow him to put his point.

Mr. Speaker: If the hon. Member for Leigh (Mr. Tinker) gives way, then I have no objection.

2.53 p.m.

Mr. Churchill: I thank the hon. Member very much. I should like to say, having listened to this Debate and to the speech of the Chancellor of the Exchequer, that we must all wish to compliment him on his fairness, his good temper, and his readiness to answer questions. We recognise, as I said in an interruption, that as an old Parliamentarian he understands the conversational manner in which the business of the House is so often conducted. We are

very grateful to him for the statement he has made that he is going to endeavour to prevent this £6,000,000 worth of gold being handed over to the Nazi Government. That is the point that is really at the root of all our feelings. I do not want to enter into criticism of whether he ought to have acted before, or whether the Treasury ought to have been informed by the Bank of England. Those are points that might have been urged, but they are no longer relevant once the right hon. Gentleman gives to the House his assurance that he will do his very utmost to stop this money being sent away.

That is the only point I wish to make, but it is a very vital one. Here we are going about urging our people to enlist, urging them to accept new forms of military compulsion; here we are paying taxes on a gigantic scale in order to protect ourselves. If at the same time our mechanism of government is so butterfingered that this £6,000,000 of gold can be transferred to the Nazi Government of Germany, which only wishes to use it, and is only using it, as it does all its foreign-exchange, for the purpose of increasing its armaments, if this money is to be transferred out of our hands, to come back in certain circumstances even quicker than it went, it stultifies altogether the efforts our people are making in every class and in every party to secure National Defence and rally the whole forces of the country. The Chancellor of the Exchequer has shown himself very properly forward in the matter of the Czech balances. I cannot understand even after the explanation, how it could have escaped him, but I accept his statement that he will do all he can with all the resources of his legal brain, and with all the energy he possesses, to prevent what would be a public disaster, namely, the transference of this £6,000,000 of Czech money into the hands of those who have overthrown and destroyed the Czech Republic.

Enclosure No. (...) to despatch No 2776 of... 4 JUNE 1939
from the Embassy at London, England.

98

PARLIAMENTARY DEBATES

NUMBER:

House of Commons

26 May 1939.

London. Cols. 2713-2772.

PAPER:

THE CONSTITUTIONAL STANDARD, London, England.

NUMBER:

CITY:

LONDON

DATE:

MAY 27 1939

M.P.s CRITICISE TRANSFER OF CZECH GOLD TO GERMANY

Chancellor Does Not Know Where It Is

ATTACKS ON ACTION OF TWO BANK OF ENGLAND DIRECTORS

FROM OUR PARLIAMENTARY CORRESPONDENT

WESTMINSTER, FRIDAY.

A sustained, and at times passionate, attack upon the attitude of the Government and of directors of the Bank of England towards the evil consequences of Germany's seizure of Czecho-Slovakia was delivered by members of all parties during the adjournment debate to-day. Not a single speaker, except Sir John Simon himself, treated the Government with entire respect. The Chancellor was, indeed, in a most painful position. If he supposed when he came down to the House that he had a cast-iron case, he must certainly have realised when he rose to reply that it had been riddled with holes, and nothing but the most glutinous sediment could remain in it.

First, the transfer from the Bank of England to the Reichsbank of between £5,000,000 and £6,000,000 on the instruction of the Bank for International Settlements which held this sum as a Czech asset. Here the House encountered the peculiar constitution of the Bank for International Settlements and the still more peculiar relation between Mr. Montagu Norman as Director of that Bank and Mr. Montagu Norman as Governor of the Bank of England.

Mr. Lloyd George and Mr. Pethick-Lawrence (Lab.) insisted that whatever might be Mr. Norman's legal position as a director of the International Bank he would certainly be regarded by the other directors as a representative of the British Government. Mr. Brendan Bracken (C.) flung the most bitter criticism at Mr. Norman and his co-director, Sir Otto Niemeyer, for agreeing to the transfer of "stolen goods" and thus in effect recognising Germany's conquest. They should have protested, he argued, and if their protest had been vain they should have resigned.

GOVERNMENT AND THE BANK

Many members found it almost impossible to believe that this transfer was approved by the International Bank without any report from Mr. Norman to the Treasury; yet according to Sir John Simon the Treasury only heard of the transaction, which took place in March, as a rumour reported by a third party. He had not made any inquiries, because the International Bank was protected by a protocol from any political interference, and British directors never had reported to the Government. One gathered from Sir John that he and Mr. Norman were on little more than bowing terms. Sir John did not know whether the gold was in London. He did not like to ask the Bank. "Have you got in your cellars gold marked to the credit of So-and-so?" Mr. Wedgwood Benn suggested that a

messenger might be sent from the House to find out where the gold was.

The protocol was the ground upon which Sir John took his final stand, reproving Mr. Lloyd George for speaking of an international obligation as a "miserable legal quibble." But even this ground shook beneath the blows of Mr. Bracken and Mr. Boothby (C.), who asked whether Germany had not already torn up similar protocols signed by Austria and Czecho-Slovakia and whether the Czech bank which originally provided the assets was the same as the present one?

These questions placed sufficient doubt on the validity of the transaction to justify, in the view of Mr. Lloyd George and others, a legal inquiry. Finally Sir John promised to take further advice about the protocol, and this tentative concession was immediately turned by Mr. Churchill into a pledge by the Chancellor to make his "utmost endeavour" to prevent the money being paid over to the Nazis. Thus the report which Mr. Chamberlain had dismissed as "a mare's nest" a week ago proved to be rather more substantial.

DE FACTO RECOGNITION

The second point of the debate was the propriety of extending de facto recognition to Germany's conquest by appointing a consul to Prague. This gave Sir John a slightly easier passage, though he was driven near the rocks. He said that the Government would not reach a decision before the House reassembled, though he did not say that the House would be consulted before the decision was final. His mishap arouse out of a search for precedents for the appointment of consuls on captured territory. There were two—Abyssinia and Austria. The Chancellor had exposed the source of apprehension about the appointment of a consul; it might lead, as it had led, to full recognition.

In reference to the third topic—the Czech assets blocked in London under Act of Parliament—Sir John Simon had to answer criticism that when outstanding claims had been met the Government contemplated handing the balance to Germany. The total value of these assets, said Sir John, had been exaggerated, but in any case it was difficult to see how the claims upon them could be met by unilateral action. The heat and force of the debate arose from the belief, expressed by Mr. Alexander (Lab.), Sir Archibald Sinclair (L.), and others, that Czech rights should be protected by Britain, and that nothing should be done, by the transfer of gold, to facilitate German rearmament. Czech rights, Mr. Lloyd George argued, would have to be remembered at the peace conference which he foresaw—without war—as a result of the Russian alliance.

[Debate on motion]

Regraded Unclassified



DEPARTMENT OF STATE
WASHINGTON

June 26, 1939.

My dear Mr. Dietrich:

I am enclosing herewith a copy of despatch No. 2811 dated June 6, 1939, from the American Embassy, London, on Czechoslovak Assets in the United Kingdom. I have now sent to you within the last three days all of the written reports to which reference is made by Butterworth in the next to the last paragraph of his telegram No. 896 of June 24, 8 p.m.

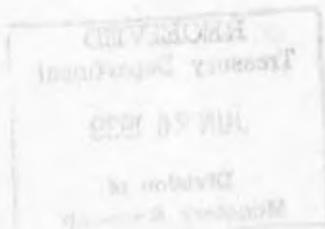
Sincerely yours,

Leroy D. Stinebower
Leroy D. Stinebower,
Assistant to the Adviser on Inter-
national Economic Affairs.

Enclosure:

No. 2811 of June 6
from London.

Mr. Frank Dietrich,
Care of Mr. Lochhead's Office,
Treasury Department.



No. 2811

London, June 6, 1939.

SUBJECT: Czechoslovak Assets in the United
Kingdom

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to despatch No. 2776 of June 1, 1939, and previous reports regarding the controversy which arose out of the Czechoslovak (Restrictions on Banking Accounts, etc.) Act of 1939, and to transmit herewith the Mansard text of the answers which the Chancellor of the Exchequer made in the House of Commons to the questions asked him on June 5, 1939. These statements of Sir John Simon do not modify in

any

-2-

any way the purport of the despatch under reference.

Incidentally, a professor at Eton College has written to The Times to suggest that if the Bank for International Settlements has no motto, the following would be appropriate: E.I.S. dat qui cito dat.

Respectfully yours,

For the Ambassador:

Herschel V. Johnson
Counselor of Embassy

Enclosure:

1. Parliamentary Debates, Hansard of June 5, 1939, Cois. 34-41, in quintuplicate.

A TRUE COPY
OF THE ORIGINAL

WWE/MW

Second Reading of the Official Secrets Bill. At the moment I can only say that the Government are unable to agree to any proposal for extending the scope of the Bill.

Mr. Davidson: In view of the fact that the Prime Minister himself, in answer to questions in the House, definitely assured the House that the Bill would apply and extend only to questions of espionage, and in view of the fact that the Bill does nothing of the kind, will not the Prime Minister take steps to see to it that this is made clear in the Bill before it comes up for Second Reading?

The Prime Minister: The powers under Section 6 of the old Act have been confined in the Bill to cases of espionage.

TOWN PLANNING (AIR MINISTRY SITES).

48. **Sir J. Mellor** asked the Minister of Health whether, having regard to the arrangements made between himself and the Secretary of State for War for consultation between county Territorial Associations and town planning authorities in connection with the selection of sites for Territorial Army purposes which arrangements were communicated to local authorities by Circular 1821, and, in view of the absence of any similar arrangements in relation to the selection of sites for the purposes of the Air Ministry, he will consult with the Secretary of State for Air in order to ensure, without prejudice to rapidity of action, such consultation between the Air Ministry and the town planning authorities as may be in the interest of all concerned?

The Minister of Health (Mr. Elliot): For some time arrangements for consultation between the Air Ministry and planning authorities have been in operation through my Department. My hon. Friend will appreciate that, owing to the various technical considerations involved in the requirements of the Air Ministry, it is desirable that consultation should in each case be effected through my Department in the first place.

Sir J. Mellor: Can my right hon. Friend say why this procedure was not followed in the recent instance of the acquisition of a site by the Air Ministry in the Solihull urban district?

Mr. Elliot: If my hon. Friend will give me details of that, I will look into it.

CZECHO-SLOVAKIA (ASSETS).

49. **Sir J. Mellor** asked the Chancellor of the Exchequer the aggregate amount of the assets so far ascertained to be subject to the Czecho-Slovakia (Restrictions on Banking Accounts, etc.) Act and of claims against such assets; and whether he has now obtained sufficient particulars to enable him to form an approximate estimate of the total amount covered by the Act?

The Financial Secretary to the Treasury (Captain Crookshank): The estimated amount of the assets so far ascertained to be subject to the Czecho-Slovakia (Restrictions on Banking Accounts, etc.) Act and available for meeting claims is between £14,000,000 and £15,000,000. The claims include the repayment to the Treasury of the advance of £6,000,000, the transfer to a Czech Refugee Trust Fund of the unexpended balance of the Free Gift, namely, £3,500,000, claims from British holders in respect of bank balances, etc., amounting to about £3,500,000, and in respect of bonds to a face value of about £2,500,000. Claims have also been received from British holders in respect of participation in industry, real estate, etc., which cannot conveniently be expressed as a capital sum. A notice has been issued in the Press that 17th June is the final date for registering claims, and that no forms would be accepted after that date unless the reasons for the delay are satisfactory to the Treasury. Until all the claims have been received and until they have been examined, the figures given cannot, of course, be regarded as even an approximately accurate estimate of the claims of British holders.

Mr. G. Strauss: Can the Financial Secretary make any statement about the Czech gold held by the Bank of England under the Bank for International Settlements?

Captain Crookshank: That is another question.

Mr. Bellenger: Will all these claims, if accepted as genuine, be dealt with on an equal basis, without any discrimination between any classes of claimants?

Captain Crookshank: I should like notice of any question as to how the claims will be dealt with; this is only a question of how much they were.

Mr. Greenwood (by Private Notice) asked the Chancellor of the Exchequer whether he can now give to the House the result of the inquiries he undertook to make and of the advice he intended to seek on the subject of Czecho-Slovakian assets entrusted to the Bank for International Settlements and alleged to be deposited with the Bank of England?

The Chancellor of the Exchequer (Sir John Simon): In the Debate which took place ten days ago, on the Motion for the Adjournment, it was assumed by several speakers that the Bank of England, when dealing with gold or cash balances held by it to the order of the Bank for International Settlements, would be aware of the party to whom such assets belonged, and in particular that gold entrusted to the National Bank of Czecho-Slovakia to the Bank for International Settlements and deposited by the latter with the Bank of England would be held by the Bank of England with the knowledge that it belonged to the National Bank.

As soon as the Debate was over I made inquiries of the Bank of England as to the facts, and it is plain that the assumption to which I have referred is incorrect. The Bank of England states that it holds from time to time amounts of gold in safe custody for the Bank for International Settlements, and holds such gold to the order of the Bank for International Settlements, but that the Bank of England has no knowledge whether gold so held is in fact the absolute property of the Bank for International Settlements or is held by the latter in whole or in part for the account of others. The Bank of England is, therefore, not aware whether gold held by it at any time in the name of the Bank for International Settlements is the property of the National Bank of Czecho-Slovakia.

The same situation exists as regards cash balances held by the Bank to the order of the Bank for International Settlements.

Now that the correct position is understood, a good many questions which were raised in the Debate are disposed of.

But, in addition to making inquiry of the Bank of England, I at the same time sought the advice of the Law Officers on a number of points. What I am about to say is in accordance with their advice. His Majesty's Government are precluded by the terms of the Protocols of 1930 and 1936 from taking any steps, by way of legislation or otherwise, to prevent the Bank of England from obeying the instructions given to it by its customer the Bank for International Settlements to transfer gold as it may be instructed; the Czecho-Slovakia (Restrictions on Banking Accounts, etc.) Act, 1939, does not operate to prohibit the Bank of England from making such a transfer without the consent of the Treasury. Even if it did, it would be a breach of treaty obligations to withhold Treasury consent. There is no validity in any of the suggestions made in the recent Debate that the Bank of England would be entitled to refuse to obey the instructions given to it by the Bank for International Settlements; and there are no means by which the Treasury could obtain a ruling of the courts as to whether they have the power to prevent the Bank of England from making a transfer when ordered to do so until the question of the true ownership of the gold is finally determined.

Mr. Pethick-Lawrence: Are not the Governor of the Bank of England and another director of the Bank of England directors of the Bank for International Settlements—and not only directors, but on the executive of that body—and do not they in that capacity know the true facts? Further, is the right hon. Gentleman now prepared to give an assurance to this House that the British representatives on the Bank for International Settlements in matters of high international policy will not act contrary to the policy of His Majesty's Government?

Sir J. Simon: With regard to the first question, it is, I believe, a fact that it is laid down in the constitution of the Bank for International Settlements that it should include among its directors, I think, the Governor and, in the case of the Bank of England, a second member of the bank. I am not aware whether they are members of the executive committee.

Mr. Bracken: One is chairman.

Sir J. Simon: I can only say that I was not aware of it. With regard to the second

question, I cannot, I think, add more than to explain to the House, as I have done, what, as the result of the inquiries, the position actually is. I cannot in the circumstances be expected to go beyond that.

Mr. Pethick-Lawrence: The right hon. Gentleman is dealing with the second part of the transaction, and I am dealing with the first part, and asking the right hon. Gentleman whether, in future, he cannot undertake to see that when these gentlemen go as British representatives to the Bank for International Settlements their policy on matters of high international importance will be in accord with the policy of His Majesty's Government?

Sir J. Simon: I really think that the hon. Gentleman introduces a little confusion when he speaks of British representatives. These gentlemen are not British representatives in the relevant sense. They do not represent the British Government; they do not represent British policy. They are individuals, who, by virtue of their office, are members of the directorate of the Bank for International Settlements, and I really cannot be asked to indicate what the policy would be.

Mr. Pethick-Lawrence: Does the right hon. Gentleman really mean to convey that an important British institution—the Bank of England—is to be allowed to have representatives going to act on the Bank for International Settlements in matters of high policy contrary to the views of the Government?

Sir J. Simon: I do not know anything about matters of high policy. I know that when an international bank located in Switzerland has its directorate, the members of that directorate must act according to their authority and judgment, and they do not get that authority from the British Government.

Mr. Lloyd George: Has the right hon. Gentleman had time to ascertain where the gold is? Is it in the Bank of England at the present moment, or has it been transferred to somewhere else; and, if so, to whom? I also ask, in the second place, if it is in the Bank of England, what is the obligation of the Bank of England according to the interpretation of the right hon. Gentleman? Are they to pass it over? Are they bound by the orders of

the Bank for International Settlements to transfer it to Germany, to the Reich in some form or other, either to Prague or to Germany?

Sir J. Simon: The right hon. Gentleman, I think, will see, if he will be good enough to look at my answer, that really both the questions he has put are answered. If he asks me whether I can tell him where the gold is, he is making the assumption that there is or may be in London, with the knowledge of the Bank of England, a block of gold which belongs to the Bank of Czecho-Slovakia. The answer I have given to the House shows that that is not so. As for the right hon. Gentleman's other question, namely, whether or not the gold is liable to be transferred under an order of the Bank for International Settlements, the answer I have already given shows that it is. I am advised, that unless we are prepared to break treaties that we have signed, no other course is possible.

Mr. Lloyd George: With regard to the first question, surely there is £6,000,000 of gold somewhere which formerly belonged to Czecho-Slovakia? It was deposited, I understand, here. Where is that gold? Really, we ought to know, that £6,000,000 that formerly belonged to Czecho-Slovakia, and which we still maintain belongs to the same people now. Where is it? Under whose orders is it?

Sir J. Simon: The right hon. Gentleman, I am sure, sees that that is a question which neither I nor anybody else could answer. [AN HON. MEMBER: "It is in the Lloyd George Fund."] I have already explained that it was a mistake to suppose that there was a quantity of gold belonging to the Czecho-Slovak authorities which was in London as far as either the Treasury or the Bank of England know. But the Bank of England holds a considerable quantity—I know nothing about £6,000,000—on account of the Bank for International Settlements. Where it comes from is not a matter for them.

Sir Irving Albery: Is it not the fact that, if such restrictions as are suggested by right hon. Gentlemen and hon. Gentlemen opposite were imposed upon the Bank of England, the only result would be that it would be impossible on future

[Sir I. Albery.]
occasions for the Bank for International Settlements to have any account or any deposits with the Bank of England?

Mr. Harold Macmillan: In view of the fact that Article 2 of the Convention of 20th January, 1930, to which the right hon. Gentleman has referred, provides for the arbitral settlement of any disputes relating to the interpretation or application of the present Convention, and lays down the international tribunal before which any such matter relating to the Convention should be brought, should not steps be taken for this matter as to the propriety or otherwise of the action of the Bank for International Settlements to be dealt with under Article 2 of the Convention?

Sir J. Simon: I am speaking only from memory. I have not the Article before me. I think it had to do with a dispute as to the construction of the Articles of the Convention. So far as I know there is no such dispute, and no competent authority doubts what I have just stated.

Mr. Bracken: The right hon. Gentleman said that he was most anxious to keep this gold in London, and will he make representations to the British directors of the Bank for International Settlements that they should go to Basle and ask for a reconsideration of that decision, and, if reconsideration is not given, will he cancel the special privileges granted to the Bank for International Settlements by His Majesty's Government?

Sir J. Simon: I entirely share the view which others, I am sure, hold, that we do not want to see additional assets going to Germany out of the conquest of Czecho-Slovakia—I am as anxious about that as anybody—but the methods proposed are not effective for the purpose. It is not for me to cancel the authority which is given to the Bank for International Settlements. It is the creation of an international conference and of international treaties. If we were ourselves to refuse to take further part in it, it would not alter the fact that the Bank for International Settlements exists under those treaties. I can assure my hon. Friend that I have considered this with every sympathy from his point of view. I am not seeking to escape by any subterfuge at all. If right hon. and hon.

Gentlemen will face the facts as I have given them, they will see that I have stated the position correctly.

Mr. Noel-Baker: Is not the fundamental fact that under international law Germany has no claim to any Czech assets until she has received *de jure* recognition for the conquest of Czecho-Slovakia, and will the Chancellor consult with the Governor of the Bank of England to find means by which Germany can be prevented from taking stolen goods?

Sir J. Simon: I am very ready to take into consideration what is suggested, but I am afraid that it will not be found to be easy.

Mr. G. Strauss: Does the right hon. Gentleman want the House to understand that the Governor of the Bank of England does not know whether this gold is in London or not, and, if he does know, has he been asked to give an explanation to the Treasury; and if he has been asked, has he refused to do so?

Sir J. Simon: I have every reason to believe that the information I have been given is completely candid and honourable, and I accept it.

Mr. Greenwood: Is it the case that, if Mr. Montagu Norman, as Chairman of the Bank of England, was at the meeting of the Bank for International Settlements which took this decision, he does not know his other half and does not know where the money really is? Can the right hon. Gentleman say whether the Executive Committee at that meeting which took this very important decision was fully representative of the members of the bank.

Sir J. Simon: I really cannot answer on matters that have to do with the conduct of the Bank for International Settlements. It is not for me to say how a decision of this sort would be taken.

Mr. Greenwood: If the right hon. Gentleman were to declare that that meeting, which took that decision, was in his view not properly representative, would it not be his duty to press on the board of the Bank for International Settlements the British Government's views on the matter?

Enclosure No. 1...to despatch N2811 of...6-JUNE 1939
from the Embassy at London, England.

PARLIAMENTARY DEBATES
House of Commons
5, June, 1939.
London, Cols. 34-41.

NUMBER:

103

Sir J. Simon: No I do not believe there is any ground for thinking that there was any irregularity. But I must most respectfully submit that I cannot be expected to answer for the Bank for International Settlements.

Mr. Stephen: Will the right hon. Gentleman not agree that the difficulty arose from the fact that the Governor of the Bank of England wants Germany to get this money?

Mr. Harold Macmillan: Would my right hon. Friend be prepared to consider, as a pure matter of international law, whether under Article 2 of the 1930 Convention it is not possible for His Majesty's Government to bring this dispute with the Swiss Government, for having allowed this action on the part of the Bank for International Settlements, before the Tribunal laid down in this Article, or alternatively whether it is not competent under the terms of the Convention for the Bank of England to bring the dispute with the Bank for International Settlements before the Tribunal so laid down in the Convention?

Sir J. Simon: I do not like to offer an opinion on a complicated legal matter across the Floor of the House, but as far as I am aware there is no dispute as to whether the action of the Bank for International Settlements was contrary to law.

Mr. C. S. Taylor: Has my right hon. Friend seen a statement issued from Basle by the Bank for International Settlements that they had come to this decision with very great reluctance?

Mr. De la Bère: Does not the whole matter still remain highly unsatisfactory?

JR

GRAY

Paris

Dated June 26, 1939

Rec'd 2:20 p.m.

Secretary of State,
Washington.



1197, June 26, 5 p.m.

FOR THE TREASURY.

Statement of situation of exchange equalization fund published in JOURNAL OFFICIAL of June 25 shows that fund possessed about 17,423 million francs gold at the end of February compared with 14,321 million at the end of January (please see my telegram No. 958 of May 17). No transactions are reported between exchange equalization fund and rentes fund during the month of February.

A semiofficial notice published in the FINANCIAL PRESS indicates that the French Government has not yet officially received notification of the signature of the Franco-Japanese commercial agreement, and that official quarters consider that "an exaggerated importance" has been given to the negotiations. It is explained, with respect to payment arrangements, that the agreement links up purchases of Japanese merchandise by France and her colonies to purchases by Japan of French

-2- #1197, June 26, 5 p.m., from Paris

French products so as to lead Japan to utilize in France the francs arising from payments made to Japan for deliveries to France and colonies. In this respect it is pointed out that the substantial commercial balance in favor of Japan has up to now been at the free disposal of the latter.

END SECTION ONE.

WILSON

WTC:CSB

EG

GRAY

Paris

Dated June 26, 1939

Rec'd 2:15 p.m.

Secretary of State,
Washington.

1197, June 26, 5 p.m. (SECTION TWO). It is stated that the adverse balance for France in its commercial relations with Japan up to between 85 and 90% is offset by French Indo-China trade with Japan. It is indicated finally that in case of necessity the arrangement will not prevent France from joining with Great Britain in reprisals that the latter may be led to take to protect European interests in the Far East.

It is stated in today's press that in accordance with the decision rendered by the civil tribunal at La Rochelle on June 21 declaring valid the distraint claim of private banks in the Bilbao regions 9000 cases of Spanish gold and valuables which have been held in La Rochelle since May 1937 are about to be shipped back to Spain.

The Paris Tribunal of Commerce has decided that moneys owing to citizens of the former Czechoslovakia must be paid by the debtor to his credit or in person

and

-2- #1197, June 26, 5 p.m. (SECTION TWO) from Paris
and not to the Commissar appointed by the German
Government to administer the creditors affairs.

Business on the exchange market was on a small
scale and movements in rates were narrow. The funds
bought some sterling. The security market was de-
pressed and inactive with rentes and variable revenue
securities showing fractional losses.

(END MESSAGE)

WILSON

CSB

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Gray

JR

PLAIN

London

Dated June 27, 1939

Rec'd 2:30 p.m.

Secretary of State,
Washington.

904, June 27, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. The dollar opened offered and remained so all day due to a rumor which is alleged to have been reproduced in the Paris press to the effect that the President if deprived of the power to devalue the dollar after July 1st would use the existing power to devalue the dollar before July 1st. New York also came in a seller of dollars and the British fund was a buyer. The turnover was larger than in recent days. (Needless to say the British would view with complacent satisfaction the expiration of the devaluation powers.)

2. The action of the Senate as regards purchases of foreign silver caused a drop of 11/16 in both spot and forward silver at fixing. However the amount done at fixing was not large and the selling was mainly by speculators and India. There were some post-fixing dealings at a sixteenth above the fixing price. The silver market

-2- #904, June 27, 6 p.m., from London.

market is of course at sea as to what will eventuate.

Silver shipments invoiced today are as follows: 400,152 fine ounces, valued at \$161,061 by the NIEUW AMSTERDAM (which sailed June 23) from the Anglo Metal Company to the American Metal Company; 107,730 standard ounces valued at pounds 8,640 from Sharps and Wilkins to Handy and Harman; 108,446 standard ounces valued at pounds 8,867 from Sharps and Wilkins to Handy and Harman; 216,098 standard ounces valued at pounds 17,895 from Mocatta and Goldsmid to Irvington Smelting; 108,011 standard ounces valued at pounds 8,550.19.0 from Samuel Montagu to American Smelting. The latter shipments are by the QUEEN MARY.

3. Bewley tells me that the directors of the Chinese stabilization fund are satisfied with the manner in which the spot squeeze is operating. Having allowed the Chinese dollar to fall to a level at which it could be more easily defended in the face of the pressure of increased importations into China, the restrictions of bank withdrawals have had the desired effect of reducing the volume of currency, thus strengthening the exchange position of the Chinese dollar.

4. Due to the news from Tientsin and the absence of any specifically encouraging news regarding the Anglo-Russian negotiations the London Stock Market has been marking

-3- #904, June 27, 6 p.m., from London.

marking time.

226 bars were sold at gold fixing of which 14 were
married and over one hundred supplied by the British
fund.

KENNEDY

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 27, 1939, 4 p.m.

NO.: 1201

FOR THE TREASURY DEPARTMENT.

Today the apathetic condition of the exchange market continued. Not much business took place. A fair amount of sterling and dollars was obtained by the fund, there having been offerings of dollars in particular. Almost no change in continental currencies. In a sagging market for securities, business was almost at a standstill.

The French financial press has given much notice to the barter arrangement recently concluded between Great Britain and the United States, but there has been no enthusiasm aroused thereby. The fact that it has been considered necessary to return to medieval trading methods is regarded as regrettable. Surprise is expressed that apparently the United States and Great Britain have forgotten their ardor for development of liberal international commercial transactions. Further, it is noted that the arrangement is neither an economic, commercial nor monetary one, and therefore it is suggested that

it

- 2 -

it probably is a political arrangement. It is pointed out in this respect that the initiative was taken at the moment when Congress received the proposed amendment to the neutrality law. The arrangement is also regarded as a tentative one foreshadowing the adoption of more extensive methods of trading one commodity for another commodity.

END MESSAGE.

BULLITT.

EA:LWW

RECEIVED

JUN 25 1949

TREASURY DEPARTMENT
Office of the Secretary
Section of the Secretary

FEDERAL RESERVE BANK
OF NEW YORK

113

OFFICE CORRESPONDENCE

DATE June 27, 1939.To CONFIDENTIAL FILES
FROM L. W. KnokeSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

Mr. Bolton called at noontime today. They had bought \$13,000,000, he said, which were offered on rumors that the President was going to exercise his power to devalue, before June 30. Holders of dollars had sold and attempted to go into gold which was quoted at the moment around 34.78 against 34.78 1/4 this morning. I explained to him what the parliamentary procedure was going to be in connection with yesterday's vote and that the outcome of the conference was unpredictable. People seemed to think, however, I continued, that the stabilization fund would be maintained.

LWK:KW

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JUN 28 1939

FEDERAL RESERVE BANK
OF NEW YORK
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TREASURY DEPARTMENT

114

INTER OFFICE COMMUNICATION

DATE June 27, 1939

TO Secretary Morgenthau
FROM Mr. White

Subject: What Happened to the Czech Gold in the Bank of England?

The following picture emerges from the different versions of the Czech gold affair which have appeared:

On March 14 (and possibly for some days later) the Czech National Bank held 800,000 ounces of gold (or \$28 million) with the Bank for International Settlements. This gold was held by the B.I.S. on earmark with the Bank of England.

On March 15, Prague was occupied by the German Army.

On March 16, the British Treasury requested the Bank of England not to make any exceptional transfer of gold or balances on Czech account without prior reference to the British Government.

On March 17, the British Treasury requested all financial institutions to block all Czech assets.

On March 27, British legislation was finally enacted legalizing this impounding of Czech assets. However, it is now known that these \$28 million of assets were transferred to the German Government some time between March 15 and March 31.

Some time after the occupation of Prague by the Germans -- the exact date is not known to us -- the responsible officials of the Czech National Bank signed the necessary papers requesting the B.I.S. to transfer assets held on behalf of the Czech National Bank to the Reichsbank. The Germans thereby obtained title to the \$28 million of gold held in London in the name of the B.I.S. The source of this information is Butterworth. (Whether the Czech National Bank officials signed the papers voluntarily or under duress is not divulged.)

Prepared by Mr. Adler

Secretary Morgenthau - 2

It is not known precisely when the title to the gold was transferred to the Germans and it is not known when the Germans utilized that gold. According to Butterworth, the Germans did not ask for the transfer of the \$28 million at one time. (One reported source -- The Week -- claims that the title was transferred on March 17 and gold was released on March 21, i.e., six days after the Germans occupied Prague and five days after the British Treasury requested the Bank of England not to make any exceptional transfer of gold on Czech account without previous reference to the British Government.)

Some time before March 24 the French Manager of the B.I.S., Mr. Auboin, objected to the transfer of gold and reported the matter to the Governor of the Bank of France, who in turn reported it to the French Government.

On March 24 the French Government made representations to the British Government opposing the transfer of gold to Germany. (Butterworth got the impression from the British that the transfer of gold occurred about that date.)

On May 19, Lloyd George asked Chamberlain in the House of Commons whether it was true that a German official was negotiating with the British Treasury which had "agreed to release 5 million pounds of Czech assets in this country to the Bank for International Settlements to be earmarked for the use of the Reichsbank". Mr. Chamberlain replied that on that particular point "the whole story is a mare's nest" and that "the Treasury had not agreed to release any Czechoslovak assets to the Bank for International Settlements or to anyone else".

From May 19 on criticism of the transfer of gold to the Reichsbank gathered in force and more questions were asked in the House of Commons as to actually what had happened.

During the next two weeks British Government officials attempted to justify the release of gold on the grounds that they did not have the authority to stop it or even the power to investigate. Sir John Simon emphasized that the Bank for International Settlements was non-political in character and therefore had to follow legal precedent, and furthermore that the Bank of England was of such private character that Norman was under no obligation to inform the British Treasury of affairs of the Bank for International Settlements and was under no obligation to take instructions on such matters from

Secretary Morgenthau - 3

the British Treasury. (The British Government, he said, was under treaty obligation not to violate the immunity of all holdings of the B.I.S. in London.)

On May 26, Sir John Simon stated in the House of Commons that he did not even then know where the gold was and that he was not over-certain that the Treasury had the power to find out. Yet two months earlier, on March 17, Lord Halifax (in Paris at the time) informed Cochran that he had discussed the question of the Czech assets with Simon and that Simon had stated that the Bank of England believed it could not refuse to honor drafts on gold held for the account of Czechoslovakia presented to them. Thus the Treasury and the Bank of England had already discussed the matter before March 17 and it would appear that in spite of the Treasury order to the Bank of England to block the Czech assets they had both decided not to block them permanently.

The House of Commons has not yet been informed nor does the public know -- nor do we know -- whether any of the \$28 million of gold is still on earmark with the Bank of England or whether the Reichsbank has converted that gold into other assets.

When, on May 26, Sir John Simon was asked to find out whether any of the gold was still in the Bank of England he questioned whether he had the authority to obtain such information from the Bank of England and promised to find out what he could.

On June 5, he reported that he had inquired from the Bank of England as to the facts and was informed that the Bank of England has no knowledge whether the gold it holds on earmark for the B.I.S. is the absolute property of the B.I.S. or not and therefore is not aware whether any gold held by it in the name of the B.I.S. is the property of the Czech National Bank or not.

It is a fact that the B.I.S. permitted the title to the Czech gold to pass from the Bank of Czechoslovakia to the Reichsbank probably some time in March. It is not known whether Beyen, the President of the B.I.S., obtained the approval -- formal or informal -- of some of the directors. (Beyen had resigned earlier from the B.I.S. to take an appointment with a London company, Lever Bros., which has large investments in Germany, but had not yet terminated his position with the B.I.S.)

Secretary Morgenthau - 4

On May 30, Beyen stated in an interview that the question of transfer was a purely technical one and that no pressure had been exercised on the B.I.S. from any quarter.

It is known, however, that pressure by the French Manager of the B.I.S., Mr. Auboin, was exerted on Beyen to prevent him from acting so quickly. It is also known that Fournier at the end of March protested to the transfer at a meeting of the Board of Directors.

On June 21, Bonnet told the French Foreign Affairs Committee that Beyen did not consult the B.I.S. Board of Directors and that Beyen had handled the transfer himself.

Other Czechoslovakian sterling assets in London. It has been estimated that the amount of Czechoslovakian assets impounded in London totals about 14½ million pounds of realizable assets. According to Butterworth the British Treasury decided to impound the Czech assets in London because "it did not propose to repeat its experiences over Austria, namely, to turn over all assets in effect to the German authorities and then have to make a play, without this trump card, for the settlement of obligations to British nationals". These obligations to British nationals included unfulfilled British Government orders to Czech munition firms on which, in accordance with standard European munitions practice, one-third of the purchase price had already been paid. On May 19, negotiations between the British and German officials began with respect to the disposal of the Czech assets.

June 27, 1939

12:40 p. m.

Present:

Dr. White
Mr. Currie
Mrs. Klotz

HM, Jr: I want to tell these gentlemen this: I put up the following suggestion to the President: that he had a press conference at which people like Carmody, Baldwin of Farm Security and Stewart MacDonald come and explain the thing. I suggested we have a dress rehearsal, and give each man 15 minutes. He first said he would have a special one Thursday and then he said, "No; I will do it at my regular press conference Friday."

And I've got some of the heads in today. I let Lowell Mellett handle it. I suggested Lowell Mellett because Steve Early isn't here. Now I, in the room, thought we would do a nice job first. And he said, "We will do half one day and the other half on Monday. Let Jones go over until Monday. Work out the technique, first." That was my thought. I have put Carmody and Baldwin and MacDonald on Friday.

Dr. White: How about Adams of REA? Going to let Carmody handle that?

HM, Jr: Let him designate whoever he wants.

The President wants to do it at his press conference, which I think is all to the good. That gives you (Currie) additional time to do railroads. But by that time somebody will have to be willing to go to the President's press conference. I don't know whether on Monday or Tuesday -- I guess Tuesday, somebody will have to go and say this is the way we are going to do it, but this gives you a full week. Don't you think that's a good idea, Harry? Not only does it give it to the press, but also gives the President a chance to learn what it is all about.

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Mr. Currie: What about timing? Sending up the bill?

HM, Jr.: I don't know. Last I talked to Foley he had not heard from Jones.

Mr. Currie: Kades told me this morning that Hamilton, General Counsel of R. F. C., had made a alternative suggestion. Put it this way: don't ask for additional legislation. R. F. C. could do it now by setting up a corporation for which common stock would be subscribed by railroad equipment companies and RFC would loan to this corporation.

HM, Jr.: What Jones always does is, he would rather trade than eat. Any time! He will go without food to get a good trade and he will start trading on this thing. This is typical and he will make the thing just as involved as possible. Well if it's correct it does not need legislation, why has he not done it in the last five or six years?

Mr. Currie: That's your answer. Sure!

HM, Jr.: And I think the mood the President is in, I don't think he will stand for it.

I want to say another thing to you "hall room boys", that we have got to pretty well sell this thing and I am doing it today and I want ideas, because Hanes tells me, for instance, that Walter Stone, of Scripps Howard, has been talking to Ickes and all so-called New Dealers and all wash their hands of it; either said they would have nothing to do with it or are opposed to it.

I was willing to start the people today and the President said no, he wanted to do it at his press conference. He will start Friday and will do it again Tuesday. And in the meantime I am going to press for this legislation. Jones will put up a placid resistance; very hard to move him.

Dr. White: What he will do will be to divert it into other channels. That will be his technique, rather than opposing. He probably senses the President's keen-

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ness and he feels if he has control he can take care of it later on.

HM, Jr: I knew we would have this trouble with Jones. That's why I am putting it over to Tuesday. The stage will be set on Friday and those people will go down the line. It will be very easy for the President to say, "Jesse, you saw what I did Friday on these other things which I want done."

I talked to the President early this morning. He was just as fine, chipper; everything is all right. I mean on the monetary thing. He said, "Everything is grand! Fine! This is good fun." So it is not a thing for the Treasury to hang its head about.

Of course, the amazing thing is Sterling is very strong on the rumor that the President is going to devalue between now and Friday, as a result of which the English are able to recover some of their dollars, which they are short.

June 27, 1939.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston

SUBJECT: Luncheon conference on lending activities.

Those present at the luncheon conference in your dining room at one o'clock today, Tuesday, June 27th, were:

Secretaries Morgenthau and Wallace
Jesse Jones
John Carmody
Lowell Mellett
Mr. Hanes
Mr. Foley
Mr. Gaston

You explained that you had had a talk with the President as a result of which you wished to enlist the help of leaders in the Administration, particularly those who would have something to do with the execution of the new lending program, in making it successful. You explained that the President wished to hold one or more press conferences at which the objectives and the methods of operation of the new self-liquidating program would be explained. At this press conference, or conferences, the President desired to have present the four or five men who would be charged with the responsibility for execution of the program and he would ask them individually to explain to the press how the thing would work. You explained that since Steve Early was fog-bound on the Yankee Clipper somewhere in New Brunswick, the President wished Lowell Mellett to have charge of making the necessary plans for the press conference.

You invited an expression from Mr. Jones as to the program in general. He said that he didn't thoroughly understand all of it but that he was ready to obey orders. He referred to the conference at the White House last Friday afternoon, when the legislative leaders were present, and said that he had assigned Mr. Hamilton of the R.F.C. legal staff to confer with Mr. Foley, according to instructions, on the text of a bill. Foley reported that he had had a conference with Hamilton and that a revised draft of a bill had been prepared. He was, however,

- 2 -

awaiting a memorandum from Hamilton. The text of the proposed bill had been shown to all of the agencies affected. It calls for a single lending corporation which will market its securities and turn over the proceeds as required to the various agencies for their self-liquidating loans. Officers of this corporation are to be the Secretary of the Treasury, the Secretary of Agriculture, and the Chairmen of the works and loan agencies.

Questioning by Mr. Jones elicited a detailed explanation from Mr. Carmody as to the methods under which the Rural Electrification Administration now operates and the prospect for additional capital outlays. Mr. Carmody said that the payment record, both of interest and principal instalments, on the loans they had so far made was good and there was an extensive field for additional projects. Among the states making largest use of the R.E.A. facilities are Texas, Iowa and Minnesota. It was explained that the new program was for the disbursement of \$500,000,000 over a period of seven years and there was no limit within that amount on the loans to be made in the next fiscal year, but it was estimated that the new program would result in an additional \$20,000,000 of actual expenditure within the next fiscal year.

Mr. Foley said that the R.F.C. had suggested that the railroad equipment program be expanded by adding authority to lend funds for the construction and equipment of railroad shops, which would be leased, with an option to purchase, as in the case of rolling stock. Mr. Carmody regarded this as highly important since, he said, railroad shops were characteristically poorly equipped and would furnish a large market for drill presses, modern lathes and similar equipment which would benefit the whole machine tool industry.

You asked various ones of the group who they would assign to represent them at the President's conference. Mr. Jones said that he would go himself; Mr. Carmody said that he could represent both R.E.A. and the new works agency since the character of the loans to be made by the new works agency would be very similar in pattern to those being made by the R.E.A. and since he was to be the head of the new works agency. He argued against calling in anybody from FWA, as suggested by Mr. Foley, on the ground that Secretary Ickes is unsympathetic and that none of his men would make a satisfactory appearance. Mr. Wallace said he would undoubtedly ask McDonald to appear on roads and someone from Farm Security to appear as to their program. Mr. Jones would take care of representation on railroad loans and foreign loans.

WJ

- 3 -

Mr. Mellett remarked at this point that it was highly important that there should be a dress rehearsal of this press conference before Friday, whereupon you invited all those present to come to your house for dinner and a conference tomorrow night at seven o'clock. You invited Mr. Jones, Mr. Wallace and Mr. Carmody to bring any of their assistants they desired. Mr. Carmody said it would not be necessary for him to bring anybody, but Mr. Jones said he would like to bring Warren Pierson for the foreign loan end and somebody else for the railroad phase. Secretary Wallace said he would bring McDonald and Baldwin, or some other, from Farm Security.

As to the foreign loans Mr. Jones explained it was his belief that they already had the authority to make such loans. He called attention to the statement he had made yesterday at a press conference and you remarked that you thought it a very good statement.

As the conference broke up you made the suggestion that we should have a chart of the new lending activity, showing the organization of the agencies through whom the loans would be granted, the source of funds in the public market, the lending corporation and the flow of funds to the various projects. You instructed Mr. Foley and me to call in Mr. Haas and get to work preparing such a chart, to be ready if possible for the meeting at your house Wednesday evening. Mr. Mellett added that we should have copies of this chart available for the press. Mr. Foley, Mr. Mellett, Mr. Haas and Mr. Kades met immediately afterward with me in my office and discussed what was wanted, whereupon Mr. Haas went back to his office to start work on it. I called Mr. White and Mr. Bell, explained to them what was being done, and invited them to the meeting tomorrow evening.

WES

JR

GRAY

ROME

Dated June 27, 1939

Rec'd 1:40 p.m.

Secretary of State,
Washington.

RUSH.

237, June 27, 6 p.m.

FROM WAIT FOR TREASURY.

On account of death of Costanzo Ciano, President of the Italian Chamber and Government participation in funeral away from Rome, my appointment to discuss bounty situation may have to be postponed a few days. Is Department willing to postpone issuance notice on silk for a few days and if so until what date in order that conversations may be had before order is issued.

9.03.

PHILLIPS

KLP

JR

GRAY

ROME

Dated JUNE 27, 1939

Rec'd 6:23 a.m.

Secretary of State,
Washington.

235, June 27, 11 a.m.

FROM WAIT, TREASURY ATTACHE, FOR TREASURY DEPARTMENT.

Have appointment with Italian officials for Wednesday.
Will try to dispose of silk question that day and advise
result immediately. Thursday holiday here. 4.92.

PHILLIPS

DDM

June 27, 1939.

AMEMBASSY

ROME (ITALY)

Your 237, June 27, 6 p.m.

Advise Wait Treasury will withhold notice on
silk goods until July 5.

[Text telephoned by Mr. W. R. Johnson, Treasury Dept.]

EA:LS:LWW

(Initialed) WRJ HC EHF, Jr.

JUN 27 1939

Secretary Morgenthau

E. H. Foley, Jr.

Tobacco produced in Bulgaria is exported to Germany. Subsequently, without in the meantime having been manufactured or processed, it is exported to the United States. The exportation from Germany is the subject of a grant or bounty by the German Government.

Section 303 of the Tariff Act of 1930 provides that "Whenever any country * * * shall pay or bestow, directly or indirectly, any bounty or grant upon the manufacture or production or export of any article of merchandise manufactured or produced in such country * * * ", then upon the importation of such article, provided it is dutiable, there shall be levied an additional duty equal to the net amount of the bounty or grant.

It is my opinion that countervailing duties may not be applied to imports of tobacco as above described. The question was submitted informally to Justice and it concurs with this view.

The only method now available to close up the loophole in the statute is legislation. There is a danger, however, that, if we attempt to amend the statute, the State Department may take the opportunity to urge its repeal.

Customs legislation is referred to the Ways and Means Committee of the House.

(initials) E. H. F., Jr.

HC/ep

June 27, 1939
3:07 p.m.

Marriner Eccles:when the Open Market Committee met.....

HMJr: Yeah.

E:and gave authority to the Executive Committee to let some bills run off.

HMJr: Uh-huh.

E: Now, it is all subject to developments, of course, in the interim.

HMJr: Yeah.

E: And this is the way the thing sets at the present time, unless you see some reason why we should do otherwise.

HMJr: Yeah.

E: The bills yesterday -- let's see, we had 44 -- 44 million eight hundred and eighty-five thousand come due -- this last weeks' bills.

HMJr: Yeah.

E: And we had already replaced a million five hundred and seven thousand. Now we have 43 million three hundred and seventy-eight thousand.

HMJr: Yeah.

E: And what we're doing is replacing those, all but about thirteen million three hundred and seventy-eight thousand. You see most of the bills are bought by the dealers and the dealer banks.....

HMJr: Um-hm.

E:and they can leave them with all bills they bought.

HMJr: Yeah.

E: The first week would be pretty drastic, so what we were proposing to do was to let about 13 million of the total run off.

HMJr: Yeah.

- 2 -

E: That will pretty well clean up the dealers and the dealer banks.

HMJr: Yeah.

E: You see?

HMJr: Yeah.

E: So that there will be a very small amount of bills that-- that would be with the dealers.

HMJr: Yes.

E: And it would be an indication to them then that in the future when they're buying bills -- of course, in the past what they've done, they've -- they've bought these bills and never even paid for them; they just act as an agent.

HMJr: Yes.

E: They buy the bills and ^{then} just immediately turn them over to the Fed. and take their commission.

HMJr: Yeah.

E: And they don't care what they pay for them at all because they don't have to go to the market with them.

HMJr: Yeah.

E: You see? Now, what we would -- this would show up in our statement that comes out Friday morning.

HMJr: Yeah.

E: And what we expected to do on Thursday, that would be tomorrow -- or, day after tomorrow, is to give this statement to the press. I'll read it to you:

"As a result of a reduction in the holdings of Treasury bills, this week's statement of condition of the Federal Reserve Banks shows a decline of blank dollars....."

HMJr: Yeah.

E: ".....in the system's open market account."

HMJr: Yeah.

E: "This is in accordance with the action taken by the Federal Open Market Committee on June the 21st, 1939."

HMJr: Yeah.

E: "For some time past Treasury bills have been purchased for the system's account at or near a no yield basis, and the account at times has had difficulty in replacing its maturing bills."

HMJr: Yeah.

E: "It was decided that it would serve no useful purpose to continue further replacement of maturing bills, the supply of which is not always equal to the market demand."

HMJr: Yeah.

E: "This action is in response to technical conditions in the bill market and does not represent a change in general credit policy."

HMJr: Yeah.

E: Now, that's the story.

HMJr: Well, I have no objections.

E: Well, I -- I didn't think you would, but I didn't know what -- ~~should~~ the situation -- if there was something I didn't know of.

HMJr: No, you don't -- there's nothing that.....

E: But it seems to me that -- although I, personally, ^{at} the end of last year was somewhat against action at that time, ⁺The situation now is considerably different than it was at that time and I, personally, have been favorable to this sort of thing now.

HMJr: I just want -- got one question. How many -- what's the maximum that you fellows will let run off?

E: That we will let ^{run} off in the future?

HMJr: Yeah.

E: Well, of course, that -- I -- I couldn't say that. I couldn't -- you mean out of the total amount?

HMJr: Yes.

E: Well, that'll be -- that'll depend entirely on the market condition -- what the reaction is, that we.....

HMJr: I mean, have you an authorization to let so many millions run off?

E: Well, we could let them all -- all the bills we have, run off over the next ninety days.

HMJr: Well, you've got six or seven hundred million.

E: No, five -- a little less than five; four or five hundred.

HMJr: I see.

E: In the aggregate.

HMJr: I see.

E: Which -- which as a matter of fact, doesn't amount to -- the excess reserves will likely build up through -- through Treasury disbursements and through gold imports faster than -- faster than our bills will mature, so that the excess reserves in New York will likely -- even -- even if all the bills should run off.....

HMJr: Yeah.

E:which I don't contemplate is what we'd do at all. My idea of this thing would be to continue in the market for bills in order to stabilize the market.

HMJr: Well, you'd check with us next week, wouldn't you?

E: We -- we will check with you any week. You can call us up any time where you feel that the thing is not satisfactory.

HMJr: That's fair enough.

E: ^{Bob} And we have no -- we have no program and we're just doing this now and next week we may take them all.

HMJr: Yeah. Well.....

E: If -- if the situation was such that it affected the market and there seemed to be any un -- an unstabilized condition, we'd take them all next week in order to -- if there was any question about the bill rate going up too fast, see?

HMJr: That's fair enough.

E: ^{Bob} And my idea is that the bill rate would continue very, very low and if it -- and if it doesn't, I would certainly think we should stay in the market.

HMJr: Well, thank you very much for letting me know, and I can't possibly have any objection.

E: Yeah. Well, all right then.

HMJr: Thank you.

E: Good bye. Listen, Henry.....

HMJr: Yeah.

E: Just a minute. It's -- of course, it's awfully important that -- that this be kept very confidential until after it comes out in the paper.

HMJr: Yeah. Well, I'll tell.....

E: Instead of.....

HMJr: I'll tell Hanes and Dan Bell.

E: And tell them how important it is and we've -- we've kept it around here for a week or -- with -- among.....

HMJr: Well, I'll guarantee to keep it for a month.

E: All right. Fine!

HMJr: All right.

E: Good bye.

HMJr: Thank you.

June 27, 1939
12:30 p.m.

HMJr: Hello.

Operator: Senator Barkley.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Alben
Barkley: Hello.

HMJr: Alben.....

B: Yeah.

HMJr: I thought you'd like to know that silver in London today broke forty cents.

B: It did?

HMJr: So after this consulting with the President for a half an hour or so -- I just got in, just flew in -- we 've made our price forty cents.

B: Uh-huh.

HMJr: Here -- that's for foreign silver. That's.....

B: That -- that is.....

HMJr:three cents less.

B: Yeah. You mean for foreign silver.

HMJr: For foreign silver.

B: Yeah. Well.....

HMJr: We -- we dropped.....

B: I felt sure that the result of this thing yesterday would break the price of silver.

HMJr: Now, I don't know how you doped it, but it seemed to me that it was bad any way you looked at it for us to continue to pay forty-three cents with it dropping continually in London.

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B: That's right.

HMJr: And that if -- if the foreign silver was forty cents, well then sixty-four and a half looked to us that much sweeter.

B: Yeah.

HMJr: It looks three cents sweeter, doesn't it?

B: That's right.

HMJr: Was I arguing all right?

B: Yeah. It seems to me so.

HMJr: Ah.....

B: Of course, I don't know what we -- I don't know when the conferees will meet on this thing.

HMJr: Yeah.

B: It may be that we can't get the thing worked out before Friday because we're taking the Relief up and we'll have to have some odd sessions on that, so I think probably it's very good strategy not to be in too big a hurry.

HMJr: You do?

B: Or -- what do you think? Of course, I realize the importance of the Stabilization and the Devaluation part.

HMJr: Yeah.

B: And I haven't any doubt that we can -- that the silver people would agree without any trouble if we'd agree to their silver increase -- that they'd go along with the devaluation.

HMJr: Yeah. Did you talk to the President today?

B: Yeah, he called me about a half an hour ago.

HMJr: Yeah.

B: He gave a press -- he had a press conference this morning in which he gave out a lot of information about the history.....

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HMJr: Yeah.

B:of the devaluation, but not so much the silver.

HMJr: Yeah. He told me -- he said, "I just had a magnificent press conference and I told them why not fix the price on hogs, corn, and wheat, and everything."

B: That's right.

HMJr: Huh?

B: Yeah. Well, I'll be interested in reading what they say about it.

HMJr: But the main thing, I wanted to get your horseback opinion. Do you think it's all right that I dropped the foreign price?

B: Why, I don't see anything else you could do.

HMJr: Right! I don't.....

B: Yeah.

HMJr: If you see Bob Wagner, you might tell him.

B: I will.

HMJr: Thank you.

B: We're in recess now just waiting for the Appropriations Committee to report the Relief Bill.

HMJr: Well, of course.....

B: Let me ask you, how -- how important is this -- this foreign purchase of silver?

HMJr: The foreign purchase of silver?

B: Yeah.

HMJr: Not important at all.

B: I argued against the -- the amendment yesterday on the ground that it would handicap some of the nations in buying stuff from us because if we didn't buy their silver they couldn't pay for it.

HMJr: Well.....

B: But it didn't do them any good.

HMJr: Well, you're being consistent.

B: Yeah.

HMJr: With what we've been doing here.....

B: That's right.

HMJr:but you're asking me a point blank question. Of all the things, I think the foreign silver is the least important.

B: Well I think that's true too.

HMJr: And.....

B: But I didn't know how well it was regarded as of any great consequence or not.

HMJr: No, because we've cleaned up most of the silver in the world.

B: Uh-huh.

HMJr: And poor old China has practically none left that she can sell, that isn't in the hands of the Japanese.

B: Yes.

HMJr: You know -- you know there's a big quantity of silver in ten cents.

B: Yeah.

HMJr: And that's one of the things that the Japanese are after.

B: Yeah. Why did they leave it there? Why didn't they move it out?

HMJr: They weren't able to.

B: Oh, yeah.

HMJr: They tried their best. No, I -- I'd hate to see the Stabilization Fund lapse on me.

B: Well I would too.

HMJr: Yeah.

B: Of course, I don't know what sort of concessions we'll have to make, if any. The House, I think, will stand pat.

HMJr: Yeah. When will the conferees meet?

B: I don't know.

HMJr: Uh-huh.

B: I don't know.

HMJr: Oh.

B: It all depends on how we get along with the Relief Bill. We have to sort of do it between meals.

HMJr: Well, if you don't mind, I'd like to call you up again.

B: Yes, I'll keep in touch with you.

HMJr: Thank you.

B: All right, Henry.

June 27, 1939
2:20 p.m.

HMJr: Hello.

Operator: Senator Wagner is not in his office and he's not on the floor.

HMJr: Well just leave word that when Wagner -- Senator Wagner is ready, I am.

O: All right.

HMJr: Thank you.

2:33 p.m.

HMJr: Hello.

Operator: All right. Go ahead.

HMJr: Hello.

Robert
Wagner: Hello.

HMJr: Bob?

W: Hello, Henry.

HMJr: Can I sell you a little silver at about thirty cents?

W: Ah -- well, if you give me -- make -- make it twenty.

HMJr: What?

W: (Laughs) How is the pound going today? Any.....

HMJr: Well, the pound is strong and I'll tell you why.

W: Yeah.

HMJr: The British, or the speculators, think that the President is going to devalue between now and Friday night.

W: Oh, I see.

HMJr: And on that basis they're selling the dollar and buying pounds.

W: Oh, I see.

HMJr: And for that reason it's a little bit strong, but when they wake up Saturday morning and find that he didn't, why I think you'll find that the sterling will be weak.

W: Yeah.

HMJr: But that.....

W: Now, listen -- that was a great combination.

HMJr: (Laughter)

W: I just -- I couldn't believe it, you know. They -- they kind of -- Pat told me in the morning that they had it.

HMJr: Yeah.

W: Well, I -- I just wouldn't believe that the Republicans would vote the way they did.

HMJr: Yeah.

W: Trying a hold up, but it's -- would you have believed that?

HMJr: Ah.....

W: Vandenberg and fellows of that kind voting.....

HMJr: No, no. I, personally, think it's one of the blackest pages in our history.

W: I do too. It was a pure holdup.

HMJr: Yeah.

W: There's no doubt about that.

HMJr: I.....

W: But now we've got to think over night what to do, you see.

HMJr: Yeah.

W: Put on your thinking cap.

HMJr: Yeah. It's on.

W: And.....

HMJr: For what it's worth.

W: Well, I wouldn't ask you if I didn't think it was worth it.

HMJr: Thank you, sir.

W: (Laughs) Ah -- but, of course, we were all sorry about it, Henry, but there -- there's nothing you can do against a combination like that.

HMJr: Well now, I talked to the President twice today and I understand he has talked to Barkley.

W: Yes.

HMJr: And he thinks he's sitting pretty.

W: Just leave it alone?

HMJr: Well, he thinks that you fellows can take care of this thing in conference.

W: Well, that isn't so easy.

HMJr: That's not so easy.

W: Not votes. I mean -- we -- we've got the vote -- I mean, I -- I made up the conference committee myself. We've got the three votes that'll stand up undoubtedly.

HMJr: Yeah.

W: But we will have to -- we may have to come back to the Senate, you see, because -- to get further instructions and inform them that the House will not proceed. The thing to do is to be sure that the House appoints conferees that'll stand up for them, don't you know?

HMJr: Yes. Well, is there any chance of doing anything before Friday night?

W: Well that's what I'm worried about now. That seems an awful short time if we get tied up. I was even thinking of -- but they won't let us do that I don't believe -- getting unanimous consent to push -- rush through a bill to continue the Stabilization Fund, and then have the other so that we can -- so that -- that that at least will be available on -- on July first.

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HMJr: Well now, I'm in this position. The President last week said he wanted to handle this himself and he said that again this morning.

W: He what? He wanted to handle it himself?

HMJr: Yeah.

W: Well that's all right.

HMJr: So I can't make any commitment.....

W: Yeah.

HMJr:from this end of the Avenue because he's talking.....

W: Well, I haven't talked to Barkley yet today, because everybody's been tied up and they had a meeting all morning of the Banking Committee.

HMJr: But I -- naturally I want to do all I can to help, but I mean, I might say, "Yes, I'd like just to have the Stabilization Fund," or "I want devaluation.".....

W: Yeah. Well, I -- I don't think we can do that anyway.

HMJr: But he -- he's talking directly to Barkley and I -- I don't want to come between. I sort of.....

W: Well that's all right. I'm just hoping that a -- another day will -- will make these fellows realize what a lousy deal they went through. You see?

HMJr: Now you know, at noon today I dropped the price of foreign silver three cents.

W: Yeah, I heard that.

HMJr: Do you think that's good or bad?

W: Good!

HMJr: Well, that's what Barkley said. I asked Barkley to try to tell you. Is that all right?

W: Yeah. I think that's good.

HMJr: What?

W: That's good. Maybe you'll drop a little more tomorrow.

HMJr: Well, it's possible, because it makes the 64 $\frac{1}{2}$ cents look three cents sweeter.

W: Yeah.

HMJr: Is that right?

W: Yeah.

HMJr: That's what I thought.

W: Yeah. Well all right, Henry, I'll get in touch with you again then.

HMJr: Thank you so much.

W: All right.

HMJr: Bob.....

W: Yeah.

HMJr: I appreciate tremendously the fight you made.

W: Well, it's one of -- I'll tell you, when you're up against pure -- just fighting for -- for what you might call -- well, I don't want to characterize.....

HMJr: That's all right.

W:you can't -- you can't do anything about it, don't you know?

HMJr: Well, I -- I still say I appreciate tremendously the fight you put up.

W: All right, Henry.

HMJr: We're not licked yet.

W: Oh, heck no!

HMJr: No.

W: No.

HMJr: O. K.

W: Good bye.

June 27, 1939
2:47 p.m.

HMJr: I'm back.

Cordell
Hull: I've got a little memorandum on that thing I'll send you over -- on that Finnish thing. I think that's all you want to see.

HMJr: I see.

H: Now on the other -- this other business.....

HMJr: What's that?

H: This action of the Senate yesterday about the purchase of silver.

HMJr: Yeah.

H: What is this -- what do you think is the real status of that over there?

HMJr: Well, I think this, Cordell. I've talked both to Barkley and to Wagner and in the first place, these silver fellows want 77 cents for silver.

H: Yes.

HMJr: Number two, they don't want the President to have the right to continue/devalue the dollar.
to

H: Yes, that's the silver fellows don't.

HMJr: No.....

H: That's the other fellows.

HMJr: It's a -- well, it's a -- it's a special bloc . I don't know what you'd call them - fellows like Carter Glass....

H: Yeah.

HMJr:Adams, and that whole group.

H: Well, the silver fellows went in with them?

HMJr: They -- I think the President called it "an unholy alliance."

H: Yes, I see.

HMJr:between the non-devaluationists and the silver bloc.

H: Yeah.

HMJr: And -- no one knew it was coming. Wagner said he didn't know it was coming. He said he didn't know it was there until they sprung it on him.

H: Yes. Well.....

HMJr: So.....

H:what do you think they'll do in the House?

HMJr: Well, I think they're going to stand pat.

H: You don't think they'll accept that amendment?

HMJr: I'm -- well, I'm -- I'm fairly sure they won't. I'm not sure of anything after what happened yesterday.

H: Well then, would the President -- do you suppose he'd veto it if it passes?

HMJr: Well -- do I think so?

H: Yeah.

HMJr: My guess is yes.

H: Uh-huh.

HMJr: My guess is -- because he gave me the impression that he was just going to sit tight.

H: Yes, I see.

HMJr: He -- well, I'll put it this way so -- this is just between the two of us. He said he will not take the higher price for silver.

H: Yes, I see.

HMJr: He definitely.....

H: It's now 65, isn't it?

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HMJr: 64.64.

H: Yes.

HMJr: But he said he definitely will not take the higher price for silver.

H: Yeah.

HMJr: Now, he didn't say anything about vetoing, but he made that flat statement.

H: Yeah. Well.....

HMJr: So -- and now, silver opened in London today below forty cents. We've been paying forty-three.

H: Yeah.

HMJr: So, again between us, the President didn't want me to buy any foreign silver today.

H: I see.

HMJr: SO I said, "Mr. President, we've been doing it right along. I think the shock to the world would be too great."

H: It might drop down to nothing.

HMJr: To nothing. So he said, "Well, what do you think?" I said, "Well, what we'd do normally, if there was no bill or anything, we'd pay forty cents."

H: Yeah.

HMJr: So he said, "All right, pay forty cents."

H: Yes. Is there much -- much coming in today?

HMJr: I think they bought -- I think they bought -- I think they bought around four million ounces, I think.

H: Yeah. Well,.....

HMJr: They've got.....

H:maybe we get -- you see, we can have something just like the Mexican oil matter, even if we had to adjust that to a point, and something like this

suddenly happened over there and you know nothing about it and we know nothing about it, and the Mexicans think that it's sanction we're putting on them, you know.

HMJr: No. No.

H: It shows how delicate those things.....

HMJr: Well, as I say, I only -- I spoke to Wagner within the hour.....

H: Yeah.

HMJr:and he tells me that the thing was completely sprung on him; he knew nothing about it, and he didn't know that Key had the combination or anything else.

H: Yes, I see.

HMJr: Now, again, both last week and again this week the President has told me he wanted to handle the thing himself on account of neutrality.

H: Well, we didn't know anything about it, you know.

HMJr: Well, of course, now Wagner tried to get a commitment out of me, you see? Would I take this or that. And I said, "Wait a minute, Senator. The President has told me twice that he's handling this himself direct so I'm sorry I can't make any commitments."

H: I see.

HMJr: I mean -- he said -- he wanted, you know, ^{to} put me -- say, would I take this or that; and I said, "There's no use asking me because when I talked to Barkley" -- oh, I don't know, sometime around noon -- "he said he'd just been through talking with the President on this thing, and the President is talking directly to Barkley."

H: Yeah.

HMJr: So I -- I sat by and kept my mouth shut and hoped for the best.

H: Well, you can't do both. You can't keep your mouth shut and hope for the best. (Laughs)

- HMJr: (Laughs) Well, I'm going through that phenomenon right now. But that -- that's the background and if silver -- and if silver should drop further in London tomorrow, I'm going to drop it again.
- H: Yes. Well, I -- I'd like to keep in touch with you because this Mexican matter we are -- we are pressing everything to the ninety-ninth on this oil negotiations and those politicians start up a report immediately that we have put ~~are~~ putting coercion on them, you know.
- HMJr: Well the report on the ticker tape said that the Mexicans shut down on their foreign exchange but they blamed the United States Senate. They didn't blame the President or the Treasury.
- H: I know the real knowing ones -- but the politicians get busy, you know, and they carry things before them.
- HMJr: Now, another thing, so that you've got the whole picture. Normally, at this time of the month we send a letter up to the bank in Canada agreeing to buy a million two hundred thousand ounces for the next month.
- H: Yeah.
- HMJr: And I'm holding that letter up. I'm not letting it go out.
- H: Oh, I see.
- HMJr: Because I -- if -- if the bill went -- if the thing was on Saturday, the first of July the way it is now, I wouldn't have the authority to buy it.
- H: Yes, I^{can}/see that.
- HMJr: So I don't want any outstanding commitments.
- H: Exactly! Well let me.....
- HMJr: But that's.....
- H:keep in touch with you, Henry.
- HMJr: What's that?
- H: Let me keep in touch with you.

HMJr: Well, Cordell, call me and I'll come over any time you want me.

H: Well, just a word over the phone is all that's necessary now and then.

HMJr: But that -- that's the whole picture.

H: Yes. Well, thank you so much.

HMJr: Good bye.

H: Good bye.

DEPARTMENT OF STATE

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THE SECRETARY

June 27, 1939.

STRICTLY CONFIDENTIAL
MEMORANDUM FOR SECRETARY MORGENTHAU

The attached memo may be
of interest. It is my person-
al copy and I would appreciate
its return at your convenience.

C.H.

LOAN-TO-FINLAND+

DEPARTMENT OF STATE

DIVISION OF EUROPEAN AFFAIRS

150

Strictly Confidential

June 27, 1939.

MEMORANDUM

The International Political Situation of Finland in Relation to an International Loan.

At the present time Finland occupies an important position in the European political situation. The joint efforts of Finland and Sweden to obtain approval by the Council of the League of Nations of the proposed remilitarization of the Aland Islands was blocked by the Soviet Union. Finland desires to proceed at once with the fortification despite Soviet opposition, but the Swedish Government is inclined to be more cautious. The Soviet Union is bringing pressure on Finland to cede some Finnish islands in the Gulf of Finland off Leningrad in exchange for a strip of Karelia. Soviet opposition to the Aland fortifications may be part of this pressure, although some commentators have pointed to Soviet distrust of Finland's relations with Germany and to the possibility that the Soviets themselves may wish to seize the Alands in the event of war in order to prevent German access to Swedish ore. It would seem reasonable to suppose that Finland would be willing to make the proposed exchange

were

were it not for the opposition of Germany.

A loan the size of that proposed, which for a country like Finland is very considerable, would certainly strengthen the hand of that country in resisting Soviet pressure. I assume that the loan would be used chiefly for armaments, for there appears to be little other justification for a loan of this size. The total public debt of Finland amounts to only 3,543,000⁰⁰⁰ Finnish marks (roughly \$71,000,000) and according to a statement in the Bulletin of the Bank of Finland for April, the ordinary budget for the current year assumes that the State would raise loans of 550,000,000 marks. The Bulletin stated that the Government had decided to issue an internal bond loan of this amount at 4-1/2 percent interest, the loan running for 25 years.

Although such a loan would make possible a very considerable strengthening of Finnish defenses, it can scarcely be argued that the loan would have any direct bearing on the question of the refortification of the Aland Islands, as the cost of these fortifications would not appear to be a material factor. According to press reports, the cost would amount to only 426,000,000 Finnish marks (about eight and three-quarters million dollars), only 100,000,000 marks of which would be spent in the current year. On April 21 the Legation reported that Finland had floated a loan on April 1 in the amount of 30,000,000 Swedish crowns (about seven and one-half million dollars) for purchases of materials and equipment
for

for defense and the Aland question would appear to be important enough to Sweden for that country to give Finland any necessary assistance were the expense of fortification an important factor. (On June 2 the Legation at Helsinki reported a confidential statement of the Foreign Minister that legislation providing the appropriation for the fortification of the Alands would be passed very soon.)

Finland has shown itself anxious to maintain its neutrality in every possible manner, and the Finnish Government may well feel that the United States is almost the only country in which it could obtain a loan of this size without giving the impression that it was abandoning this policy. A loan from Great Britain, even a large commercial loan, would probably cause resentment in Germany and give rise to charges that Finland was joining the anti-axis powers.

If the application for a loan became public knowledge it would seem likely to receive a bad press, and would make possible the charge that the only country now meeting its debt payments to the United States was trying to "cash in" on its good faith. From the standpoint of our relations with Finland it would be unfortunate if the loan had to be refused because of public or Congressional opinion.

A further

- 4 -

A further disadvantage to the loan would appear to be the risk that in spite of this financial assistance Finland, caught between the pressure of the Soviet Union and that of Germany, may be forced to go over to one or the other, and either choice would be unfortunate so far as the United States is concerned. (It was widely reported that the resignation of Foreign Minister Holsti last year was the direct result of German pressure.) On the other hand the loan would materially strengthen the possibility of Finland's maintaining its neutrality along with its northern neighbors, and if Finland succeeds in accomplishing this the ability of Sweden and Norway to do so will be strengthened.

Finally it may be pointed out that opposition to a loan to Finland, added to the opposition already existing to the contemplated loans to Latin American countries might be sufficient to jeopardize the whole program of loans to Latin America.

Taking everything into account, I feel quite strongly that this proposed governmental loan to Finland should be rejected quietly without any publicity. There are indirect political implications to it which are inescapable.

JWH.

LET
Eu:Thompson:MLD

DEPARTMENT OF STATE

THE SECRETARY

June 27, 1939.

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MORANDUM FOR SECRETARY MORGENTHAU

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LOAN-TS-FINLAND+

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LET
cc:Thompson:MLD

JWT

Tuesday, June 27, 1939

The following radio message was received from the Secretary of the Treasury at 10:31 a.m. this morning while he was enroute by plane to Washington:

"FOR MRS KLOTZ AND LOCHHEAD CAN YOU DELAY FIXING PRICE OF SILVER UNTIL I ARRIVE PERIOD FIND OUT IF THE PRESIDENT WILL SPEAK TO ME ON TELEPHONE AS SOON AS I ARRIVE PERIOD TELL GRACE TULLEY I WANT TO TALK TO HIM ABOUT FIXING PRICE OF FOREIGN SILVER PLEASE REPLY SIGNED MORGENTHAU"

Mrs. Klotz telephoned Miss Tulley at Hyde Park and made arrangements for the President to speak to the Secretary, and the following radio was dispatched to the Secretary at 10:47 a.m.:

"FIXING PRICE OF SILVER CAN BE HELD UNTIL YOU ARRIVE PRESIDENT CAN SPEAK TO YOU A FEW MINUTES BEFORE HE GOES TO LUNCH AT 1300 (1 p.m. daylight saving time) OR AT 1400 (2 p.m. daylight saving time) PERIOD HENRIETTA KLOTZ"

The Secretary instructed Mrs. Klotz and Mr. Lochhead to meet him at the Washington Airport, and Mrs. Klotz made arrangements for a telephone call to be put in to the President a few minutes before 12 o'clock (Standard time).

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The Secretary arrived at the Airport at 11:55 a.m. Mr. Lochhead advised him that the price of silver had declined in London owing to the Senate action yesterday and was fixed at 39.90¢ per ounce. The Secretary immediately communicated with the President by telephone and stated that in view of the fall of the price of silver in London he thought it would be a good idea to reduce our buying price for foreign silver in New York today. The President at first suggested that the Treasury cease purchasing silver entirely today but finally agreed with the Secretary that it would be better to simply reduce the price we were paying. The Secretary then advised reducing the price to 40¢ per ounce, to which the President agreed. This decision was made at 12 noon and Mr. Morgenthau immediately telephoned Mr. Gaston to advise the newspapers of the new price so that there would be no possibility of anyone taking advantage of a possible leak in the news and Mr. Gaston announced the price to the newspapers immediately.

* * * *

Later in the afternoon the question of the Canadian Agreement was raised by Mr. Lochhead. The Canadian Agreement expires on June 30th. A new letter has been prepared as usual for the following month, but under the Secretary's instructions we are holding this letter pending his further orders.

June 27, 1939
4:03 p.m.

HMJr: Hello.

Sumner
Welles: Hello, Henry.

HMJr: How are you?

W: Fine. I hope you are.

HMJr: I am.

W: Good!

HMJr: Sumner, in order to save you writing desperate letters to the President, we just got this one from Philips saying Costanzo Ciano.

W: Count Ciano's death, I just read it in -- a few minutes ago.

HMJr: Yes. Well, I don't know who that is, but anyway.....

W: It's the father of the foreign minister and the President of the Facist chamber senate.

HMJr: Well, if we give them until the 5th of July would that help them?

W: Well, I think it would be very helpful in view of this, yes.

HMJr: Shall we say the 5th of July?

W: I'd appreciate it greatly. I think that would cover what we agreed upon if it hadn't been for this hitch.

HMJr: Well I say now the 5th of July.

W: Fine. Thank you so much.

HMJr: Thank you.

W: Will you send orders then to your men, or do you want me to send word?

HMJr: Well, Foley and Cairns are sitting here and they'll get off the cable to our men.

W: All right.

- 2 -

HMJr: And you can send one to Philips if you will.

W: Right. Thank you very much indeed, Henry.

HMJr: We'll send one to our man immediately.

W: All right. Thanks a lot.

HMJr: Are you -- do you want -- can I sell you a little silver?

W: (Laughter) I should think -- I should think you'd have plenty on your hands.

HMJr: Exactly. All right.

W: All right, Henry.

HMJr: Good bye.

W: Good bye.

June 28, 1939

Present:

Dr. White
Mr. Lochhead
Mr. Cochran
Mr. Bernstein (for part of meeting)

(Mr. Lochhead gave the Secretary the attached copy of a cable, which the Secretary signed and added "Rush! !.")

Mr. Lochhead: Better report the whole cable because that hooks up

HM, Jr: I take it you (Cochran) know the technique.

Mr. Cochran: Yes. Yes. And that would not necessarily go through Rome.

HM, Jr: I have talked with Butterworth this morning and asked him to check up and I talked to Bullitt and he said he would. Take that story in the Times that they are going to devalue in Danzig. They have carried that same story in London this morning.

Now, I want you to get that off right away.

I read Butterworth's cable on Czech gold. When you boil it all down, this is what I get out of it: that the 6,000,000 pounds of BIS gold in London was almost immediately transferred.

Dr. White: Date unknown, but certainly within 12 days, probably within 5 or 6 days, the title was transferred.

HM, Jr: And all this stuff that it was Mr. Benes or whether this fellow consulted this fellow, that does not interest me. But the other point, the 16,000,000 pounds

-2-

of gold is still locked up in London and they have got it through the Parliament formally the right to hold it.

Dr. White: That's deposited.

HM, Jr: And all this thing that Mr. Lloyd George read one paper and did not read the other is all very amusing, but when you boil it all down, for my purpose, the 6,000,000 BIS gold was given to the Germans, but the 16,000,000 is still there.

Mr. Lochhead: That's right.

Mr. Cochran: Yes, but it's the 6,000,000 that they have been discussing in Parliament. Legislation would not touch the other.

Dr. White: There is the question -- the legislation said "all Czech assets". Whether that was a Czech asset or BIS is a fine point.

HM, Jr: Again, BIS gold is gone, so that's water over the dam, no matter who's guilty or not guilty.

Mr. Cochran: BIS statute provides for that immunity and also for special protocol with the British Government.

HM, Jr: So the 16,000,000 is still there and the Czechs still have a chance.

Dr. White: It is of interest to know that the French Government did object to the transfer and wasn't able even to postpone the transfer and that the French Government did object to the British Government and the British Government said they not only knew nothing about it, but were not in position to make an investigation to find out; that when they were finally pressed, later, and said they would find out, although there is evidence they did know about it earlier, they were told by the Bank of England that the Bank of England could not tell whose gold it was. To them it was BIS and they were in no position to know or investigate.

HM, Jr: That part is all

Dr. White: It's of interest to us because a year ago we took the position that that might happen and we

-3-

didn't want to deal with BIS -- permit BIS to transfer a fund -- because we anticipated some possibility of the sort.

HM, Jr: Well, it's dirty business whichever way you look at it, because England claims the French never did protest.

Dr. White: That comes from the French.

HM, Jr: No, but coming from the British, the British Treasury won't admit it. But all I wanted was a way to boil it down, and the 16,000,000 is still there. Is that right? 16,000,000?

Mr. Lochhead: Originally started at that. Probably have made some adjustments and paid out some amounts as soon as they established that the thing is to go to the Czechs.

HM, Jr: Are we all right?

Mr. Lochhead: We are all right. I talked up in New York on silver. Very few people have any news from the other side and the bets are running 39¢ to 38¢ -- banks are betting on the price.

HM, Jr: What I wish you (Lochhead) would do, get hold of your lawyer -- Bernstein -- and I wish in the next 24 hours if he could give me a page brief. You fellows have got so damn many regulations, this 6 months' stuff and all the rest of the stuff. Let's do this and get him right on it. Go on the assumption that the first of July the present method is overboard. Now we start on the first of July. You have got me all tied up. A fellow can dump silver here for six months. Will he be able to do it after the first of July?

(At this point, the Secretary phoned for Mr. Bernstein to come to his office.)

You have all kinds of rules and regulations.

Mr. Lochhead: On foreign purchases we haven't a

-4-

single rule or regulation. What we do, we simply buy silver for spot or forward delivery. We buy silver for forward delivery up to 5 months if it comes within the requirements. No regulations. With spot, any minute we want

HM, Jr: ... But wait a minute. On the first of July, Handy and Harmon announce they have silver for 6 months' delivery. We go on the assumption this bill has passed.

Mr. Lochhead: If they offered, we can't buy because we can't set a price.

Dr. White: He has reference to delivery matter -- we settle two months ago -- the warehouse and so forth.

HM, Jr: But on July 1?

Mr. Lochhead: No regulation out. If we don't put a price, we stop

HM, Jr: If I put a price, are you still going to have regulations under the Silver Purchase Act?

Mr. Lochhead: If you put out a price and you have no authority to buy foreign silver, no reason to put a price.

(At this point, Mr. Bernstein came in.)

HM, Jr: Bernstein, I want a brief from you tomorrow that if this monetary bill does not pass and I want to buy, if we should decide to buy domestic silver what rules and regulations have you got as to delivery to the Mint, etc., etc. Would any of these be in force or would you have to draw up new regulations. That's number 1. Number 2: if we buy foreign silver, what about methods of delivery under the Silver Purchase Act after the first of July?

Mr. Bernstein: If the bill does not pass?

HM, Jr: If the bill does not pass. First of July, I operate under the Silver Purchase Act. What kind of rules and regulations will there be in effect

-5-

as to delivery of foreign silver and domestic silver?

Mr. Bernstein: I can tell you right away. On foreign silver there would be no change. You would do it under the Silver Purchase Act, under whatever procedure you have been following.

HM,Jr: I am not buying silver under the Silver Purchase Act.

Mr. Lochhead: That's the only Act you can buy it.

HM,Jr: I thought we were buying under the Thomas Amendment.

Mr. Lochhead: No! No!

HM,Jr: Well, I am glad to be set right.

Do we have the same rules and regulations for foreign silver after the first of July?

Mr. Bernstein: There are on an informal basis.

HM,Jr: Can you put them down on a piece of paper so I can see what they are?

Mr. Bernstein: Yes.

With respect to domestic silver, you would have to have an entire new set-up. The present is under the President's proclamation, under the Thomas Amendment, and that expires when the proclamation expires, on June 30th, and you would have to work out a new set of regulations if you were to buy any. In Many respects it would be the same, but existing regulations would not do.

HM,Jr: But it's certainly fair to ask you to give me tomorrow, Thursday, a draft of what kind of rules and regulations you think I ought to operate under, under the conditions that I am setting up.

Mr. Bernstein: Got in mind any sort of particular price?

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Dr. White: No. And I don't think there should be the same leeway that you gave with respect to time of delivery.

HM, Jr: You are getting it, Mr. White!

Mr. Lochhead: You mean on the domestic.

Dr. White: On the domestic.

Mr. Bernstein: You won't have the same spread of price.

Dr. White: I am not speaking of price. I am speaking of delivery.

HM, Jr: A fellow has how many months to deliver on domestic?

Mr. Bernstein: Five months; same as foreign.

Mr. Lochhead: The basis of 5 months is we check into the market, we find out to a great extent that silver that comes out of the mine by the time it is through processing and can be delivered, it will be about five months. Some go shorter, but five months would be the figure.

HM, Jr: Think it all over and look it over and come back tomorrow and see me tomorrow. Huh?

Mr. Lochhead: Yes.

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JR

PLAIN

London

Dated June 27, 1939

Rec'd 2:30 p.m.

Secretary of State,

Washington.

904, June 27, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. The dollar opened offered and remained so all day due to a rumor which is alleged to have been reproduced in the Paris press to the effect that the President if deprived of the power to devalue the dollar after July 1st would use the existing power to devalue the dollar before July 1st. New York also came in a seller of dollars and the British fund was a buyer. The turnover was larger than in recent days. Needless to say the British would view with complacent satisfaction the expiration of the devaluation powers.

2. The action of the Senate as regards purchases of foreign silver caused a drop of 11/16 in both spot and forward silver at fixing. However the amount done at fixing was not large and the selling was mainly by speculators and India. There were some post-fixing dealings at a sixteenth above the fixing price. The silver market

-2- #904, June 27, 6 p.m., from London.

market is of course at sea as to what will eventuate.

Silver shipments invoiced today are as follows: 400,152 fine ounces, valued at \$161,061 by the NIEUW AMSTERDAM (which sailed June 23) from the Anglo Metal Company to the American Metal Company; 107,730 standard ounces valued at pounds 8,640 from Sharps and Wilkins to Handy and Harman; 108,446 standard ounces valued at pounds 8,867 from Sharps and Wilkins to Handy and Harman; 216,098 standard ounces valued at pounds 17,895 from Mocatta and Goldsmid to Irvington Smelting; 108,011 standard ounces valued at pounds 8,550.19.0 from Samuel Montagu to American Smelting. The latter shipments are by the QUEEN MARY.

3. Bewley tells me that the directors of the Chinese stabilization fund are satisfied with the manner in which the spot squeeze is operating. Having allowed the Chinese dollar to fall to a level at which it could be more easily defended in the face of the pressure of increased importations into China, the restrictions of bank withdrawals have had the desired effect of reducing the volume of currency, thus strengthening the exchange position of the Chinese dollar.

4. Due to the news from Tientsin and the absence of any specifically encouraging news regarding the Anglo-Russian negotiations the London Stock Market has been marking

-3- #904, June 27, 6 p.m., from London.

marking time.

226 bars were sold at gold fixing of which 14 were married and over one hundred supplied by the British fund.

KENNEDY

CSB

RECEIVED

JUN 28 1950

FORWARDED TO THE
DIRECTOR OF THE
BUREAU OF INVESTIGATION
WASHINGTON, D. C.

June 28, 1939

To: Dr. Feis

From: Mr. Lockhead

Will you please send the following cable to the American Embassy at Berlin and the American Embassy at Rome:

Reference is made to cable from American Consulate General, Milan, dated June 22, reading as follows:

"An American company was today informed by a leading Milan bank that beginning the first of July the Bank of Italy will no longer give further foreign exchange guarantees on clearing transactions with Portugal and Germany. With regard to the other 15 countries, there is no change in the situation. However, in business circles the action is interpreted as perhaps presaging early and simultaneous mark and lira devaluation. Shoes"

Please comment on this rumor and investigate fully and keep us constantly informed as to any information you are able to secure.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Consulate General, Milan, Italy

DATE: June 22, 1939, 6 p.m.

An American company was today informed by a leading Milan bank that beginning the first of July the Bank of Italy will no longer give further foreign exchange guarantees on clearing transactions with Portugal and Germany. With regard to the other 15 countries, there is no change in the situation. However, in business circles the action is interpreted as perhaps presaging early and simultaneous mark and lira devaluation.

SHOLES.

EA:LW

RECEIVED

JUN 26 1939

TELETYPE DEPARTMENT
Office of the Secretary
United States of America

June 28, 1939

While at home today, the Secretary phoned to Mr. Butterworth along the same lines as his phone conversation with Ambassador Bullitt at 10:08 am today.

June 28, 1939

12 noon

Present:

Mr. Lochhead
Mr. Duffield
Mrs. Klotz

HM, Jr: The price is 38½ cents. Two things I want you to point out: by a strange coincidence, this is half of 77 cents. (This is the President of the United States.) And the other thing -- you can have this -- this is the way the British feel about it -- the red part underlined. Give that to the boys. Have the cable in your hands.

(The Secretary referred to cable 904, dated June 27, 1939, from Butterworth)

June 28, 1939

4:15 pm

Present:

Mr. Lochhead
Mr. Duffield

Mr. Lochhead: Bernie (Bernstein) had an interesting suggestion. He said you might consider stop buying forward foreign silver right now.

HM,Jr: Are we doing that?

Mr. Lochhead: That's the regular thing. Five months delivery. We can change that in a moment. If you wanted to change it on the 30th, you would not be doing anything new.

HM,Jr: Well, I wouldn't want to do that until after the 30th.

(Mr. Duffield came in at this point.)

This is another idea. From the French. This is the French. This is another idea. (Cable #913 from London, excerpt of which reads: "Incidentally, the French Financial Attache got in touch with me to inquire about the dollar devaluation powers. He expressed the hope that the new legislation would contain such powers because he feared that the movement of capital from Europe to the United States would receive a new impetus should the potential threat of any further dollar devaluation be entirely removed.")

Pass that along to the boys. You could say this is the French viewpoint. They like to get that stuff.

Mr. Duffield: You bet they do.

HM,Jr: Doesn't it help them?

Mr. Duffield: You bet!

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June 27, 1939

To: The Secretary

From: Mr. Hanes

This is the original from which I will read tomorrow,
if it meets with your approval.

Herbert Gaston has some reservations as to whether
the latter part of the statement conforms to Treasury policy.
In my opinion it does but I want to be sure. Will you be
good enough to call me at my house tonight after you have
finished with it?

Dictated over telephone
by Mr. Hanes - 6:50 P.M.

178

Prepared by Lawrence H. Seltzer

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

179

DATE June 28, 1939

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Position and Prospects of the Automobile Industry
as Reported to Mr. Seltzer by Messrs. Knudsen,
Keller, and Others

I. Plans and Sentiment

The general feeling in automobile circles in Detroit is more optimistic than it has been at any time this spring. All danger of unwieldy field stocks appears to have disappeared and plans for the 1940 model year are being made in a rather confident atmosphere.

It appears at the moment that the basic output forecast for the 1940 model year, which largely determines the pricing and cost amortization per car, will run in terms of 3.5 millions units -- the same as this year's anticipated production. While no increase apparently is going to be counted on, it is significant that the present estimates involve no decrease, for the tendency is to make this estimate a relatively conservative one.

II. Current Retail Demand

The retail demand for automobiles during May and the early part of June has been better than had been anticipated; and fragmentary reports indicate that the strong demand is continuing.

GENERAL MOTORS SALES in the first ten days of June were 66 percent ahead of the same period in 1938, as compared with a 42 percent gain in May.

CHRYSLER DEALERS sold 15,700 cars in the week ended June 24, a gain of 11 percent over the preceding week and a gain of 47 percent over the same period last year.

Secretary Morgenthau - 2

FORD AND MERCURY RETAIL SALES for the second 10-day period of June surpassed those of the same period last year by 62 percent -- the greatest percentage gain in any 10-day period since the introduction of the 1939 models.

III. Field Stocks

The excellent volume of retail sales is rapidly reducing field stocks, with some small chance that shortages will develop in particular models, particularly if strikes should retard the scheduled introduction of the 1940 cars.

IV. Output

Output is expected to approximate 275,000 in June, 165,000 in July, and 135,000, or less, in August. Production in September should step up sharply to perhaps 250,000, with output being well maintained in October and November -- barring labor troubles.

The industry is in process of winding up production on its 1939 models and is actively preparing for the introduction of the 1940 models. During July, Chevrolet will be the only General Motors unit to be turning out finished cars. Chrysler, which was held back by about two weeks by the Briggs strike early in June, will continue production on this year's models until about the middle of July.

Ford may continue a week or two longer.

General Motors has scheduled total July production at 78,000 cars and trucks (including 3,000 in Canada), all of which will be for Chevrolet; and Chrysler has scheduled 39,000 for July.

V. Steel Releases

Steel releases against the 1940 models are being made now by both parts makers and manufacturers. The big releases for body parts are scheduled for about the middle of July. Chrysler has bought its complete steel requirements for the rest of the calendar year (during the period of acute price weakness in May), and this is believed to be substantially true of General Motors.

Secretary Morgenthau - 3

VI. Labor Situation

Employment will fall off very sharply during July and August -- perhaps by 40 percent -- by reason of the assembly line shut-downs incident to the changeover to 1940 models. Employment will begin to rise again some time in August and will probably reach a peak some time in October or November.

Both Mr. Knudsen and Mr. Keller are concerned about the possibility of labor trouble shortly. A strike vote is to be taken among the tool-and-die makers for General Motors; and if the strike should materialize, the introduction of new models may be considerably delayed.

Mr. Keller has heard reports that John L. Lewis intends to begin his campaign for a closed CIO shop in the industry by demands upon Chrysler before the new models are out. Many labor sympathizers in Detroit believe, however, that there will not be serious labor trouble this summer and fall because the rank and file are not at present disposed to wage another strike.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rome
NO.: 238
DATE: June 28, 1939, 3 p.m.

Before leaving Rome, the Minister of Foreign Trade and Exchange arranged this morning to see Wait. Both the Commercial Attaché and an Embassy secretary were present and after a general conversation, the Minister of Foreign Trade and Exchange put Mr. Wait in touch with the appropriate federation authorities. Mr. Wait will make a report of the results of his investigations.

It is Guarnieri's opinion that the premium which the Italian Government pays to silk growers is comparable to the assistance which the United States Government gives to United States producers of cotton and wheat. He stated that if the United States Government should find it necessary to apply Section 303 to silk products imported from Italy, he might be forced to adopt the same measures with reference to imports from the United States which receive similar assistance. However, he thought that it could be shown after careful study that if the intent of the law were justly applied, the necessity of our imposing countervailing duties would be obviated.

It was made clear by Guarnieri that in case the action
of

-2-

of the United States Government resulted in the reduction of Italian imports into the United States, it would be necessary for him to reduce imports from the United States into Italy by a like amount, since he could not afford to buy from a market in which he could not sell, because of the scarcity of foreign exchange in Italy.

PHILLIPS

EA:EB

June 28, 1939

9:30 am

Present:

Mr. Hanes
Mr. Gaston
Mrs. Klotz

(Mr. Hanes began reading his tax statement beginning at the top of page 38 and read without interruption to the very end of page 41.)

HM, Jr: What's the part Gaston objects to?

Mr. Hanes: I guess I am coming to that now.

(Continued reading aloud beginning at the top of page 42. At the end of the second sentence on page 44, "Only one individual has been subject to the 75 percent rate since it was established," the Secretary interrupted the reading.)

HM, Jr: Only one individual?

Mr. Hanes: Yes.

Mr. Gaston: Yes. John D. Rockefeller, Jr.

(Mr. Hanes resumed reading from that point on and continued without interruption to the end of his statement.)

HM, Jr: Well, now, I have one criticism before I hear Herbert's and it isn't even a criticism; it's policy and maybe you have said it, but that is to say the thing which I said in my statement, that the key to the whole thing, doing away with tax-exempt securities, must come first. After they have done that, the other thing follows.

Mr. Hanes: Let me just start the statement. This is the premise upon which the whole statement is based. "During your recent hearings relating to tax revision for the

-2-

"purpose of encouraging business enterprise, Secretary Morgenthau made the statement that 'we should by all means pass legislation to make it impossible in the future to issue any more tax-exempt securities. This having been accomplished first, it would then be fair and logical to reexamine the question of whether the present surtax rates on very large incomes may not be so high that they discourage the limited number of individuals subject to them from taking normal business risks'."

Mr. Gaston: First we have quoting you on that policy. Then we have an argument for removing exemption on Governmental securities. Then we have a totally independent argument for lowering high surtax rates and the closing of the address is an argument for lowering high surtaxes, which is not dependent or contingent on the matter of eliminating exemptions and the point I made was while you start out on the policy outlined, you don't finish on that note and there should be some conclusion which says that the two things are interdependent and I would be satisfied if he had just one paragraph, such as this:

"For all of these reasons, it is our belief that when action has been taken to abolish the exemptions on the future issues of Government securities, the Congress should then give prompt attention to a revision of the higher surtax rates. The two actions seem to me to be interdependent and it is believed that action on both would improve our tax system."

Mr. Hanes: I can't say that. I can't agree that both are interdependent.

Mr. Gaston: You have already proved in your speech that they are.

Mr. Hanes: We have proved -- we made out a 37-page case on the removal of the tax-exempts. There is a 10-page brief on surtaxes and, in my opinion, both economically and from a common-sense standpoint, the two things are as far apart as the poles. However, we connect them. I put them together at the very first shot out of the box. I said these two things are absolutely bound together in

-3-

one place and I quote what you say and go ahead to develop the argument on each one to give the strongest argument that I can give and I give the weakest argument I can on surtaxes.

Mr. Gaston: I am only concerned with the matter of consistency of policy and if I were writing a news story on this speech I would say "Modifying the position the Treasury has heretofore taken, Under-secretary Hanes today made an argument before the Ways and Means Committee for prompt revision of high surtaxes."

Mr. Hanes: But you could not say that honestly and not read that first page.

Mr. Gaston: I say two arguments are presented quite independently and you end on the note that high surtaxes should be reduced and that differs from the policy outlined in the Secretary's speech.

HM, Jr: I know nobody has tried to hold a gun to my head, but I can't do an intelligent thing on as important a matter as this. I just can't. It's silly for me to try. I mean, I can't at five minutes or ten get in on it. I don't know when you (Gaston) saw it.

Mr. Gaston: We worked on it all day yesterday and we didn't come to this until 5 o'clock yesterday afternoon.

HM, Jr: The only suggestion I have: instead of saying that last thing, say "having accomplished this first," I mean, bring in this quote at the end. Would that satisfy you, Herbert?

Mr. Gaston: Yes. Or it would satisfy me to say everything he has said there and then say this (Mr. Gaston's suggestion as above).

HM, Jr: He does not want to say that, but instead of saying what's on here (last page) can you work in what I have said on this? Can you bring in this sentence again saying "This having been accomplished" -- I don't know.

Mr. Hanes: I don't know, Henry. It just strikes

-4-

me that it is such an innocuous thing

HM, Jr: The way I feel, John, is I would rather not take any responsibility for what you say because I can't think this way.

Mr. Hanes: Let's cut off the last page. I will stop at the end of the page before.

HM, Jr: I think that that would help.

Mr. Gaston: Let's see what that does.

HM, Jr: But I would much rather have you take the responsibility on that with Herbert. I am always willing

Mr. Gaston: That would please me moderately well to just drop the last page, but I would much prefer to drop the last page and put this thing

Mr. Hanes: I can't, because I don't believe it.

Mr. Gaston: It's only something the Secretary says in his own statement. It's a paraphrase of the Secretary's own statement.

Mr. Hanes: I will just take that last paragraph off and not say it at all.

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